CHAPTER - IV

4. Transaction Audit Observations

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

GOVERNMENT COMPANIES

Gujarat Mineral Development Corporation Limited

4.1 Undue benefit to a firm

Discount of Rs.62.23 lakh was allowed to a private firm on the purchase of lignite in utter disregard to the terms of Memorandum of Understanding and the agreement.

The Company decided (May 2000) to give discount on the basic price of lignite to the bulk consumers entering into long term contracts with the Company for the purchase of lignite. The discount was allowed from June 2000 at the rate of five and eight *per cent* on the annual purchase quantity of lignite over one lakh to three lakh metric tonnes (MTs) and over three lakh MTs respectively. The Company further decided (July 2001) to give the discount at the rate of 08, 12 and 15 *per cent on* the annual purchase quantity of lignite over three lakh to five lakh MTs, five lakh to seven lakh MTs and over seven lakh MTs respectively. The Company took this decision mainly to attract Sanghi Industries (firm) which wanted (July 2001) to purchase five to seven lakh MTs of lignite for its cement plant at Motiber in Kutchh district.

The firm after entering into (January 2002) a Memorandum of Understanding (MOU) with the Company for annual purchase of four to seven lakh MTs of lignite, started to purchase lignite from April 2002. Subsequently, an agreement in this regard was also signed (April 2003) by the Company with the firm for a validity period of three years. As per the terms of MOU and the agreement, the firm was entitled for discount only on the quantity of lignite purchased over three lakh MTs in a year at the rates as decided in July 2001. The terms explicitly disallowed discount to the firm on the quantity of lignite purchased below three lakh MTs in a year.

Discount was allowed at the behest of firm.

Audit observed that the firm purchased only 2.77 lakh MTs of lignite during April 2002 to March 2003. Despite this, the Company, on the request (February 2003 and April 2003) of the firm, allowed (February 2003 and June 2003) discount at the rate of five *per cent* on the entire quantity of 2.77 lakh MT lignite, purchased by the firm. This resulted in loss of Rs.62.23 lakh to the Company and undue benefit to the firm.

The Company stated (June 2004) that the MOU/agreement was entered with the firm to secure its commitment for purchasing an assured quantity of lignite from the Company; the terms of MOU/agreement did not have overriding effect on the Company's policy to allow discount on all the bulk purchases ranging from three lakh to seven lakh MTs.

The reply was not tenable in view of the specific term in MOU/agreement to disallow discount on the quantity below three lakh MTs.

The matter was reported to Government in March 2004; their reply had not been received (November 2004).

4.2 Extra expenditure on laboratory test of ore sample

The Company incurred an avoidable expenditure of Rs.30.63 lakh due to despatch of defective sample of fluorspar ore to a process licensor of Canada for laboratory test.

The Company shortlisted (March 2001) Mcnally Bharat Engineering Company Limited, Kolkata as a consultant for development and implementation of the latest process know-how in the Company's Fluorspar Project at Kadipani (the project). As per the arrangement made (June 2001) with the consultant, the Company, at first, was to send representative sample of fluorspar ore of the project to the process licensor Lakefield Research Limited, Canada (firm 'L') for laboratory test. Further, on the receipt of test results from firm 'L', the consultant was to provide assistance in pilot plant testing and also evaluation of process design offered by firm 'L', so as to enable the Company to take suitable investment decision for the modernisation of the project. The Company was to pay fee of Rs.60 lakh (inclusive of cost of testing charges of firm 'L') to the consultant.

Defective sample was sent without following prescribed procedure.

Audit observed that although the consultant agreed (April 2001) to provide guidelines to the Company for preparation of representative sample of ore, the Company without obtaining the guidelines sent (July 2001) the sample to firm 'L' for laboratory test in August 2001.

Firm 'L', after conducting (October 2001) the sample test compared their results with the test results of the sample obtained by the Company before sending the sample to firm 'L'. As wide variations in the quantum of fluorite and calcium contents of the ore were noticed between the test results of both the firm 'L' and the Company, firm 'L' declared (October 2001) that the sample ore sent to it was altered and looked like waste dump material and was not at all a representative sample of ore.

The Company in February 2002 after adhering to the guidelines of the consultant prepared a representative sample of ore and again sent it to firm 'L' for laboratory test purpose. Although in April 2002 the Company got encouraging results based on the representative sample sent (February 2002) to firm 'L', in the process of sending the sample for the second time, the Company incurred an avoidable expenditure of Rs.30.63 lakh (testing charges Rs.30.34 lakh and freight charges Rs.0.29 lakh).

The Company stated (May/October 2004) that the first sample was collected from the plant itself. However, as the sample was collected during monsoon period it was wet with mud and looked like waste dump material. The variations noticed between the test results of the Company and firm `L' were due to different methods of testing adopted by both of them for determination of variables in the sample.

The reply was not tenable as the first sample was sent without following the guidelines being offered by the consultant for its preparation and the Company was aware beforehand of different methods of tests to be conducted on the first sample by firm `L' and the same methods of tests were conducted in the second sample.

The matter was reported to the Government in April 2004; their reply had not been received (November 2004).

Sardar Sarovar Narmada Nigam Limited

4.3 Extra cost in purchase of cement

Imprudent decision in purchase of cement resulted in loss of Rs.1.34 crore.

The Company decided (August 2000) to invite a tender for bulk purchase of 46,800 metric tonne (MT) of Portland pozzolana cement (PPC) for dam work during July 2000 to June 2001. The Company issued (October 2000) tender notices to five[*] cement manufacturers (the firms), identified (May 1996) by the Expert Committee on Cement Concrete (ECCC) for the Sardar Sarovar (Narmada) Project Dam Works. On opening of the tenders (November 2000), the Company noticed that all the five firms formed a cartel and quoted the uniform rate of Rs.2,500/MT. The quoted rate was higher compared to the Company's estimate of Rs.2,400/MT. During negotiations (December 2000) the firms did not agree to reduce the rate.

Suggestion to avoid reinvitation of tender was ignored.

In view of the increasing trend in the cement price, the Company's Superintending Engineer (S.E.) of Procurement Circle, Vadodara suggested (December 2000) the Company to avoid reinvitation of the tender. Despite this, the Company reinvited (April 2001) the tender by issue of advertisements in newspapers. Four out of the five existing firms responded (June 2001) to the reinvited tender. The firms again formed a cartel and quoted uniformly higher rate of Rs.3,060/MT against the previous rate of Rs.2,500/MT. The Company issued (January/June 2002) supply orders of 46,800 MT cement at the negotiated rate of Rs.2,910/MT on three firms[#]. Pending finalisation of the reinvited tender, the Company purchased (May 2001) 2,993 MT cement for urgent requirements from two firms subject to the condition that the rate to be approved for the reinvited tender would be applicable to these purchases. The Company, however, purchased 51,843 MT cement (inclusive of 2,993 MT) against the ordered quantity till February 2003 at the rate of Rs.2,910/MT till

[*] M/s.Gujarat Ambuja Cement Co. Ltd. , M/s. Narmada Cement Co. Ltd., M/s. Gujarat Sidhee Cement Ltd., M/s.Larsen & Toubro Ltd., M/s. Shree Digvijay Cement Co. Ltd.

[#] M/s.Larsen & Toubro Ltd. – 23,400 MTs, M/s.Gujarat Sidhee Cement Co. Ltd. – 11,700MTs , M/s. Narmada Cement Co. Ltd. - 11,700MTs.

31 March 2002 and thereafter at the rate of Rs.2,717.66/MT due to reduction of sales tax from 15 to 8 *per cent* applicable from 1 April 2002 on the cement.

Audit observed that the price of cement increased by 16.25 *per cent* during October 2000 to April 2001 and it remained overall high till the finalisation (June 2002) of reinvited tender. Hence, the Company should have avoided the reinvitation of tender as per the suggestion of S.E. and should have placed the purchase orders, based on the original tender of October 2000. This could have enabled the Company to avoid the extra cost of Rs.1.34 crore incurred on the purchase of 51,843 MT cement at higher rates (i.e. Rs.2,910 and Rs.2,717.66/MT) compared to the rate of Rs.2,500/MT received in original tender.

The management/Government stated (May/September 2004) that the extra cost of Rs.1.34 crore was not incurred by the Company as audit worked the extra cost by comparing the cement rates at two different points of time; the Company was unable to break the cartel through reinvitation of tender as there were limited number of bulk manufacturers of cement in Gujarat and the manufacturer from other States also did not come forward to bid.

The reply was not tenable since the extra cost could have been avoided had the Company purchased the cement based on the rate received in the tender of October 2000. Besides, the scope of new bidders was not ensured as the tender reinvited in April 2001 included the old stipulation (the bidder firms should be identified by ECCC or of equivalent standards and supplying cement to Narmada canal works) of tender of October 2000 and did not incorporate any new conditions to infuse competition. Consequently, cartel was formed among the firms.

Gujarat Power Corporation Limited

4.4 Undue favour to a defaulting bidder

Failures to forfeit security deposit and encash bank guarantee resulted in passing of undue benefit of Rs.10 crore to a defaulting bidder.

The Company is a nodal agency of Government of Gujarat for augmenting power generation capacity in the State. In December 1999, the Company issued a Letter of Intent (LOI) to Reliance Industries Limited (firm) granting the rights to develop 375 Mega Watt (MW) lignite based power plant (the project) at Ghogha, Bhavnagar district and also generate and sell power from the plant to Gujarat Electricity Board (GEB). The LOI was valid upto December 2000. As per the terms of LOI, the firm was to sign an Implementation Agreement (IA) with the Company and also to enter into a Power Purchase Agreement (PPA) with GEB within 30 days and six months from the date of issue of LOI, respectively. Besides, the firm was to sign Fuel Supply Agreement (FSA) with the Company for purchase of lignite. The Company had already acquired mines costing Rs.48.41 crore for the project during 1992-97. The firm, after achieving the financial closure with its lenders within the period of validity of LOI, was to install power plant and supply power to GEB within 33 months from the financial closure.

Audit observed that the firm had unconditionally accepted (January 2000) the terms of LOI. However, it had neither signed the IA and FSA with the Company nor signed PPA with GEB till December 2000 on the plea that it was deliberating and evaluating many issues related to fuel supply and payment security mechanism (PSM) under the PPA with the Company and GEB, respectively. Hence, at the instance of the firm, the Company extended three times the validity of the LOI, last one upto October 2003. In the meantime, the Company as per terms of bid documents and the LOI, acquired (December 2001) land for Rs.3.79 crore for setting up of the power plant and also incurred (upto August 2003) expenditure of Rs.5.79 crore towards cost of bids evaluation till issue of LOI to the firm.

The firm backed out (July 2003) from its commitment to develop the project on the plea that it had internally reviewed the viability of the project in the light of discussions held with GEB on the issues of PSM/tariff norms and was not hopeful of achieving the financial closure. The Company, besides cancelling (December 2003) the LOI, released both security deposit of rupees two crore and bank guarantee of rupees eight crore lodged by the firm as bid security with the Company at the time of submission of its bid (October 1996). Although the Company should have forfeited the bid security as per terms of bid documents, the Company did not do so. Legal action was also not initiated against the firm for the breach of terms of the LOI.

The management/Government stated (March/October 2004) that the terms of PPA which formed part of the bid document had became impracticable due to changes, such as, fall in interest rate, formation of Electricity Regulatory Commission and enactment of new Central and State Electricity Act, since the issuance of LOI to the firm. Hence, GEB was also wary about signing the PPA with the firm, as per terms of bid. As the construction of the project had not started, the question of abandonment by the firm did not arise and hence the Company did not forfeit the bid security.

The reply was not tenable as GEB was agreeable (April 2003) to reach consensus with the firm on all the issues related to PPA as per terms of bid documents. The firm, however, was insisting for revision in the original terms of bid documents related to PSM, which GEB did not agree. Further, as per the terms the bid security was kept in the Company’s custody to compensate any loss to it in the event of back out by the successful bidder. Hence, the Company should have forfeited the firm’s bid security.

Gujarat National Highways Limited

4.5 Loss of Interest

Non-adherence to the instructions of Government of Gujarat for placement of surplus fund with Gujarat State Financial Services Limited resulted in loss of Rs.82.17 lakh.

The Government of Gujarat (GOG), at the instance (June 1995) of National Highway Authority of India (NHAI) formed (July 1997) Gujarat National Highways Limited (the Company) with a view to take up the project work of construction and maintenance of four lane road at the stretch of 30 kilometres (*i.e.* km 351 to 381/6) on national highway (NH)-8 near Gujarat and Maharashtra border. GOG and NHAI contributed Rs.10 crore and Rs.6 crore towards equity capital of the Company in January and April 1998 respectively.

