

Overview

1. Overview of Government Companies and Statutory Corporations

As on 31 March 2008, the State had 80 Public Sector Undertakings (PSUs) comprising of 76 Government companies and four Statutory corporations, as against 77 PSUs as on 31 March 2007. Out of 76 Government companies, 49 were working, while 27 were non-working Government companies. All the four Statutory corporations were working corporations.

(Paragraph 1.1)

The total investment in working PSUs was Rs 28,488.27 crore as on 31 March 2008 as against Rs 24,562.69 as on 31 March 2007. The total investment in non-working PSUs was Rs 791.35 crore and Rs 794.24 crore respectively during the same period.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of capital, loans, and grants/subsidies disbursed to the working PSUs increased from Rs 3,093.70 crore in 2006-07 to Rs 3,781.10 crore in 2007-08. The State Government guaranteed loans aggregating Rs 106.72 crore to working PSUs during 2007-08. The total amount of outstanding loans guaranteed by the State Government to working PSUs as on 31 March 2008 was Rs 8,774.53 crore.

(Paragraph 1.5)

Two working Government companies and two Statutory corporations finalised their accounts for the year 2007-08 within the stipulated period. The accounts of 47 working Government companies and two working Statutory corporations were in arrears for periods ranging from one to 13 years as on 30 September 2008. The accounts of 21 non-working Government companies were in arrears for periods ranging from one to 22 years as on 30 September 2008. Three Companies were under liquidation.

(Paragraphs 1.6 and 1.19)

According to the latest finalised accounts, 23 working Government companies and three working Statutory corporations earned profit aggregating Rs 512.59 crore and Rs 210.68 crore respectively. Against this, 21 working Government companies and one Statutory corporation incurred loss aggregating Rs 1,379.90 crore and Rs 9.75 crore respectively as per their latest finalised accounts. Of the 21 loss incurring working Government companies, five companies had accumulated losses aggregating Rs 2,042.18 crore, which exceeded their aggregate paid-up capital of Rs 35.91 crore. The only loss incurring Statutory corporation had accumulated losses aggregating Rs 622.37 crore, which exceeded its paid-up capital of Rs 62.64 crore.

(Paragraphs 1.7,1.9 and 1.11)

2. Performance Audit relating to Government Companies

Performance Audits relating to **Operational performance of Maharashtra State Police Housing and Welfare Corporation Limited, Operational performance of Shivshahi Punarvasan Prakalp Limited and Power Purchase Management in Maharashtra State Electricity Distribution Company Limited** were conducted and some of the main findings are as under:

Operational performance of Maharashtra State Police Housing and Welfare Corporation Limited

The Company established in March 1974, was functioning as an implementing agency of the State Government on 'no profit no loss' basis and the expenditure in excess of income is allocated to projects. The planning and execution process of the Company was defective due to works not being taken up despite administrative approvals and receipt of funds. There were cases of diversion of funds, poor monitoring, avoidable expenditure due to inordinate delay in issue of work order and unjustified termination of contracts and non-negotiations with contractors.

The Company spent Rs 22.13 crore over and above the funds of Rs 66.63 crore received against 16 works by diverting the funds of other works. Funds of Rs 100.27 crore received for 33 works were not utilised.

The Company did not invoke the risk and cost clause for recovery of Rs 23.24 crore being the additional expenditure incurred on subsequent work orders.

There were cases of overpayments of Rs 40.47 lakh due to incorrect adoption of price indices and incorrect totals.

There were irregularities in appointments of architects and Project Management Consultants (PMCs). There were instances of overpayments/irregular payments to architects and PMCs to the tune of Rs 1.30 crore and Rs 13 lakh respectively.

Internal controls including internal audit were inadequate in comparison with the magnitude of works involved. There was lack of adequate monitoring in execution/completion of works as well as in handing over of completed works.

(Chapter 2.1)

Operational performance of Shivshahi Punarvasan Prakalp Limited

The Company was formed as a separate entity to speed up the Slum Rehabilitation programme in Mumbai Metropolitan Region. Despite availability of funds, the State Government did not release the entire share capital to the Company leading to financial crunch and delays in

implementation of schemes. The Company had taken up 10 SR Schemes involving construction of 10,673 tenements. Five schemes were completed prior to 2003-04 and out of the remaining five schemes, three were yet to be completed. No further schemes were taken up after 1998-99. The role of the Company therefore remained negligible. There were irregularities in payments made to contractors on account of escalation claims and bonus. The Company had no system to test check the quality and quantity of work certified by the consultants. Internal control system was weak due to non segregation of duties of the departments and poor monitoring of various functions.

The Company extended undue benefits of Rs 21.44 crore to contractors on account of escalation claims and bonus by violating the terms of contracts.

The Company suffered a loss of interest of Rs 6.94 crore due to delay in execution of agreement for sale of 889 flats in SR Scheme at Dindoshi.

The Company extended undue benefit of Rs 64.42 lakh to a private party by fixing lower rent/security deposit for Permanent Transit Camps given on rent.