NHAI took up (October 1998) the project work on its own alongwith other road projects falling on NH-8 with the aid of ADB[#] fund and the Company did not get any other work.

The equity fund of Rs.16 crore was kept in the short term deposits for a period of three/six months with SBI[@], renewed from time to time since February/June 1998. In this regard, a mention was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial) - Government of Gujarat *vide* paragraph number 3.10.1, about the non-placement of funds by the Company in short term deposits with GSFS[^] as per the GOG instructions of July 1995.

Further, the consequential loss of interest of Rs.12.25 lakh during February /June 1998 to January 2000 due to non-adherence of GOG instructions was commented. Despite this, the Company continued to keep the fund with SBI on the plea that NHAI did not agree for the placement of fund with GSFS. Thus, in all, due to non-adherence to the instructions, the Company suffered further loss of interest of Rs.82.17 lakh as the fund kept with SBI earned interest at the rate of 4.5 to 7 *per cent* against the interest rate of 5 to 8 *per cent per annum* offered by GSFS to its depositors during February 2000 to March 2004.

The Company while admitting the facts stated (July/September 2004) that funds were kept with SBI as per its BOD's decision of December 1998. The reply was not tenable as the Company was bound to follow GOG's instructions (July 1995) as per clause 235 of its Articles of Association.

The matter was reported to Government in April 2004; their reply had not been received (November 2004).

Gujarat State Petronet Limited

4.6 Loss due to imprudent implementation of a project

The Company suffered a loss of Rs.20.96 crore due to imprudent implementation of Mora Utran Pipeline Project.

The Company awarded (November 2000) the work of comprehensive engineer services for the project of laying gas transmission pipeline from Mora to Utran (the project) to Tractebel Engineers and Constructors Private Limited, New Delhi (firm 'T') at a fee of Rs.1.91 crore. The work of firm 'T' *inter alia* included the activities *viz*., design, engineering, procurement services,

[#] Asian Development Bank.
[@] State Bank of India.
[^] Gujarat State Financial Services Limited.

supervision of construction and commissioning of pipeline. The Company placed (April 2001) the order for procurement of pipes with Jindal Pipes Limited, New Delhi (firm 'J') for Rs.4.71 crore and also awarded (May 2001) the work of laying the pipeline to M/s. Jaihind Projects, Ahmedabad (firm 'JP') at a cost of Rs.4.28 crore.

The pipeline was operated below the designed capacity.

The Company, however, after the completion of pipeline work carried out (January - April 2002) hydro-testing of the line and noticed leakages on the pipes seams. Consequently, the Company carried out (February - June 2002) the rectification works at a cost of Rs.2.26 crore and commissioned the pipeline in June 2002 against its schedule of March 2002. Even then, due to the manufacturing deficiency in the pipeline, the Company was unable to operate the pipeline beyond the pressure of 25 bar[#] against the original design requirement of 95 bar. This resulted in under-utilisation of investment to the extent of Rs.19.72 crore (Rs.26.76 crore X 70/95) against the total investment of Rs.26.76 crore made by the Company in the project.

Audit analysis revealed the following:

- The Company was aware (August 2001) of the deficiencies in the services of firm 'T' *viz.*, ambiguities in the pipeline specifications, non-specifications of sampling frequency, process/duration of quality control tests to be conducted, issuance of incorrect certificate without conducting the prescribed technical audit for the verification of quality/calibration of pipes samples, etc. Despite this, the Company went ahead with the availing of services of firm 'T' and placed orders on its recommendations on firm 'J' which supplied defective pipes. Although the Company withheld (January 2003) Rs.51.77 lakh out of the fee payable to firm 'T', in the meantime, it had awarded four more consultancy contracts worth Rs.12.58 crore to firm 'T' during December 2002 to December 2003, which lacked justification.

- Firm 'J' had no experience in production of the grade of pipes required by the Company. However, the Company did not evaluate independently the recommendation of firm `T' by cross checking the experience and the capability of firm `J' before the placement of purchase order with firm 'J'. Moreover, disregarding its own interest, the Company, at the instance of firm 'T', allowed (March 2001) the arrangement for keeping a Third Party Inspection Agency (TPIA) being appointed by firm 'J'. However, TPIA did not fulfill its obligations by regularly witnessing and validating all the tests supposed to have been carried out in firm 'J's factory before the supply of pipes to the Company. The Company had encashed (January 2003) firm 'J's' bank guarantee (BG) of Rs.50.34 lakh for the supply of defective pipes.

The management/Government stated (July/October 2004) that firm `T' was an agency of international repute and its professional deficiencies as pointed out in audit were not the causes for the leaks in the pipes supplied by firm `J'. Besides, firm `J' was also selected based on its capabilities and

[#] Unit to measure the pressure.

competitiveness. However, in the instant case, legal action was initiated (April 2004) against firm `J' for supply of defective pipes.

The reply was not correct. The Company's records indicated that firm T's failures to verify capabilities of firm `J' before award of the work, give pipeline specification to firm 'J' and also to carry out technical audit during fabrication of pipes had led to the leaks in the pipes supplied by firm `J'. The Company initiated no legal action against firm 'T' for the consequential loss of Rs. 20.96* crore suffered by it.

4.7 Avoidable payment of consultancy fee

Award of consultancy work even after knowing the constraints in developing the pipelines for Gas Transmission System under Build-Lease-Maintain-Transfer concessions resulted in loss of Rs.58 lakh.

The Company plans and develops pipelines for Gas Transmission System (the system) in Gujarat. The Company also operates the pipelines and recovers the transmission charges from the users of gas. The Company, decided (January 2000) to develop pipelines for the system in future, under the concept of build-lease-maintain-transfer (BLMT) agreements. As per the BLMT concept, the concessionaire (private sector participant) undertakes to construct the pipelines, leases it to the Company and maintains it during the agreement period. The concessionaire would collect lease rentals (inclusive of maintenance charges) from the Company and upon the completion of agreement period would transfer the pipelines to the Company.

The Company's consultant, *viz.*, Tractebel Engineers and Construction Private Limited (the consultant) appointed (March 2000) for preparation of maintenance agreement as per BLMT cautioned (May 2000) the Company that splitting the job of operation and maintenance of pipelines between the Company and concessionaire respectively under BLMT would lead to disputes between them. Disregarding the consultants recommendation, the Company decided (March 2001) to develop Vadodara-Ahmedabad-Kalol (V-A-K.) pipeline on BLMT basis. Accordingly, the Company awarded (March 2002) the work of preparation of technical part of request for proposal (RFP) documents on BLMT agreement for V-A-K pipeline at the cost of Rs.99.85 lakh to Engineers India Limited (EIL), New Delhi.

The Company decided (June 2002) to drop BLMT option for developing any pipelines for the system. The reasons as cited by the Company for dropping the option *inter alia* included the chances for complication in overall grid operation as the pipelines of the system were to be transferred to the concessionaire for maintenance job, disputes over the operation and maintenance of the pipelines, the Company's preference to own all assets in its name and the recommendation of its consultant to avoid BLMT option. Hence, the Company terminated the services of EIL after payment of Rs.58 lakh in July 2002. Further, the Company, finally, awarded (March 2003) the work of

* Rupees 2.26 crore *plus* Rs.19.72 crore *minus* the amount witheld/BG encashed Rs.1.02 crore.

Recommendation for avoiding BLMT option was ignored.

developing the V-A-K pipeline through award of contract on engineering, procurement and construction basis as per the practice in vogue. Audit observed that the BLMT option was never tried anywhere in the gas transmission business and hence the award of work to EIL disregarding the recommendation of its consultant to avoid the BLMT option resulted in infructuous expenditure of Rs.58 lakh.

The management/Government stated (March/July 2004) that the audit contention that the Company went ahead with the option disregarding the consultant's recommendation was not correct, as the consultant had only highlighted the complication involved in trying with the BLMT option.

The reply was not tenable as the Company cited the recommendation of the consultant as one of the reasons for dropping the BLMT option in the Board of Directors' meeting held on 27 June 2002. Thus, the award of consultancy work, even after knowing the constraints in developing the pipelines under BLMT option resulted in loss of Rs.58 lakh.

Gujarat State Fertilizers and Chemicals Limited

4.8 Undue payment of premium

The Company, at the instance of preference shareholders made undue payment of premium of Rs.8.25 crore and also suffered interest loss of Rs.18.41 lakh.

The shareholders authorised (September 1998) the Company to augment long term resources for meeting normal capital expenditure through issue of Unsecured Redeemable Cumulative Non Convertible Preference Shares (preference shares) on private placement basis. Accordingly, the Company raised (February 1999) Rs.33 crore by issue of 33 lakh preference shares of Rs.100 each to four institutions* (the preference shareholders). The dividend at the rate of 10.75 *per cent* was payable on the preference shares subject to the availability of divisible profits with the Company. The Company paid (March 1999) dividend of Rs.4.04 crore to the preference shareholders for the period from 9 February to 31 March 2000. Due to non availability of divisible profit, dividend was not paid from 1 April 2000 to 9 February 2002. The preference shares were due for redemption at par on 9 February 2002, but were redeemed (March 2002) at a premium of Rs.25 per share involving total premium payment of Rs.8.25 crore.

Audit scrutiny revealed the following:

Payment was made in violation of AOA of the Company.

- Section 80(2) of the Companies Act, 1956 stipulates that the redemption of preference shares may be carried out on such terms and in such manner as provided by the Articles of Association (AOA) of the Company. The AOA of the Company stipulates that the preference shares should be redeemed

* HDFC Bank Limited - Rs.11 crore, Housing Development Finance Corporation Limited- Rs.10 crore, ICICI Banking Corporation Limited – Rs.10 crore and Oriental Insurance Company Limited - Rs.2 crore.

as per the terms and conditions of their issue and in the absence of any specific terms and conditions in this behalf, in such manner as the directors may think fit. Accordingly, in this case, the preference shares were redeemable only at par as specified in their issue. Thus, the redemption of preference shares at premium by the Company had resulted in violation of its AOA resulting in irregular payment of premium of Rs.8.25 crore.

- The Company on the pretext of availing ensuing loan facility from one of the preference shareholders *i.e.*, HDFC Bank Limited (the bank) and also at the behest of all the preference shareholders decided (January 2002) to compensate the dividend loss to them through the redemption of the preference shares at premium. Although the dividend loss was Rs.6.60 crore due to its non-payment by the Company during 1 April 2000 to 8 February 2002 yet the preference shareholders were compensated through the payment of premium of Rs.8.25 crore. This lacked justification.

- The Company, at the instance of the bank kept a fund of Rs.1.10 crore with them since January 2002. The fund did not earn any interest as the Company kept the same only to compensate the bank against loss due to non-payment of dividend. The bank, however, finally adjusted the fund in May 2003 against the loan borrowed (March 2002) with the interest rate of 12.75 *per cent* by the Company from the bank. Although the Company compensated the bank through the payment of premium of Rs.2.75 crore in March 2002, the Company failed to bargain with the bank for the recovery of interest loss of Rs.18.41 lakh (at 12.75 *per cent*) on the fund kept with it during January 2002 to May 2003.

The management/Government stated (April/May/September/November 2004) that as per opinion (February 2002) of the Company's advocate, the Company was empowered to redeem the preference shares at premium as it was allowed by the Company's AOA. Further, the decisions to compensate the dividend loss to the preference shareholders and also to give up the claim for the interest loss of Rs.18.41 lakh from the bank was taken by the Company with a commercial consideration of availing the ensuing loan/concessions from the bank.

The reply was not tenable as the same advocate gave contradictory opinion to the Company earlier in November 2001 stating that redemption of a preference shares at premium would not only alter their terms of issue but also affect the interest of equity shareholders and hence the consent of equity shareholders should be obtained for effecting any change in the terms of their issue.

Gujarat Alkalies and Chemicals Limited

4.9 Loss due to deficiency in Memorandum of Understanding

The Company incurred extra cost of Rs.11.78 crore in purchase of energy at higher rate due to defective penalty clause in Memorandum of Understanding.

Penalty of Rs.1.09 crore was recovered against the extra cost of Rs.12.87 crore.

As per the Memorandum of Understanding (MOU) entered (May 1989) with Gujarat Industries Power Company Limited (GIPCL), the Company was to draw 24.42 crore KWH[$] energy annually from GIPCL. The Company was also receiving energy supply from GEB with the contract demand of 31,000 KVA[*] since July 1999. During 2000-01 and 2001-02, against the Company's entitlement of 24.42 crore KWH energy annually, GIPCL supplied only 21.22 crore and 21.10 crore KWH respectively. Consequently, the shortage in power supply was met from GEB at an extra cost of Rs.12.87 crore. The Company recovered penalty of Rs.1.09 crore from GIPCL for the short supplied energy during 2000-02, as per the terms of the MOU.

Audit observed that penalty clause for short supply of energy was defective as the MOU entered in May 1989 provided penalty at the rate of Re.0.10/KWH on the short supplied quantity. Although the average tariff per KWH of energy charged by both GIPCL and GEB had increased by 61 and 73 *per cent* respectively over a period of 12 years since 1990-91, yet proportionate increase in the penalty rate was not allowed in the absence of any provision made in this regard in the MOU. Moreover, neither the Company had made any effort to review and revise the MOU for safeguarding its interest nor had taken any legal action against GIPCL for non-performance of its obligation under the MOU (May 2004)

The management/Government stated (March/April/November 2004) that the Company entered into an MOU to get assured quantity of the energy at a cheaper cost from GIPCL. Accordingly, the energy tariff of GIPCL always remained cheaper compared to GEB so far. The clause for charging the penalty of Re.0.10/KWH was inserted in the MOU to ensure that GIPCL would plan the operation of GTPP in such a way so that its commitment for minimum of 70 *per cent* PLF could be achieved.

The reply was not tenable, since as per the MOU, in the event of the Company's failure to purchase the committed units of energy from GIPCL, the Company had to pay minimum applicable demand charges of Re.0.57/KWH during 2000-02. However, the penalty of Re.0.10/KWH remained the same since May 1989. Thus, the Company incurred extra expenditure of Rs.11.78 crore[**] in purchase of energy due to defective penalty clause in MOU.

[$] Kilo-Watt Hours.
[*] Kilo-Volt Ampere.
[**] Rs.12.87 crore – Rs.1.09 crore

4.10 Delay in finalisation of accounts by working Government companies

Statutory provisions for finalisation of accounts

4.10.1 According to the provisions of Section 210(3) read with section 166 of the Companies Act, 1956, audited accounts of a company should be approved and placed in the Annual General Meeting (AGM) of the shareholders within six months of the close of its financial year. Further, as per provisions of Section 619A (3) of the Act, ibid, the State Government should place an Annual Report on the working and affairs of each State Government company together with a copy of the Audit Report and comments thereon made by the Comptroller and Auditor General of India (CAG) before the State Legislature within three months of its AGM.

Management's/Government's responsibility for preparation of accounts

4.10.2 Under the provisions of Section 210(1) read with Section 216 and 218 of the Companies Act, 1956, the Board of Directors (BOD) of a company is required to lay in every AGM an audited copy of the annual accounts i.e. balance sheet and profit and loss account for the financial year along with the Auditors Report and other specified annexures. Therefore, it was the responsibility of the management of respective companies to finalise the accounts in time. The administrative department concerned have also to oversee and ensure that the accounts are finalised and adopted by the companies within the prescribed period.

Procedure for finalisation of accounts

4.10.3 The annual accounts prepared by the companies are approved by its BOD and are then audited by the Statutory Auditors appointed by the CAG. As per provisions of Section 619(4) of the Companies Act, 1956 the CAG conducts supplementary audit of the accounts of the companies. Such accounts along with the comments of the CAG and the report of the Statutory Auditors are placed before the AGM of the Company for adoption.

Risk involved due to delay in finalisation of accounts

4.10.4 The finalised accounts of the companies reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, CAG cannot conduct the supplementary audit of the accounts of the companies and thus Government's investment remains outside the scrutiny of the State Legislature. Besides, the delay also opens the system to risks of fraud and leakage of public money.

Extent of arrears

4.10.5 As on 31 March 2004 there were 45 Government companies (35 working companies and 10 non-working companies) and five Statutory corporations (all working). Out of 35 working Government companies and five Statutory corporations, only 12 companies and one Statutory corporation had finalised their accounts for the year 2003-04 as on 30 September 2004. The accounts of remaining 23 working Government companies and four Statutory corporations were in arrears for one to eight years as on 30 September 2004.

Out of 10 non-working companies, five companies are under liquidation. One of the five non-working companies had finalised their accounts for the year 2003-04 and remaining four non-working companies were in arrears for one to five years as on 30 September 2004.

Comparative position of clearance of arrears

4.10.6 The table given below indicates the position of number of accounts in arrear and clearance thereof (up to September in each year) related to all working companies during the last five years upto 2003-04:

Year	Total number of accounts due	Number of accounts cleared	Balance of accounts in arrears	Percentage of accounts cleared to accounts due
1999-2000	75	38	37	51
2000-01	70	37	33	53
2001-02	66	29	37	44
2002-03	71	34	37	48
2003-04	74	36	38	49

The above table revealed that clearance of arrears of accounts ranged between 44 and 53 *per cent* in respect of these companies.

The detailed position of delay in finalisation of accounts by four PSUs (test checked in audit) and holding of AGM is detailed in ***Annexure-14***

The position of delay indicated in ***Annexure-14*** is summarised below:

Name of the Company	No. of accounts finalised during 1999-2004	No. of accounts in arrear	Range of delay in months	
			Finalisation of accounts	Holding of AGM
Gujarat Scheduled Castes Economic Development Corporation Limited	3	8	55-70	65-77
Gujarat National Highways Limited	1	5	4	Yet to be held
Merged accounts of Gujarat State Handloom and Handicrafts Development Corporation Limited	1	3	30	Yet to be held
Gujarat State Land Development Corporation Limited	6	2	24-27	30-34

Factors responsible for delay/arrears

4.10.7 The reasons for delay in finalisation of accounts by above four companies are discussed hereunder:

Gujarat Scheduled Castes Economic Development Corporation Limited

4.10.8 GOG formed (August 1996) a Statutory Board under Section 1(3) of Gujarat Scheduled Castes Development Corporation Act, 1985 and transferred the activities of the Company along with its employees to the Board. Even after a lapse of 83 months since the transfer of activities, GOG neither had taken any step nor made any arrangement for the finalisation of the accounts of the Company for 1996-97 to 2003-04 (September 2004).

The management/Government stated (June/August 2004) that the delay in finalisation of accounts and non-initiation of action for winding up of the Company pointed out (April 2004) in audit was noted seriously by GOG. Accordingly, GOG had appointed (June 2004) members for BOD of the Company with aims of clearing the arrears of accounts by March 2005 and also to wind up the Company thereafter. The fact, however, remained that GOG had failed to take up necessary follow up actions immediately after transferring the activities of the Company to the Board.

Gujarat National Highways Limited

4.10.9 The Company was formed in July 1997 to take up activities of development/ maintenance of highways, bridges, etc., in Gujarat. As the promoters of the Company (i.e. GOG and National Highways Authority of India) did not assign any activities (March 2004) to the Company since its formation, the Company did not appoint any employee. Resultantly, the accounts for the year 1997-98 and 1998-99 were got prepared through an outside agency. The Company’s accounts for the period from 1999-2000 to 2002-03 were not finalised (September 2004).

The Company while accepting (July/October 2004) the audit contention stated that the accounts for the years 1999-2000 to 2001-02 were submitted for CAG audit in July 2004. The verification of the reply in audit, however, revealed that the Company failed to lay the accounts in its Annual General Meeting for the year 1998-99 even after the lapse of 48 months (September 2004) since the issuance of final comments on the accounts by CAG in September 2000.

Gujarat State Handloom and Handicrafts Development Corporation Limited

4.10.10 The Company was formed in June 2002 after amalgamation of the erstwhile Gujarat State Handloom Development Corporation Limited and Gujarat State Handicrafts Development Corporation Limited. As the erstwhile Companies had prepared their accounts up to 1999-2000, the Company was required to prepare its merged accounts for the year 2000-01 onwards. The Company, however, finalised its accounts for the year 2000-01 only in April

2004 after the lapse of 21 months since its formation causing accumulation of arrears of accounts of the subsequent years.

The management stated (May/October 2004) that the finalisation of accounts for the year 2000-01 got delayed initially due to receipt of different instructions from concerned authorities in the matter of merging the accounts of erstwhile companies with retrospective date. However, after the receipt of necessary clarification from the office of CAG in September 2003, the Company had finalised the accounts for the year 2000-01.

The reply was not tenable as the amalgamation of erstwhile companies was notified in June 2002; however, the separate accounts already prepared for the year 1999-2000 were adopted by AGMs of erstwhile companies in January and July 2002. Hence, in July 2002 itself the Company should have initiated action for preparation of merged accounts for the year 2000-01. Thus, the delay lacked justification.

Gujarat State Land Development Corporation Limited

There was weak organisational set-up for accounting function in the Company.

4.10.11 The Company had finalised (September 2004) its accounts for the period up to 2001-02. The reasons, such as, absence of professionally qualified persons (Chartered Accountants) heading the accounts function, non fixation of proper internal targets for timely finalisation of accounts, inadequate/untrained accounts staff, the delay in compilation/reconciliation of accounts of units and the absence of computerisation of accounting functions was responsible for the arrears of accounts in the Company. The Company's Statutory Auditors took seven to thirteen months between the commencement and completion of audit of accounts of the Company for period from 1996-97 to 2001-02.

The Company while accepting (May 2004) the reasons for arrears of accounts as pointed (April 2004) in audit had stated that it was planning to clear the arrears of accounts at the earliest. The Company has however, neither prepared any time bound action plan for clearing the arrears of accounts nor devised any strategy to rectify the deficiencies of its accounting functions.

Steps taken by the State Government

4.10.12 The State Government exercises its control over the companies through the concerned Administrative/Finance Department. In terms of the Memorandum and Articles of Association of the companies, the Government had the power to issue directives in the interest of companies. As most of the directors of the companies are nominees of the State Government, the Government was expected to take concrete steps through its nominee directors to ensure that the accounts of the companies are finalised in time. Despite, the position of arrears being pointed out by audit regularly to the administrative departments, State Government had not taken concrete steps to liquidate the arrears in accounts.

The matter was reported to the Government in April 2004; their reply had not been received (November 2004).

STATUTORY CORPORATIONS

Gujarat Electricity Board

4.11 Loss due to delay in commissioning of new cooling tower

The Board suffered a revenue loss of Rs.373.89 crore due to delay in commissioning of new cooling tower at Dhuvaran thermal power station.

A natural draught cooling tower (NDCT[⊗]) commissioned (1972) for unit-5 at Dhuvaran thermal power station (TPS) had collapsed in December 1996. Hence, the Board awarded (June 1998) the work of design, construction, erection and commissioning of new induced draught cooling tower (IDCT)[&] to firm E[*] at a cost of Rs.4.44 crore. The work was to be completed by August 1999. The Board, however, cancelled the work order in August 2000 due to the slow progress made in execution of the work by firm `E'. The balance of the work left out relating to electrical and mechanical portion costing Rs.97.57 lakh was awarded (May 2002) at a cost of Rs.2.42 crore and of civil work portion costing Rs.30.63 lakh was awarded (February 2001) to new firms[@] for Rs.1.02 crore. Although the civil work was completed (January 2002) yet the execution of electrical and mechanical works of IDCT were still in progress (September 2004).

Audit observed the following:

The Board ignored the consultant's suggestion for commissioning of a new cooling tower.

- During 1993-94, the Board's consultant suggested to construct new NDCT for unit-5 as the old NDCT was very weak due to the severe rusting of reinforcement in its structure. Despite this, the Board had not initiated any action for the construction of new cooling tower till the collapse of the old NDCT[⊗] on the plea that the construction of new one was considered as not viable as the life of the power plant of the TPS itself was on the verge of expiry. The plea was, however, not consistent with the subsequent decision (June 1998) of the Board to commission the new tower in the place of collapsed tower.

- The Board was aware (April 1998) that the IDCT for unit was of a large size (i.e. 16,500 cum/hr flow) and firm `E' was a new entrant in the field of construction of such large size towers. The work was, however, given to firm `E' being the lowest bidder. Even though the second lowest (L-2) bidder was a reputed firm in the construction of large size towers, the same was not considered as the rate quoted (*i.e*. Rs.5.53 crore) by the L-2 was higher compared to the rate of firm `E'.

- The Board had not initiated any action under 'Risk and cost clause' of the work order of firm `E' for the recovery of extra cost of Rs.2.16 crore due

[⊗] NDCT is constructed vertically and prone to deterioration due to weather conditions and its constrcution cost is higher compared to IDCT, which is constructed horizontally and not prone to deterioration due to weather conditions.
[*] Enviro Clean Systems Limited, Hyderabad.
[@] M/s.KB Mehta, M/s. Mahavir construction

to the award of the works at higher cost (*i.e*. Rs.3.44 crore) compared to the cost (*i.e*. Rs.1.28 crore) of the left out works.