The Company completed construction of 7,649 Rehabilitation/Project Affected Persons tenements, transit camps and saleable tenements and handed over 6,715 tenements. The balance 934 tenements completed during January 2002 to April 2007, were yet to be allotted/sold.

(Chapter 2.2)

Power Purchase Management in Maharashtra State Electricity Distribution Company Limited

The Company was established in June 2005 for distribution of electricity in the State. The shortfall in supply of power increased from 9,908 MUs in 2003-04 to 19,092 MUs in 2007-08. Due to non augmentation of generation capacity by Maharashtra State Power Generation Company Limited during the last five years' period under review, the Company had to resort to purchase of costly power from outside agencies which too was not sufficient to cater to the requirement of power in the State. Huge shortfall of power led to increased load shedding ranging from 2.5 to 15 hours. The scope of internal audit did not cover the power purchase activity including payments.

The Company did not avail its entire allocation from cheaper Central sources to the full extent during the three year period of 2005-06 to 2007-08 and had to incur additional extra expenditure of Rs 374.79 crore on purchase of power on short term basis.

In the absence of penal clauses in contractual provisions the Company had to purchase power from costly sources resulting in financial outgo of Rs 31.38 crore. Defective agreement for banking of power resulted in avoidable extra expenditure of Rs 48.72 crore.

The Maharashtra Electricity Regulatory Commission (MERC) disallowed Rs 96 crore of the Company due to violation of load regulations. The MERC also disallowed purchase of power of Rs 7.39 crore due to excess Transmission and Distribution losses over norms. The wheeling charges of Rs 4.08 crore could not be recovered from consumers due to disallowance by MERC.

(Chapter 2.3)

3. Transaction Audit Observations

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

- Loss of revenue of Rs 34.66 crore in five cases due to incorrect working of upfront toll price, defective contract clauses, delay in finalisation of bids, incorrect estimation of toll revenues and sale of plots at concessional rates.

(Paragraphs 3.10,3.11,3.13,3.14 and 3.19)

- Extra/wasteful/avoidable unfruitful expenditure of Rs 18.33 crore in 11 cases due to award of contracts without proper planning, procurement of meters against the expired contracts, hasty decisions of Company, purchases of fire protection equipment locally, violation of Coastal Regulation Zone norms, investment in unviable projects, purchase of playground equipments, delay in finalisation of tenders *etc.*

(Paragraphs 3.2, 3.6, 3.7, 3.9, 3.12, 3.15, 3.16, 3.17, 3.18, 3.20 and 3.21)

- Irregular payments of Rs 3.33 crore on account of encashment of leave.

(Paragraph 3.1)

- Non recovery of dues and lease rent resulted in loss of Rs 0.60 crore in two cases.

(Paragraphs 3.3 and 3.4)

- Shortfall of Rs 0.52 crore in security deposit and misappropriation by bill collection agents of Rs 0.09 crore.

(Paragraph 3.5)

- Non/short recovery of penalty of Rs 6.63 crore due to lack of uniformity in penalty clauses and absence of fair competition among contractors due to non relevant eligibility criteria.

(Paragraph 3.8)

Gist of some of the important audit observations is given below:

City and Industrial Development Corporation of Maharashtra Limited awarded contract without land ownership which resulted in wasteful expenditure of Rs 93 lakh.

(Paragraph 3.2)

Maharashtra State Electricity Distribution Company Limited did not revise the security deposit from bill collection agents and there was a shortfall of Rs 52.35 lakh. The bill collection agent misappropriated Company's revenue and Rs 8.80 lakh remained unrecovered.

(Paragraph 3.5)

Hasty decision of the **Maharashtra State Power Generation Company Limited** to install Coal Mill Reject Handling System in all Power Stations simultaneously resulted in idle investment of Rs 12.06 crore, besides non achievement of intended benefits of lesser maintenance cost and pollution free environment. The Parli Thermal Power Station procured Fire Protection Equipments locally on urgent basis resulting in extra expenditure of Rs 41.61 lakh. Besides, material worth Rs 33.87 lakh was also lying as surplus in Stores.

(Paragraphs 3.7 and 3.9)

Maharashtra State Road Development Corporation Limited suffered a loss of Rs 21.31 crore due to adoption of lower traffic growth rate contrary to Government notification, incorrect rates of toll and incorrect working of net present value of the upfront toll price. The Company also suffered loss of potential revenue of Rs nine crore non inclusion of provisions for recovery of additional toll revenue in the contract terms and conditions. The Company delayed finalisation of advertisement revenue bids and subsequent agreement resulting in loss of revenue of Rs 66.66 lakh.

(Paragraphs 3.10, 3.11 and 3.13)

Maharashtra State Road Transport Corporation rejected price increase claims of the supplier and resorted to local purchases and incurred extra avoidable expenditure of Rs 1.27 crore.

(Paragraph 3.18)

Maharashtra Industrial Development Corporation allotted land for Textile park at a concessional rate without Government approval resulting in a loss of Rs 3.20 crore. The Corporation incurred wasteful expenditure of Rs 56.50 lakh on consultant fee for a project which was abandoned due to non receipt of necessary permissions from the Municipal Corporation of Greater Mumbai.

(Paragraphs 3.19 and 3.21)