- Pending completion of the work of construction of new IDCT, the TPS had been generating the energy at 90 mega watt (MW) against the original load capacity of 120 MW with the help of truncated old NDCT since December 1996. As a result the Board lost generation of 1,841.84 million units during December 1996 to March 2004 resulting in revenue loss of Rs.373.89 crore.

The Board/Government stated (April/May/October 2004) that the then existing old NDCT collapsed before the Board took up the work of rehabilitating it. As per the Board's policy the work was awarded to firm 'E' being the lowest bidder. The action against firm `E' under 'Risk and cost clause' of work order was not initiated so far as the exact additional expenditure incurred by the Board for the work was not known pending completion and commissioning of the new IDCT. As the unit 5, even in any case, had to be kept under shut down for want of fuel at a reasonable price, the Board might have suffered only marginal generation loss due to the delays in commissioning the new IDCT.

The reply was not tenable as the reasons given for non initiation of timely action for commissioning of new cooling tower and also award of the work to inexperienced firm 'E' lacked justification. Besides, as per State Government instructions (June 1980), the Board should have initiated action against firm 'E' for recovering the claim based on the cost of left out work given to new firms (i.e. KB and M). Further, review of energy generation data revealed that hardly 2.94 *per cent* generation loss occurred due to shutdown of plant for want of fuel during December 1996 to March 2004.

Thus, non initiation of timely action for commissioning the new cooling tower and also the subsequent delay due to award of work to firm `E' led to non commissioning of new IDCT so far (May 2004). Consequently, the Board suffered revenue loss of Rs.373.89 crore.

4.12 Avoidable payment of surcharge to Railways

The Board suffered a loss of Rs.37.30 crore due to deficiency in the freight prepayment contract.

The Railways levied surcharge at the prescribed rate in case the freight for coal to be transported in rakes was not paid in advance at the time of despatch from the colliery end. In order to ensure timely prepayment of freight, the Board started (March 1990) the practice of appointing agents to prepay the freight at the colliery end. The Board, however, had to reimburse the freight alongwith service charges at the decided rates to the agents within eight days (the credit period) of the receipt of prepaid rakes at the power stations (the destinations). Prior to July 2000, the Board appointed the agents for freight prepayment contracts through invitation of limited tenders. Terms of the contracts provided that the Board was liable to pay interest (at the prevailing cash credit rate) to the agents for the delays, if any, in the reimbursement of freight amount beyond the credit period allowed. The Board, however, after the invitation (July 1999) of public tender for the first time, awarded (June 2000) the freight prepayment contract to Karam Chand Thapar and Brothers Limited, Mumbai (firm) for the coal movement to Ukai, Wanakbori and Gandhinagar thermal power stations. The contract was initially valid for six months from July 2000 and was further extended from time to time up to June 2003. In deviation from the earlier contract a clause was not included in the contract regarding payment of interest to the firm beyond the credit period in the event of any delay in reimbursement of freight alongwith service charges (i.e. 2.07 *per cent* on the prepaid amount of freight).

The Board made an avoidable payment of surcharge of Rs.37.30 crore to Railways.

Audit observed that during July to September 2000, the Board had not regularly reimbursed the freight to the firm within the credit period on the pretext of shortage of funds with it. As on 15 September 2000, the Board had unpaid freight dues of Rs.63.22 crore with the delay ranging from two to 21 days over the credit period. On this plea the firm started releasing (from August 2000) the rakes on "To pay[$]" basis to the destinations. Resultantly, the Board paid surcharge of Rs.37.30 crore (@ 15 *per cent*) to the Railways on 679 number of rakes released on "To pay" basis by the firm during August 2000 to 15 January 2001. Considering the Board's outstanding dues of Rs.63.22 crore (15 September 2000) the interest payable at the highest cash credit rate of 18 *per cent* would have been only Rs.38.73 lakh.

As per terms of the contract, surcharge of Rs.37.30 crore paid to the Railways by the Board was recoverable from the firm. However, the penalty was not recovered on the plea that the Board had also failed to make any provision in the contract for the payment of interest on the amount of freight belatedly reimbursed to the firm. The Board, however, amended the terms of contract on 15 January 2001 and thereby agreed to pay interest in the event of any delay in reimbursement of freight to the firm in future.

The Board/Government stated (April/May/October 2004) that the payment of interest made to the agents under previous contracts had resulted in cash loss to the Board and hence the tender (July 1999) did not provide for the payment of interest on the belated reimbursement of freight to the firm. Although the Board had decided to reimburse the freight amount to the firm within the stipulated time it was unable to do so owing to its financial crisis. The Board again agreed for the payment of interest to the firm to avoid any further payment towards surcharge on "To pay" rakes.

The reply is not tenable. As the Board did not adhere to its commitments towards reimbursement of freight, the interest had to be paid resulting in cash loss. Moreover, the Board was fully aware of heavy amount of surcharge to be paid to Railways. Thus, the fact remains that the Board's failure to incorporate the provision for the payment of interest in the initially awarded contract had resulted in loss of Rs.37.30 crore.

[$] Under this method the agent will not make prepayment of freight to Railways, hence, the Board has to pay for the freight alongwith surcharge at the receiving end.

4.13 High distribution losses

Persistent high distribution losses in the power feeders resulted in loss of revenue of Rs.39.67 crore to the Board and Rs.5.71 crore to the State exchequer.

Power generated by the Board is fed into distribution network through various categories[*] of feeders located at the sub-stations of the Board. The difference between the number of units of power sent out through the feeders and actual number of units received at the consumers end represent the distribution losses of the feeders. As the occurrence of technical and line losses are inherent in the distribution of power, feeder-wise normal (i.e. theoretical) loss is being determined by the Board based on the number of lines emanated from a feeder and number of transformers on the feeder. The distribution loss in excess of theoretical loss of a feeder could be avoided through proper management of power distribution network.

Distribution losses were more than 30 *per cent* in 11 to 17 numbers of feeders.

Audit analysis of the records of Porbandar city division (the division) of the Board revealed that of the 19 feeders the actual distribution loss was more than 30 *per cent* in 11 to 17 numbers of feeders during April 2001-04. The theoretical losses ranging from 1.72 to 9.91 *per cent* were fixed for the feeders during the period. The distribution losses in excess of theoretical losses[#] of the feeders were however high and remained in the range of 4.26 to 94.39 *per cent*, 14.15 to 92.31 *per cent* and 6.36 to 43.55 *per cent* during 2001-02, 2002-03 and 2003-04 respectively. Thus, in all, the Board had actually lost 168.72 million units (MUs) of energy in excess of theoretical loss fixed in this regard during 2000-01 to 2003-04. This had resulted in loss of revenue of Rs.39.67 crore to the Board and of Rs.5.71 crore to State exchequer due to non levy of electricity duty and tax on sale of electricity on the abnormal loss of 168.72 MUs of energy.

The persistence of high distribution losses in more number of feeders of the division during the period indicated that the corrective measures, *viz.*, checking and sealing of consumer installations, replacement of old and faulty meters, providing metal meter boxes etc., were not adequately taken to bring down the actual distribution losses equal to the quantum of theoretical losses fixed for the feeders. Although the Board decided in July 2000 to fix the accountability on the divisional heads for the persistent high distribution losses, no follow-up action was taken on the Board's decision (June 2004).

The Board/Government while admitting (August/November 2004) the audit contention stated that continuous monitoring and maintenance of the feeders were going on in the division for reducing the high percentage of distribution losses. Further, action would be taken against divisional heads for the persistent high distribution losses after the receipt of necessary explanations from them. Thus, the fact remained that the Board had neither taken adequate corrective measures to bring down the losses nor fixed the responsibility on the divisional heads as per its own decision of July 2000 so far (June 2004).

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[*] Express feeders, High/low tension feeders, Rural/Urban feeders.

[#] It refers to the line losses when current is passing through the line but there is no load on the line. It is calculated based on the number of lines emanating from the feeder and the number of transformers on the feeder.

4.14 Avoidable payment due to defective agreement

The Board made an avoidable payment of transportation charges of Rs.4.92 crore due to defective agreement with Gas Authority of India Limited for purchase of gas.

GAIL unilaterally reduced the contracted quantity.

The Board executed (December 1992) an agreement with Gas Authority of India Limited[*] (GAIL) for purchase of gas for its Utran gas based power station (GBPS) upto December 1997. The agreement was extended from time to time upto 31 December 2003. The agreement provided that GAIL was to supply seven lakh standard cubic meters (SCM) of gas per day. GAIL on the pretext of demand management measure, unilaterally reduced the allocated gas supply to 6.81 lakh SCM *per* day with effect from April 1999 and to 4.5 lakh SCM *per* day with effect from February 2000. The agreement stipulated that in addition to the gas price, transportation charges at the rate of Rs.21,15,575 per month was payable by the Board, which was subject to escalation at the rate of three *per cent per annum*. The Board transferred (August 2002) UGBPS to Gujarat State Electricity Corporation Limited (GSECL) whose entire equity capital of Rs.519.30 crore (March 2003) was held by the Board.

Audit Scrutiny (May 2000) of the relevant records of the Board and GSECL relating to the purchase of the gas during April 1999 to March 2004 revealed that GAIL had unilaterally reduced the contracted quantity twice and had at times not supplied even the reduced contracted quantity of gas. Despite this, GAIL recovered the transportation charges of Rs.13.86 crore[@] from the Board/GSECL during the period, based on the fixed monthly rate originally contracted for supply of seven lakh SCM per day. The gas supply agreement previously entered (December 1975) with ONGC by the Board (renewed from time to time), however, stipulated for the recovery of transportation charges based on every 1000 SCM of gas actually supplied to the Board. Hence, on this analogy, the Board/GSECL should have negotiated with GAIL for recovery of transportation charges proportionate to the quantity of gas actually supplied to them. This would have enabled the Board/GSECL to save Rs.4.92 crore had GAIL allowed them to make the payment of Rs.8.94 crore[Φ] towards proportionate transportation charges during April 1999 to March 2004.

GSECL/Government/the Board stated (April/May/July/September 2004) that compared to terms of ONGC agreement, the terms of agreement with GAIL provided for the supply of increased quantity of gas with more pressure from GAIL's remote gas field to the Board/GSECL. Hence, fixed transportation charges irrespective of quantity gas supplied was recovered by GAIL.

The reply was not tenable as the Board/GSECL did not make adequate efforts to insist GAIL to agree for recovery of proportionate transportation charges while extending the agreement from time to time. Further, the Board/GSECL

[*] Gas distributing arm of Oil and Natural Gas Commission (ONGC) since May 1992.

[@] Inclusive of Rs.1.65 crore paid between September 2003 and March 2004 during which gas supply was transferred to another plant of GSECL at Dhuvaran.

[Φ] Calculated based on the actual monthly quantity of gas supplied by GAIL.

had also entered (October 2002/July 2003) two gas transmission agreements with Gujarat State Petronet Limited for purchasing gas from Gujarat State Petroleum Corporation Ltd for UGBPS. The transportation charges were being paid in two parts, one being fixed capacity charges linked with contracted quantity of gas purchased and another being commodity charges linked with actual quantity of gas purchased in each fortnight. Thus, an element of flexibility was ensured through the agreements even for reducing the fixed capacity charges in the event of reduction, if any, made in the original contracted quantity of gas. Thus, the Board/GSECL had lost Rs.4.92 crore not only due to the defective agreement initially (December 1992) entered with GAIL but also due to their failure to review the terms of agreement with requisite commercial prudence during April 1999 to March 2004.

4.15 Deficiency in internal control and internal audit system

Internal Control

4.15.1 Internal Control is a management tool used to provide reasonable assurance that the management's objectives are being achieved in an efficient, effective and adequate manner. A good system of internal control should comprise, *inter alia,* proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and reliability of accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties and review of the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Gujarat Electricity Board (Board) had laid down operating procedures for different areas of functioning, accounting procedure manuals and ensured reasonable allocation of functional responsibilities.

Audit observed the following deficiencies in implementation of internal control:

Absence of proper control over material-at-site account

4.15.2 In the Board's operation and maintenance (O and M) divisions where there are no stores, stock movements to divisions/from divisions to sub-divisions are routed through material at site (MAS) account. The Dy. Engineer of the sub-divisions draws material against his personal name from this stock and submits utilisation details in the form of material requisition (MR) notes to the divisions. In turn, the divisions debit the expenditure of asset head and credit the MAS account to the extent of utilisation of the material. Thus, at the end of the year the MAS stock in the divisions represents stock not drawn by sub-divisions/stock drawn by Dy. Engineers but not utilised till the year-end. Audit observed that the MAS stock balance of the Board had constantly increased from Rs.6.13 crore (1999-2000) to Rs.10.16 crore in 2003-2004. The Board has not carried out any physical verification of MAS stock. As Dy.Engineers draw the stores without MR notes, it is necessary that divisions constantly monitor the balance lying with the Dy.Engineers to ensure its speedy utilisation in the works.

Erroneous projection of works expenditure

4.15.3 The Board in order to show that the financial targets fixed by it were being achieved, had booked an amount of Rs.10.59 crore, Rs.32.32 crore and Rs.9.42 crore as expenditure under various works accounts on the last date of financial years of 2001-02, 2002-03 and 2003-04 (provisional) respectively, although the expenditure were not actually incurred. Besides, the materials booked to works automatically got reduced for accounting purposes from stock figures, though the same existed in the stores, thereby leaving a scope for manipulations. The Board had not rectified the irregular accounting procedure despite being pointed out by audit from time to time.

Absence of control over vouchers submitted for payment by field units to Head Office

4.15.4 The field units send all vouchers above rupees five lakh for payment to the Board's Head Office (HO) and exhibit the vouchers sent to HO as outstanding until proof of payment is received from HO. The Board did not have a procedure of reconciling the vouchers sent from field units with vouchers received at HO to prevent any loss in transit, misplacement, etc. and also to ensure speedy clearance of vouchers.

Audit observed that in two O and M divisions[*] of the Board, vouchers for payment of electricity duty pertaining to 1990-91 (Rs.69.30 lakh) and 1997-98 (Rs.41.36 lakh) were outstanding till date (August 2004) as the vouchers were stated to have not been received at HO. The vouchers might have been misplaced in transit and due to lack of reconciliation between the HO and the field units, the payment of electricity duty of these vouchers remained pending. Thus, the Board needs to introduce a system of periodical reconciliation of vouchers between HO and field units for timely payment through vouchers.

The Board needs to introduce a system of periodic reconciliation of vouchers sent and received.

Blocking of funds due to delay in receipt of power transformers from repairing agencies

4.15.5 During 1997-2004, the Board had placed 17 contracts for repairing power transformers on various agencies. Terms of the contract provided that the agencies should repair the transformers within six months from the date of work orders issued to them. A review of details of time taken by the agencies during 1997-2004 revealed that in all cases, the agencies took 30 to 2190 days (April 2004) beyond the stipulated time. The Board needs to exercise effective control over the agencies so that they do not retain the high value transformers for unduly long period.

[*] Anand rural division and Anand city division

Internal Audit

4.15.6 Internal audit is a part of internal control which is used to detect irregularities, fraud, manipulation and embezzlement etc. and to see whether rules, instructions issued from time to time are being followed or not. The Board through adoption (December 1960) of the Internal Audit and Inspection code (IA code) defined the functions and responsibilities of the Internal Audit Wing (IAW) of the Board.

The Board's IAW is headed by the Chief Finance Manager (CFM) and consists of a sanctioned strength of 439 employees at various field offices and 43 employees at HO. The average establishment cost of IAW was Rs.6.89 crore *per annum* during 2000-03.

Scope of Internal Audit

4.15.7 The primary function of IAW is to verify the accuracy and completeness of accounts and to ensure that all revenues and receipts of the Board are promptly collected and sums so collected are brought to account under the proper heads. It has to further ensure that all expenditure and disbursements are authorised, vouched and correctly classified and that the financial accounts represent the complete and full statement of the financial transactions it purports to exhibit.

Working of Internal Audit Wing

4.15.8 IAW has been conducting audit at two stages i.e. pre-audit and post-audit. Pre-audit in respect of expenditure, payments etc., are conducted before transaction is concluded and post audit works are taken up not later than six months from the occurrence of the transactions. Further, the official in charge of the post-audit team at field office prepares an audit report after every audit and submits the same to the concerned unit with copy to HO. IAW prepares its annual achievement report for submission to the Members of Board.

Outstanding Internal Audit Reports

4.15.9 During 2000-03, the field offices of IAW raised 6,546 to 13,230 audit paras and also settled 9,388 to 12,874 paras after receipt of replies/ corrective actions taken by the authority concerned on the paras. As on 31 March 2003, there were 5,232 outstanding paras. The IAW at HO deals with the major audit findings of the reports at required levels for expediting corrective actions and final settlement of the paras.

Deficiencies in the organisational set up and the functioning of Internal Audit Wing

4.15.10 Audit analysis of internal audit system including the performance of the IAW of the Board during 2000-03 revealed the following deficiencies in the organisational set up and the functioning of IAW:

Injudicious allocation of manpower was made in the various functional areas of IAW.

- The total sanctioned strength of 482 employees in the IAW constituted less than one *per cent* of the total 51,288 employees in the Board as a whole in the year 2002-03. Further, the review of the functional bifurcation of the IAW of both HO and field offices revealed that basically the pre-audit of expenditure and establishment audit was conducted by 378 employees and the post-audit of all revenues and also overall checking of establishment and expenditure records was done by 104 employees. Thus, more importance was given for establishment and expenditure audit compared to revenue audit.

The Board recovered an amount of Rs.3.51 crore at the instance of CAG audit.

- The Board's circular issued in December 1980 laid down that efficiency of the IAW would be judged *inter alia* on the number of audit objections raised by CAG of India in auditing the records of the Board. In this context, audit objections having financial implications ranging from Rs.1,033.67 crore to Rs.2,601.05 crore were raised in CAG audit on the accounts of the Board for the years 2000-03. Further, the Board recovered Rs. 3.51 crore during the same period at the instance of CAG audit, which earlier remained short recovered from their consumers. The details of audit objections raised in CAG audit on the records already audited by IAW are given in ***Annexure-15***.

- The IA code prescribed that the IAW had to reconcile quarterly the "Advance given to suppliers for stores purchase account" with the "Outstanding stores creditor account". The IAW, however, failed to ensure the reconciliation between the two accounts since December 1994. Finally, the Board had got the reconciliation work done (March 2000/February 2002) through an outside agency at a cost of Rs.7.83 lakh.

The Board/Government stated (July 2004) that the odd balances in these accounts remained unreconciled for a longer period due to laxity in performance of accounting functions by some units of the Board. The reply was not tenable as non-reconciliation of the two accounts for a longer period indicated lack of vigorous follow up by IAW with concerned units.

The Board lost interest of Rs.1.26 crore due to time lag of 6 months in the post audit of HT bills.

- The Board's circular (December 1980) envisaged pre-audit of all high tension (HT) consumer bills by staff of IAW before issue of the bills or maximum within a period of one week from the date of issue of the bills. HT bills were, however, audited by IAW only six months after the issue of the bills. So, the instances of short recovered revenue amounting to Rs.20.96 crore were belatedly detected by IAW during 2000-03. Hence, the Board had lost interest of Rs.1.26 crore[@] on the above recovery due to the time lag of 6 months in the post audit of HT bills.

A consultancy report (the report) for revamping the Board's internal audit system was prepared (March 1997) through A.F. Fergusan and Company, Vadodara at a cost of Rs.12.46 lakh. The report *inter alia* revealed that IAW was unable to establish focus on continuous system improvements and also

[@] Rs.20.96 crore x $\frac{12}{100}$ x $\frac{6}{12}$ = Rs.125.76 lakh.

identify areas of focus for conducting indepth audit due to its failure in evaluation of internal controls existed with the Board. Further, it was recommended in the report that IAW should conduct technical, energy and cost and management audit of the Board. The Board decided (August 1997) to defer the approval and implementation of the report in view of the impending restructuring of the Board. This had not only rendered the expenditure of Rs.12.46 lakh as infructuous but also allowed IAW to function with its deficiencies.

The Board/Government while accepting (July 2004) the audit contentions stated that besides giving importance to accounts audit, necessary actions such as review of organisational structure and allocation of manpower and recruitment of professionally qualified persons would be made at the time of restructuring of the Board.

Gujarat State Road Transport Corporation

4.16 Performance of tyre retreading plants and tyres

4.16.1 The Corporation operated an average daily fleet of 8,963 buses through 140 depots under 16 traffic divisions during 2003-04. The Corporation has been meeting its requirement of tyres, tubes and flaps through purchase from tyre manufacturers. Tyres retreaded in its retreading plants were also used for meeting the requirement of the tyres.

Tyre retreading plants

4.16.2 At the end of 31 March 2004, the Corporation had seven retreading plants[*] each headed by a Deputy Works Superintendent. The tyres retreading plants at Naroda, Bharuch and Rajkot have the facility for production under both hot and cold processes. The plants at Godhra, Valsad, Amreli and Palanpur have only cold process.

Performance of tyre retreading plants

4.16.3 The total installed capacity of the seven plants was 1,17,400 tyres *per annum*. The Corporation, however, fixed a target of 75,400 tyres *per* year depending on number of shifts of working of the plant and manpower, which was 64.2 *per cent* of the installed capacity. No separate targets were fixed for production under hot and cold process in plants where both processes were followed. The plant wise detail of production of retreaded tyres during 1999-2004 is given in ***Annexure-16***.

Installed capacity, targets and production of retreaded tyres under hot and cold process of the tyre retreading plants during 1999-2004 were as follows:

[*] Godhra, Bharuch, Valsad, Palanpur, Rajkot, Amreli and Naroda.

(Number of tyres)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Installed capacity	1,17,400	1,17,400	1,17,400	1,17,400	1,17,400
Target	75,400	75,400	75,400	75,400	75,400
Production:					
Hot Process	36,972	22,081	11,179	10,132	8,991
Cold Process	41,974	54,881	58,518	51,423	49,805
Total	**78,946**	**76,962**	**69,697**	**61,555**	**58,796**
Percentage of production to installed capacity	67.2	65.5	59.3	52.4	50.0
Percentage of production to targets	104.7	102	92.4	81.6	77.8

The percentage of production of retreaded tyres to installed capacity reduced from 67.2 to 50.

As seen from the above capacity utilisation of the tyre retreading plants, during 1999-2004 reduced from 67.2 *per cent* in 1999-2000 to 50 *per cent* in 2003-04. The utilisation against the targeted capacity also reduced from 104.7 to 77.8 *per cent*.

An analysis of the production performance of both hot and cold process retreading plants revealed that during 2001-04 the shortfall in production was mainly due to shortage of retreading material and retreadable[#] tyres.

There was consistent decline in the receipt of tyres from the divisions for retreading. Audit observed that the availability of tyres for retreading decreased from 82,439 tyres in 2000-01 to 65,742 in 2001-02 and to 61,827 in 2003-04. This was because of non removal of tyres in time for retreading and high percentage of scrapping of new tyres. (as discussed in paragraphs 4.16.8 and 4.16.9 *supra*).

There were 66,608 idle labour hours resulting in payment of idle wages of Rs.38.07 lakh.

Audit further observed that there were 66,608 idle labour hours on account of non production of retreaded tyres for the above reasons in tyre retreading plants during 2001-04, which resulted in payment of idle wages of Rs.38.07[*] lakh.

Non fixation of labour norms

4.16.4 The Corporation had not fixed standard labour hours for retreading of tyres in its tyre retreading plants. As a result actual labour hours per tyre varied even in similar type of tyre retreading plants.

Non fixation of standard labour hours for production resulted in extra labour cost of Rs.46.32 lakh.

The average labour hour per tyre under cold process was 2 hours 48 minutes in Palanpur and 4 hours 24 minutes in Valsad during 1999-2004 though the plants were of similar make. This resulted in increase in the cost of production of retreaded tyres to the tune of Rs.24.45 lakh in Valsad during 1999-2004.

In respect of tyre retreading plant in Naroda the average labour hour per tyre during 1999-2004 was 4 hrs. 24 min. for cold process and 5 hrs. 05 min. for hot process. For similar tyre retreading plant in Bharuch, the average labour hour per tyre 4 hrs. 15 min. for cold process and 4 hrs. 09 min. for hot process

[#] It refers to used tyres which could be retreaded for reuse.
[*] 66,608 hours X Rs.57.15(average labour rate per hour during 2001-2004).

during 1999-2004. This resulted in increase in cost of production to the tune of Rs.21.87 lakh in Naroda.

Thus non fixation of standard labour hours for production in tyre retreading plants resulted in extra labour cost of Rs.46.32 lakh in two plants.

The management stated (March 2004) that the labour hours per tyre were not uniform due to different type of machineries. The reply was not tenable as comparison had been made only in respect of similar type of machineries.

Excess consumption of precured tread rubber

Consumption of tread rubber in excess of norms resulted in extra expenditure of Rs.33.38 lakh.

4.16.5 As against the standard norms of 9.5 kgs of precured tread rubber per tyre under cold process, the actual consumption during 1999-2004 ranged from 9.627 to 10.130 kgs per tyre. Thus, there was an excess consumption of 49.93 MT of precured tread rubber for production of 2.57 lakh tyres resulting in excess expenditure of Rs.33.38 lakh during 1999-2004.

The management stated (March 2004) that the excess consumption was due to higher width size of tread rubber for radial tyres than nylon tyres.

The reply was not tenable as the Corporation started purchase of radial tyres only from July 2003 and number of radial tyres retreaded during 1999-2004 was negligible (550 tyres).

Quality control and sample testing

4.16.6 The Corporation had laid down laboratory test policy for testing of tubes, flaps and tyre retreading materials. As per the laboratory test policy of the Corporation, the number of tests to be carried out in respect of tubes, flaps and retreading materials against the purchase orders were to be decided by the Technical Committee keeping in view the financial limit of expenditure on testing to one *per cent* of the total purchase value. The samples from the divisions selected by the Technical Committee are sent to Central Institute of Road Transport (CIRT) laboratory at Pune for testing with reference to the specification of Association of State Road Transport Undertakings (ASRTU). If the test results were negative, the suppliers were liable to pay the test charges, administrative expenses and penalty charges. The penalty as decided by the Technical Committee of the Corporation was to be levied on the lot value from which sample was sent for testing.

During 1999-2004 the Corporation got tested 852 samples involving purchase of Rs.8.86 crore which was 18.65 *per cent* of the total purchase (Rs.47.51 crore) of tubes, flaps and retreading material. It took 35 to 372 days for testing and getting test reports from CIRT from the date of sending the samples for testing from the divisions. The material was consumed before the test reports were made available. Test reports in respect of 85 out of 852 samples (9.98 *per cent)* had become invalid, as the time taken for testing was more than the prescribed time limit. In such cases the penalty could not be imposed and the testing served only academic interest. Test reports were awaited in respect of

104 samples for periods ranging from one to 56 months. Thus, the purpose of conducting sample tests was not achieved in large number of cases.

The Technical Committee of the Corporation levied penalty of Rs. 67.71 lakh during 1999-2004 of which Rs.22.58 lakh was still (March 2004) pending for recovery.

The Corporation used inferior quality tyre retreading materials valuing Rs. 5.88 crore.

Analysis of reports of 505 samples of tyre retreading material valuing Rs.6.96 crore (tested during 1999-2004) revealed that only 138 samples passed the test. The remaining 367 samples valuing Rs.5.88 crore failed the tests and thus the Corporation used inferior quality tyre retreading materials due to delay in testing of samples.

Audit analysis in respect of sample test reports of retreading materials revealed that the lot quantity from which the sample tests were done was not uniform and not fixed. A test check of reports of 151 samples indicated that the variation in lot size was ranging between 2.67 and 100 *per cent* of the supplied quantity. Since the penalty was levied on the lot value, non fixation of lot quantity and supply in smaller lots escaped the scope of compensation for consumption of inferior quality materials.

The management stated (March 2004) that CIRT did not carry out the testing of samples till the receipt of testing charges. The Corporation could not make payments in time due to financial constraints. Moreover as per the shelf life prescribed by ASRTU for rubber items, due weightage could not be given for the test report. The reply was not tenable as the testing fee involved nominal payments. Moreover, the penalty for inferior materials could not be imposed as testing was not done within the prescribed time limit.

Performance of tyres

Breakdown of buses due to failure of tyres

4.16.7 The number of breakdown of buses due to failure of tyres increased from 37,310 in 1999-2000 to 70,799 in 2002-2003. A comparison of the ratio of breakdown of buses due to failure of tyres to average fleet in the Corporation with that of Andhra Pradesh State Road Transport Corporation (APSRTC) and Maharashtra State Transport Corporation (MSRTC) is given below:

Year	GSRTC	MSRTC	APSRTC
1999-2000	3.72 : 1	1 : 1	0.32 : 1
2000-01	2.38 : 1	0.26 : 1	0.30 : 1
2001-02	5.24 : 1	0.93 : 1	0.31 : 1
2002-03	7.58 : 1	0.96 : 1	NA

The breakdowns due to failure of tyres were mostly categorised under tyre puncture. However, the detailed data on the reasons for tyre puncture such as improper inflation, use of injured tyres or tubes, bad driving habits and non observance of tyre pressure *etc.* were not maintained by the Corporation. The Corporation had laid down detailed tyre maintenance procedures such as checking of tyre injuries, air pressure, wheel alignment and balancing. It also specified for periodical tyre rotation and timely removal of tyres for retreading to avoid over usage of tyres and abnormal wear. The higher breakdown of buses due to failure of tyres is indicative of over usage of tyres without strict adherence to the tyre maintenance procedures. Further, cancellation of scheduled trips and resultant revenue loss on account of tyre failures remained unnoticed due to non-maintenance of such data.

The management stated (March 2004) that as new vehicles were not purchased during 2001-02 compared to other State Transport Undertakings (STUs), the ratio of breakdown was not comparable with other STUs.

The reply was not tenable because even in the earlier years wherein the Corporation was getting more new buses, the ratio of breakdown due to failure of tyres was higher compared to other STUs. The fact that the ratio had aggravated in last two years indicated non-adherence to tyre maintenance procedures strictly.

Retreadability factor[*]

4.16.8 The Corporation's retreadability factor for 1999-2004 was 1.10 while it was 4.34 for KSRTC and 3.14 for APSRTC.

An analysis of the receipt of 2.72 lakh retreadable tyres in the seven retreading plants during 2000-04 indicated that 1.87 lakh tyres (68.9 *per cent*) were received for first retreading, 79,541 tyres (29.3 *per cent)* for second retreading and 4,837 tyres (1.8 *per cent)* for third retreading. This indicated that the major number of tyres were scrapped after first retreading itself resulting in lower performance of tyres.

Low retreadability factor resulted in low mileage of nylon tyres by 87,508 lakh kms costing Rs.31.09 crore.

A nylon tyre is expected to give a mileage equivalent to its initial life *plus* three retreads *i.e.* 1,42,600 kms.[♣] Due to non-removal of tyres in time for retreading, the retreadability factor was 1.10 against the norm of 3.0. During 1999-2004, the average life of a nylon tyre was 1,09,600 kms against the expected life of 1,42,600 kms which resulted in shortfall in performance of nylon tyres by 87,508 lakh kms equivalent to a cost of Rs. 31.09 crore during 1999-2004.

The management accepted (March 2004) the low retreadability factor, which was due to non-removal of tyres in time for retreading. It was further stated that this was due to financial crunch and shortage of staff for tyre maintenance.

The fact, however, remains that the Corporation has been suffering avoidable extra cost on tyres due to lower achievement of retreadability factor.

[*] Retreadability factor indicates the maximum number of times a tyre can be retreaded for usage till scrap.

[♣] 46,000 kms + 3 x 32,200 kms.

Premature failure of new tyres

4.16.9 The Corporation had fixed norms for scrapping of new tyres. During 1999-2001 the norms for scrapping of new tyres was 8 *per cent*, which was raised to 10 *per cent* during 2001-03 and 12.5 *per cent* during 2003-04. During 1999-2004 the Corporation rejected 52,762 new tyres prematurely. Audit observed that during 2001-04 the overall percentage of scrapping of new tyres ranged from 15.48 to 24.95 as against the norms of 8 to 12.5 *per cent* fixed by the Corporation.

Scrapping of new tyres in excess of norms resulted in low mileage by 11,378 lakh kms costing Rs. 5.27 crore.

On the basis of average life attained by the tyres in the Corporation during 1999-2004, the Corporation lost 11,378 lakh kms[#], in respect of 26,884 new tyres scrapped over and above the norms, which was equivalent to a cost of Rs. 5.27 crore. The premature scrapping of tyres was on account of non adherence to tyre maintenance procedures like proper air pressure in tyres and non removal of tyres in time for retreading.

The management stated (March 2004) that maintenance procedure could not be adhered strictly due to shortage of mechanical staff and non availability of new and retreaded tyres. The fact, however, remains that due to non adherence to tyre maintenance procedures and scrapping of new tyres, the Corporation had been incurring avoidable extra cost on tyres.

The matter was reported to the Government in March 2004, their reply was awaited (November 2004).

4.17 Non recovery of a claim

The Corporation failed to initiate timely legal action against a defaulting contractor which resulted in non recovery of Rs.66.67 lakh.

The Corporation awarded (February 1996) a contract to M/s. Baneshwari Tyres and Re-mould Works, Ahmedabad (firm ‘B’) for sale of 1500 scrapped buses (the vehicles) at Rs.12.11 crore (*i.e*. Rs.80,739 *per* vehicle). The firm ‘B’ was to take delivery of all the vehicles during February-November 1996 in terms of contract. During the period firm ‘B’ took delivery of 530 vehicles after making payment of Rs.4.28 crore and did not take the delivery of the remaining 970 vehicles thereafter. Hence, the Corporation (November 1998) cancelled the contract and forfeited the earnest money deposit (EMD) of Rs.24.34 lakh of firm ‘B’ kept with the Corporation. Finally, the Corporation sold the remaining 970 vehicles at Rs.6.92 crore (*i.e*. Rs.71,357 *per* vehicle) to M/s. B.R.Shah, Ahmedabad (firm ‘S’) in February 2000.

Legal action was not initiated even after the lapse was pointed out by audit.

Audit observed that as per the terms of contract entered with firm ‘B’, the Corporation was entitled to recover the loss of Rs.91.01[*] lakh being the differential sales price from firm ‘B’ as the remaining 970 vehicles could fetch a lower rate. The Corporation did not initiate any action against firm `B’ for

[#] (average tyre life km *minus* km achieved by scrapped new tyre) x number of tyres scrapped in excess of norms.

[*] Rs.80,739 (-) Rs.71,357 x 970 vehicles.

the recovery of Rs.66.67 lakh being the net sale proceeds short realised (sale proceed short realised Rs.91.01 lakh *minus* adjustment of EMD Rs.24.34 lakh).

On being pointed by Audit in October 2000, the Corporation had only issued (November 2000) a notice to firm 'B' demanding for the payment of the amount to the Corporation. Belatedly, in October 2003, the Corporation approached their lawyer for initiating a legal action against firm 'B'. The lawyer, however, gave (March 2004) the opinion that the instant case was weak as the time limit of three years (*i.e.* reckoned from the date of cancellation of the contract) allowed as per the provisions of The Limitation Act 1963, for filing a legal suit was already expired in October 2001. Thus, the Corporation's failure to initiate timely legal action resulted in non recovery of Rs.66.67 lakh from firm 'B'. The Corporation has not fixed responsibility for the inaction.

The management stated (August 2004) that firm 'B' had frequently made representations to the State Government and also to Chairman of the Corporation even for getting refund of EMD of 24.34 lakh forfeited by the Corporation. In this context, further initiation of legal action against firm 'B' was also got delayed.

The reply was not tenable as firm 'B' made the representations to the Government and the Corporation only in February and December 2002 respectively. Moreover, initiation of legal action against firm 'B' was an independent action which the Corporation should have taken allowed time limit (*i.e.* up to October 2001) within the provisions of The Limitation Act, 1963.

The matter was reported to the Government in May 2004; their reply had not been received (November 2004).

Gujarat State Financial Corporation

4.18 Non recovery of dues

Disbursement of loans to ineligible firms resulted in non recovery of dues of Rs.10.47 crore.

The Corporation extended (June and July 1999) working capital term loans for Rs.1.50 crore and Rs.1.25 crore to Enkay Texo Food Industries Limited, Silvassa (firm `E') and its associate concern Accelerate Synthetics Private Limited, Ankleshwer (firm `A') respectively. The loans of firm `E' and `A' were carrying interest rate of 19 and 20 *per cent per annum* and were repayable in 30 monthly instalments starting from October and November 1999 respectively. As per the norms fixed (July 1997) by the Corporation, the firms were *inter alia* required to fulfil the following criteria for availing the working capital term loan:

- The firm should be in production for at least three years with a minimum positive net worth of Rs.1.50 crore.

- The existing cash accruals of the firm should be adequate to meet existing and proposed liabilities of the loan and other debts.

- The firm should not be in default to financial institutions and should have satisfactory track record in repayment of its dues to them.

- The asset coverage ratio* after considering the proposed loan should not be less than 2 : 1.

Audit observed that the Corporation was aware (June/July 1999) of the fact that the firms did not fulfil the above criteria in view of the following:

Firm `E' was in default in repayment of dues of Rs.18.87 crore to its bankers.

- Firm `E' was in default (June 1999) in repayment of dues of Rs.18.87 crore to its bankers and of Rs.65 lakh to the Corporation on account of availing of the bill discounting facility of Rs.1.50 crore from the Corporation in March 1997. Moreover, firm `E' was already having cash credit arrangement for Rs.65.93 crore with its bankers for meeting working capital requirement of Rs.40 crore. Besides, the annual cash accrual of Rs.14.40 crore of the firm E was not adequate to meet its repayment liability of Rs.15 crore to its bankers.

- Firm `A' had been in production activity for a period of two years and its net worth was Rs.32.27 lakh only. Further, the debt equity ratio of firm E was 6 : 1 indicating the inadequacy of asset coverage over debt liabilities of firm `E'.

Despite this the Corporation extended the loans to the ineligible firms without any justification on record. Further, the firms were irregular and also in default since beginning in payment of instalments of their loans. Firm`E' was registered as a sick unit with BIFR in May 2001 and the physical possession of firm `A' was taken over by the Corporation in January 2001 under Section 29 of State Financial Corporations Act, 1951. Total dues of Rs.10.47 crore from firm `E' (principal : Rs.1.34 crore, interest and other charges : Rs.3.87 crore, total : Rs.5.21 crore) and from firm `A' (principal : Rs.1.27 crore, interest and other charges : Rs.3.99 crore, total Rs.5.26 crore) were outstanding as on 31 March 2004. The Corporation, however, did not take effective action to recover the dues by invoking personal guarantees of promoters of the firms and also through sale of the assets of firm `A' (May 2004).

The management/Government stated (May/August/September 2004) that the Board of Directors of the Corporation had visited (May 1999) the manufacturing unit of firm `E' and were impressed by the activities of the unit. Besides, the Corporation had sanctioned the loan to firm `E' as it had received recommendation from the ministry's level for its sanctioning. In case of firm `A', the Corporation had sanctioned the loan on the strength of one year performance of the unit of firm `A' before the sanction and also based on the securities being offered by firm `A'.

* Ratio showing total assets to total liabilities.

The reply is not tenable as the Corporation should have considered the previous records of firm 'E' and its repayment capacity instead of relying on the Ministry's recommendations. Besides the sanction of loans to firm 'A' which was in production for one year, was in violation of the Corporation's own norms of eligibility of three years.

4.19 Extending financial assistance to an ineligible unit

Disbursement of loans to an ineligible unit resulted in non recovery of dues of Rs.4.36 crore.

The Corporation sanctioned and disbursed (September/November 1999) a loan of Rs.1.30 crore for meeting the working capital requirement of Moon Drugs Limited, Ahmedabad (the unit). The loan was carrying 18 *per cent* interest and was repayable in 30 monthly instalments starting from March 2000.

The Corporation sanctioned (July 2000) another loan of Rs.91 lakh to the unit under its scheme for "Marketing assistance for small scale industries (SSI) products" (the scheme loan). The scheme loan was carrying 17 *per cent* interest and was repayable within a period of seven years in 25 quarterly instalments starting from August 2001. The Corporation, initially, disbursed (August/October 2000) Rs.66.19 lakh as per the terms of scheme loan. The unit was irregular in repayment of the loans since beginning. Besides, the unit did not implement the project meant to launch new products and increase turnover, for which the loans were availed of. The Corporation did not release the balance amount of Rs.24.81 lakh sanctioned under the scheme loan to the unit. The physical possession of the unit's factory and sales premises were taken over (September 2001/June 2003) by the Corporation under Section 29 of State Financial Corporations Act, 1951. As on 31 December 2003, the total dues of Rs.4.36 crore (principal: Rs.1.78 crore and interest: Rs.2.58 crore) remained outstanding. Further follow up action for its recovery by the Corporation was awaited (April 2004).

Audit analysis of the case revealed the following irregularities:

Thin profit margin and longer operative cycle indicated inadequate cash accruals.

- The Corporation at first did not agree (October 1998) to sanction the working capital loan as the unit was very much irregular in repayment of two term loans earlier availed of (June 1991 and March 1993) by it from the Corporation. Besides, the Corporation was aware (September 1999) of the thin profit margin of 0.58 *per cent* on the sales and also longer operative cycle* of 243 days of the unit compared to the pharmaceutical industry norm of 165 days which indicated the chances for generation of inadequate cash accruals to pay the instalments of the loan. The Corporation fixed (July 1997) the norms for sanctioning the loan, such as, the unit should have satisfactory track record of repayment of loans to its financial institutions and also the existing cash accruals of the unit should be adequate to meet existing and proposed liabilities of term loans and debts. The unit did not fulfil these norms. Despite this the Corporation

*The constantly changing form of investment in the sequence from cash to merchandise or material to receivables and back to cash.

sanctioned (September 1999) the working capital loan to the unit for which no justification was on record.

- The unit was also not entitled to avail of the scheme loan as it was not an SSI unit. Further, the cheques worth Rs.18.53 lakh issued during July-October 2000 by the unit towards the payment of instalments for the working capital loan were dishonoured by the unit's banker. The Corporation, however, after adjusting (October 2000) Rs.9.57 lakh against the dues of Rs.18.53 lakh went ahead with disbursement of the scheme loan during the period.

The management/Government stated (April/August/September 2004) that unit had thin profit margin and longer operative cycle due to high interest cost, selling and distribution expenses and collection period on account of export sales respectively. The Corporation, however, disbursed (September 1999) the working capital loan as the unit was being its existing loanee and had also cleared the dues of its previous loans. Further, it was stated that the scheme loan was meant for marketing the products manufactured by SSI units. Hence, in this case, even though the unit was a non SSI unit, the scheme loan was granted to it for marketing the products of SSI units.

The reply was not tenable as the irregular repayment of previous loans by the unit even after their rescheduling was indicative of the fact that it was not having a satisfactory track record of dealings with the Corporation. Besides, the norms of the scheme loan categorically stated that only SSI units were eligible to avail the scheme loan. Thus, sanctioning of loans to the ineligible unit resulted in non recovery of dues of Rs.4.36 crore.

Gujarat Industrial Development Corporation

4.20 Imprudent fixation of allotment price

Non insertion of suitable clause in allotment orders coupled with an imprudent approach in fixation of allotment price of plots resulted in reduction of revenue by Rs.2.66 crore.

Allotment price was fixed based on the estimated price of land.

The Corporation acquired (September 1993/June 1994) land admeasuring 4,02,375 square meters (sqm) from Government of Gujarat for setting up an industrial estate at Rafleshwar, Rajkot (the estate). Of the land acquired, the land admeasuring 2,82,035.62 sqm was allocable in the form of plots to allottees with necessary infrastructure facilities. Pending fixation of price of the land by the Government, the Corporation fixed (April 1995) Rs.100 *per sqm* as allotment price (AP) of plots based on the estimated land price of Rs.5.75 *per sqm*.

In January 1997, the Government fixed the price of the land acquired by the Corporation at Rs.47 *per sqm* and also demanded the Corporation to pay Rs. 1.89 crore along with interest *of 15 per cent* on it from 1 October 1993 till its date of payment. The Corporation, on the pretext of making representation to the Government for the reduction of the price of land neither had made the payment to the Government till December 2002 nor revised the AP in the light of actual price of Rs.47 *per sqm* as fixed by the Government. The Corporation revised (April 2000) the AP of the estate from Rs.100 to Rs.150 *per sqm.* As the Government did not agree to reduce the price of land, the Corporation (January 2003) finally made the payment of Rs.4.51 crore (*i.e.*, Rs.1.89 crore *plus* interest of Rs.2.62 crore from October 1993 to December 2002) to the Government.

Audit observed that the Corporation was aware (January 1995) that the land price of Rs.5.75 *per sqm* was only tentative and the price to be decided by the Government was going to be high. Despite this, the Corporation failed to incorporate a suitable clause in the allotment orders issued to the allottees for effecting additional recovery in the event of fixation of high price for the land by the Government. Reasons for non insertion of such clause in the instant case were not on record.

The Corporation allotted plots admeasuring 2,497.81sqm in the year 1995 and 2,79,537.81 sqm during January 1997 to December 2003 to allottees. The Corporation should have revised the allotment price approximately to Rs.196.50 *per sqm* based on land price of Rs.47 *per sqm* in January 1997. Having done that the Corporation could have earned additional revenue of Rs.2.66 crore[#] during January 1997 to December 2003.

Thus, non insertion of a suitable clause in allotment orders coupled with an imprudent approach in fixation of AP resulted in reduction of revenue by Rs.2.66 crore.

The management stated (September 2004) that the land acquired was non agricultural land and the then prevalent maximum market price was rupees nine *per sqm* in the area. It did not expect the price of land to be fixed at a much higher rate of Rs.47 *per sqm* by the Government and the matter had been taken up with the Government for reduction of price of land.

The reply was not tenable as the Corporation was aware that the price of land of Rs.5.75 *per sqm* was mere tentative and a suitable clause should have been incorporated in the allotment orders. Further, when the price of land was fixed by the Government at Rs.47 *per sqm* in January 1997, the Corporation did not revise the AP immediately.

The matter was reported to Government in April 2004; their reply had not been received (November 2004).

[#] The Corporation would have sold the plots for Rs.5.49 crore (at the rate of Rs.196.50 *per sqm*) instead of Rs.2.83 crore (at the rate of Rs.100-150 *per sqm*).

General

4.21 Implementation of Voluntary Retirement Scheme in State Public Sector Undertakings

Government of Gujarat (GOG) formulated (November 1997 / April 1999) Voluntary Retirement Scheme (VRS) for encouraging the employees of State Public Sector Undertakings (PSUs) to give up their employment voluntarily before the date of their superannuation. The PSUs were to implement the VRS with the prior approval of Finance Department (FD) of GOG. During 1998-2004, seven PSUs either identified for closure or for privatisation by GOG had implemented VRS based on the guidelines issued by GOG in November 1997. These seven PSUs availed financial assistance either in the form of loan or grant from the State Renewal Fund (SRF) constituted (September 1996) for this purpose by GOG. Besides, during the period 10 PSUs, with an aim to reduce their surplus manpower, implemented VRS out of their own fund, based on the guidelines issued by FD of GOG, in April 1999. The salient features *inter alia* of both types of VRS are as under:

Guidelines of November 1997 applicable for the PSUs identified for closure/privatisation:

- The employees of the PSUs were to either opt for VRS or to include themselves among surplus staff for consideration of alternative job in other departments of GOG/ PSUs.

- An employee opting for VRS was entitled to provident fund, leave encashment, gratuity and *ex-gratia* payment of 35 days' emoluments* for each completed year of services and 25 days' emoluments for each remaining year of service or the monthly emoluments at the time of retirement multiplied by the balance months of services left before normal date of retirement, whichever was less.

- The VRS beneficiaries would not be re-employed in any departments of GOG/ PSUs.

Guidelines of April 1999 meant for reduction of surplus employees in PSUs:

- The VRS has to remain in force for 90 days from the date of its announcement and also the entire cost of the VRS should be borne by PSU.

- An employee who was to superannuate within three years from the date of application for VRS was not eligible for the benefits.

* Basic pay + Dearness allowance + House rent allowance at old rate *i.e.* prior to its revision by Fifth Pay Commission.

- An employee opting for VRS was entitled to provident fund, leave encashment, gratuity and *ex-gratia* payment equivalent to 35 days' emoluments[@] for each completed year of service added with 25 days emoluments for each remaining year of service or the monthly emoluments at the time of retirement multiplied by the balance months of service left before normal date of retirement, whichever was less.

- The PSU may retrench the surplus employees under the provision of Industrial Dispute Act, 1947 in case the implementation of VRS did not yield desired result in the reduction of surplus employees.

Details of period of implementation of VRS, the amount utilised, number of employees relieved under VRS related to 16 PSUs (including one PSU in which both types of VRS were implemented) are given in **A*nnexure-17***. Test check of records of all the PSUs except two[#] PSUs revealed that the guidelines were not strictly adhered to in the following cases:

Gujarat Small Industries Corporation Limited (GSIC)

Re employment of ex-employees

Payment of Rs.31.75 lakh was made to ex-employees.

4.21.1 During December 1999 to January 2004 GSIC re-employed its eight to 26 ex-employees on contract basis even though they were earlier relieved (September 1999 to October 2002) from their services under VRS. The re-employment of ex-employees not only violated the GOG guidelines of November 1997 but also defeated the purpose of VRS. The re-employment resulted in payment of Rs.31.75 lakh towards salary of the ex-employees during their re-employment period.

Government stated (August 2004) that since ex-employees were conversant with working of GSIC their services were availed of for attending to the residual works *viz.,* recovery of dues from loanee units, legal cases, finalisation of GSIC's accounts etc. The reply was not tenable as the guidelines had explicitly disallowed for the re-employment of any of the ex-employees under any circumstances.

Gujarat Agro Industries Corporation Limited (GAIC)

Adoption of incorrect rate of House Rent Allowance

4.21.2 GAIC identified (August 1998) its six unviable manufacturing units for their closure. Accordingly, GAIC availed (March 2000) a loan of rupees seven crore with interest *rate of 11 per cent* from SRF and implemented VRS based on the GOG guidelines of November 1997 before the closure of the units in

[@] Basic pay + Dearness allowance + House Rent Allowance at new rate *i.e*. after its revision by Fifth Pay Commission.

[#] Gujarat State Fisheries Development Corporation Limited and Gujarat Communications and Electronics Corporation Limited for which records were not made available to audit due to their closure.

Extra expenditure of Rs.29.35 lakh was incurred due to adoption of incorrect HRA rate.

April 2000. As per the guidelines, the emoluments for the purpose of *ex-gratia* payment consist of basic pay, dearness allowance and house rent allowance at old rate. GAIC, however, adopted the rate of HRA as revised by Fifth Pay Commission. Consequently, GAIC while relieving (January - June 2000) the 202 employees of the units under VRS incurred extra expenditure of Rs.29.35 lakh towards *ex-gratia* payments.

The management/Government stated (July/August/October 2004) that it had introduced VRS for restructuring its organisation. Hence it followed the guidelines of April 1999 and adopted the revised rate of HRA in computation of *ex-gratia*. The reply was not tenable as VRS guidelines of November 1997 were applicable to GAIC in view of the loan availed by it from SRF meant for implementation of VRS in the units identified for closure.

Gujarat Tractor Corporation Limited (GTCL)

Non-recovery of un-utilised grant

Unutilised grant of Rs.91.36 lakh remained unrecovered.

4.21.3 GOG, while selling its 51 *per cent* (78,04,010) shares in GTCL to Mahindra and Mahindra Limited in December 1999 agreed to provide grant for implementation of VRS in the resultant Company, i.e. Mahindra Gujarat Tractor Limited (MGTL). As per the terms of agreement, MGTL was to implement the VRS as per the guidelines of November 1997 and relieve the employees of erstwhile GTCL till December 2000. Accordingly, at the instance of MGTL, GOG released (September 2000) a grant of Rs.5.29 crore from SRF for relieving 146 employees of GTCL under VRS by MGTL. However, MGTL relieved only 130 employees of GTCL and disbursed Rs.4.38 crore under VRS till December 2000. The unutilised grant of Rs.91.36 lakh alongwith the interest at the rate of 18 *per cent* was to be recovered by GOG from MGTL as per the terms of the grant. However, GOG had not recovered the dues of Rs.1.45 crore (including interest of Rs.53.45 lakh for January 2001 to March 2004) from MGTL.

The matter was reported to the Government in April /June 2004; their reply had not been received (November 2004).

Gujarat Industrial Investment Corporation Limited (GIIC)

Incorrect calculation of ex-gratia

Extra payment of Rs.1.64 crore was made due to incorrect computation of *ex-gratia*.

4.21.4 GIIC implemented (February 2000 and June 2001) VRS based on GOG guidelines of April 1999 and relieved 175 surplus employees. However, GIIC reckoned 26 days as one month instead of 30 days in computation of *ex-gratia* payment. Hence, GIIC paid Rs. 12.32 crore instead of the correct amount of Rs.10.68 crore resulting in extra payment of Rs.1.64 crore towards *ex-gratia*.

The management/Government while admitting (August 2004) the audit contention stated that it had reckoned 26 days as one month instead of 30 days in computation of *ex-gratia* in order to make the VRS more attractive.

Besides, the administrative cost of GIIC had reduced to a larger extent after the successful implementation of VRS. The reply was not tenable, as the computation of the *ex-gratia* in the instant case was not made in consonance with GOG guidelines of April 1999.

Gujarat Mineral Development Corporation Limited (GMDC)

Payment of early bird incentive

4.21.5 As per GOG guidelines of April 1999 the financial benefits allowed to the retiring employees under VRS should not fall outside the scope/exceed the limits fixed in the guidelines. However, VRS framed by GMDC included an incentive of Rs.25,000 or Rs.15,000 to each employee availing VRS at the first/second month respectively during which VRS was in force. GMDC implemented VRS on three occasions during April 2000 to May 2003 and paid Rs.14.05 crore to 297 employees who opted the VRS. VRS announced by GMDC on each occasion was in force for a period of three months from the date of announcement. Audit observed that GMDC released financial benefit of Rs.42.20 lakh in the name of `Early Bird Incentive' to 178 employees during the implementation of VRS on all the three occasions. This payment was in violation of the GOG's guidelines on VRS.

Rs.42.20 lakh was paid to employees as early bird incentive.

VRS allowed to ineligible employees and incorrect calculation of ex-gratia

4.21.6 A detailed scrutiny of 46 cases related to VRS implemented by GMDC during January - May 2003, revealed as follows:

- In violation of GOG guidelines of 1999, the Company allowed VRS to 11 employees having less than three years of remaining service. This had resulted in irregular payment of Rs.21.29 lakh towards *ex- gratia* to these employees.

- In 35 cases, the Company had reckoned 60 days of emoluments[χ] for each completed years of service *plus* three months emoluments as notice pay instead of 35 days emoluments for each completed year of service added with 25 days emoluments for each remaining year of service which were required to be reckoned in computation of *ex-gratia* payment as per the guidelines. These 35 cases include 31 employees whose HRA was reckoned at the rate of 15 *per cent* of basic pay instead of 5 *per cent*. This resulted in excess payment of *ex-gratia* by Rs.43.81 lakh.

The management/Government stated (June/November 2004) that it had obtained GOG's (Industries and Mines Department) approval for the payment of Early Bird Incentive and also for reckoning 60 days in computation of amount of *ex-gratia*. It was further stated that approval of its Board of Directors (BOD) was obtained for relieving the employees having less than three years service under VRS and also for adoption of HRA at the rate of 15

[χ] Pay+DA+HRA.

per cent of basic pay for employees worked in project offices. The reply was not tenable as the approval was not obtained from the FD of GOG, which approved the guidelines besides the BOD had no powers to vary the GOG's guidelines.

Gujarat State Financial Corporation (GSFC)

VRS allowed to ineligible employees

Payment of Rs.81.79 lakh was made to the employees ineligible for VRS.

4.21.7 In disregard to GOG guidelines of April 1999, GSFC allowed VRS (February-April 2003) to its 21 employees having less than three years of remaining service. This had resulted in irregular payment of Rs.81.79 lakh towards *ex- gratia* to these employees.

The management/Government (Industries and Mines Department) stated (June/August 2004) that GSFC had obtained (April 2003) GOG's approval for extending VRS to its employees who had crossed 55 years of age. Hence, the 21 employees were also eligible to avail VRS. The reply was not tenable as the guidelines approved by the Finance Department did not provide for relaxation of any of such eligibility criteria of VRS.

Gujarat Industrial Development Corporation (GIDC)

Failure to retrench surplus manpower and delay in implementation of VRS

4.21.8 GIDC identified (September 2002) 321 employees as surplus and obtained (April 2003) the approval of GOG for implementation of VRS, based on the guidelines of April 1999.

Audit scrutiny revealed the following:

- The VRS was implemented during September - October 2003 and 88 employees opted for VRS. GIDC, however, did not consider the option of retrenching the remaining 233 surplus employees under the provisions of Industrial Disputes Act, 1947 as per GOG guidelines. Consequently, GIDC continued to incur an approximate expenditure of Rs.12.74 lakh per month towards the pay and allowances on 233 surplus employees since November 2003 (March 2004).

- Due to belated implementation of VRS, GIDC incurred an avoidable expenditure of Rs.20.50 lakh towards pay and allowances of the 88 employees, during June - August 2003.

The management/Government stated (June/August/October/December 2004) that it had not identified the surplus employees so far and the identification made in September 2002 was only an estimation of employees not having more work in GIDC. As regards belated implementation of VRS, GIDC stated that it had to attend various works after receipt of GOG's approval (April 2003) in order to make the VRS successful. The reply was not tenable as the records of the Corporation indicated that 321 employees were identified as surplus in September 2002. Further, VRS was in force for a period of three months and hence this duration was enough to carry out the related works to make VRS successful.

4.22 Follow-up action on Audit Reports

Outstanding action taken notes

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

Though the Audit Report for the year 1999-2000 was presented to the State Legislature in August 2001, 4 out of 10 departments which were commented upon did not submit explanatory notes on 2 out of 29 paragraphs/reviews as on 30 September 2004

Department-wise position of outstanding explanation notes are given below:

Sl. No.	Name of the Department	1999-2000
1.	Roads and Buildings	1*
2.	Women and Child Development	1*
3.	Narmada, Water Resources and Water Supply	1*
4.	Information and Broadcasting	1
	Total	**2**

* This represents one general paragraph to which three departments' replies were awaited.

The Government did not respond to the paragraphs highlighting the loss suffered by the State PSUs due to violation of Government directives in deployment of its surplus funds and also due to non-utilisation of Government funds for the purpose for which it was received by the State PSUs.

Outstanding compliance to Reports of Committee on Public Undertakings (COPU)

Replies to three paragraphs pertaining to one Report (*i.e*. Thirteenth Report of Eighth Assembly, 1994-95) of COPU presented to State Legislature in December 1994 had not been received (September 2004).

This report of COPU contains 12 recommendations related to paragraphs appeared in Audit Reports from 1987-88 to 1992-93. As per rule 32 of Rules of Procedure (Internal Working) of Committee on Public Undertakings

(COPU), Gujarat Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of PSUs within three months from the date of placement of Report of COPU in the State Legislature. However, in case of three recommendations, replies to two paragraphs pertaining to Gujarat Electricity Board and one in respect of Gujarat State Road Transport Corporation appeared in the Audit Report for the year 1987-88 were awaited (September 2004). In case of remaining 20 recommendations, COPU completed examination (October 2001) of ATNs, however, the final report was awaited (September 2004).

Actions taken on the persistent irregularities

With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in ***Annexures*-18** and **19.**

Government company

The cases of irregular payments made to the contractors amounting to Rs.1.86 crore and also avoidable expenditure of Rs.7.94 crore incurred on energy bills noticed in audit of Sardar Sarovar Narmada Nigam Limited (the Company) were included in the Reports of Comptroller and Auditor General of India for the years 2001-02 and 2002-03 (Commercial) – Government of Gujarat. The irregularities were persisting with the Company over a period of two years (September 2004). Actions taken by the Company/State Government on the irregularities as scrutinised (June 2004) in audit revealed that either no actions or inadequate actions were taken as per details given in ***Annexure-18***.

Statutory corporation

The irregularities in the nature of deficiencies in the provisions of the contracts entered into by the Gujarat Electricity Board (the Board) with the contractors/suppliers with financial implication of Rs.15.04 crore and also delay in construction/completion of projects with a financial implication of Rs.7.18 crore noticed in audit of the Board were included in the Reports of Comptroller and Auditor General of India for the years 1999-2000 to 2002-03 (Commercial) – Government of Gujarat. The irregularities were persisting with the Board over a period of four years (September 2004). Actions taken by the Board on the irregularities as scrutinised (June 2004) in audit revealed that either no actions or inadequate actions were taken as per details given in ***Annexure-19***.

4.23 Response to Inspection Reports, Draft Paras and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 39 PSUs disclosed that 1,184 paragraphs relating to

395 Inspection Reports remained outstanding at the end of September 2004. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2004 is given in ***Annexure*-20**.

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 observed that nine draft paragraphs and one draft review forwarded to the various departments during February to May 2004 as detailed in ***Annexure*-21** had not been replied to so far (September 2004).

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

Ahmedabad **(Anupam Kulshreshtha)**
The: **Principal Accountant General**
(Commercial and Receipt Audit), Gujarat

Countersigned

New Delhi **(Vijayendra N. Kaul)**
The: **Comptroller and Auditor General of India**