Report of the
Comptroller and Auditor General of India
on
Public Sector Undertakings
for the year ended 31 March 2014

Government of Gujarat
Report No. 2 of the year 2015

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Preface

This Report deals with the results of audit of 80 Government Companies and four Statutory Corporations for the year ended 31 March 2014.

The accounts of Government Companies (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act 1956. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Comptroller and Auditor General under the Companies Act are subject to supplementary audit by officers of the CAG, and the CAG gives his comments or supplements the reports of the Statutory Auditors. In addition, these Companies are also subject to test audit by the CAG.

Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG for laying before State Legislature of Gujarat under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

CAG is the sole auditor for Gujarat State Road Transport Corporation, a Statutory Corporation, and Gujarat Electricity Regulatory Commission, a regulatory body. As per the State Financial Corporations (Amendment) Act, 2000, the CAG has the right to conduct the audit of accounts of Gujarat State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation from the panel of auditors approved by the Reserve Bank of India. In respect of Gujarat State Warehousing Corporation, the CAG has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with the CAG. Audit of Gujarat Industrial Development Corporation is entrusted to the CAG under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and CAG is a sole Auditor.

The instances mentioned in this Report are those, which came to notice in the course of test audit during the year 2013-14 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; matters relating to the period subsequent to 31 March 2014 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

1 Overview of Government companies and Statutory corporations

Introduction

The State Public Sector Undertakings (PSUs), consisting of State Government companies and statutory corporations, are established to carry out activities of a commercial nature, while keeping in view the welfare of the people. As on 31 March 2014, the State of Gujarat had 72 working PSUs (68 companies and four statutory corporations) and 12 non-working PSUs (including seven under liquidation), which employed 1.12 lakh persons. The working PSUs registered a turnover of ₹98,718.90 crore as per their latest finalised accounts. This turnover was equal to 12.75 per cent of the State GDP indicating the important role played by State PSUs in the economy. Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of the State Government companies are audited by Statutory Auditors who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by CAG, as per the provisions of Section 619 of the Companies Act, 1956. Audit of statutory corporations is governed by their respective legislations.

Investments in PSUs

As on 31 March 2014, the total investment (capital and long term loans) in 84 PSUs was ₹1,05,773.07 crore.

Arrears in accounts

33 working PSUs had arrears of 50 accounts as on 30 September 2014. The extent of arrears ranged from 1 to 4 years.

Performance of PSUs

During the year 2013-14, out of 72 working PSUs, 46 PSUs earned profit of ₹3,363.96 crore and 20 PSUs incurred loss of ₹1,111.85 crore. The major contributors to the profit were Gujarat State Petronet Limited (₹ 659.98 crore), Gujarat Mineral Development Corporation Limited (₹629.59 crore) and Gujarat Gas Company Limited (₹611.93 crore). Major loss making companies were GSPC Pipavav Power Company Limited (₹307.10 crore), Gujarat State Energy Generation Limited (₹ 151.21 crore), GSPC Gas Company Limited (₹134.68 crore), Gujarat State Road Transport Corporation (₹132.50 crore) and Gujarat State Financial Corporation (₹112.76 crore).

Comments on accounts and internal audit

During the year, out of 61 accounts of Government companies finalised during the year, Statutory Auditors had given unqualified certificates for 46 accounts and qualified certificates for 15 accounts. The Statutory Auditors pointed out 17 instances of non-compliance of accounting standards in 10 accounts during the year. In addition, five instances of non-compliance of accounting standards were also observed by CAG in four accounts.

(Chapter 1)

2. Performance Audit and Information Technology Audits relating to Government companies

Performance Audit on '**Promotion of tourism in Gujarat with emphasis on the functioning of Tourism Corporation of Gujarat Limited'**, '**IT Audit of GSPC Gas Company Limited'** and '**IT Audit of Drug Logistic Information and Management System'** in **Gujarat Medical Services Corporation Limited** were conducted.

Executive summary of performance audit on **Promotion of tourism in Gujarat with emphasis on the functioning of Tourism Corporation of Gujarat Limited** is given below:

Introduction

The Industries and Mines Department (I&MD) of the Government of Gujarat (GoG) is the nodal department for the administration of the tourism sector in Gujarat. Tourism Corporation of Gujarat Limited (Company) was incorporated in June 1975 and was entrusted with the responsibility of development of tourism industry in the state. The performance audit focused on the efforts made by the Company for development of tourism in the state in accordance with the tourism policy of the state and covered the period 2009-14.

Tourist Inflow

The state adopted three-pronged strategy viz., strengthen existing attractions, develop low profile tourism places into attractions and create new attractions, which resulted into increase in tourist inflow from 1.70 crore in 2009-10 to 2.88 crore in 2013-14. Gujarat registered marginally higher growth than all-India average and when compared to its neighbouring state of Rajasthan, the growth rate was higher though in absolute terms (i.e., the total tourist inflow) Rajasthan still attracted higher footfalls. However, the growth of tourism in other two neighbouring states of Maharashtra and Madhya Pradesh was double than that of Gujarat.

Tourism Policy

GoG declared tourism policy 2003-10 aimed at providing services of international standards, creating excellent infrastructure, connectivity and facility to tourists. The Company implemented some of the policy measures like development of event-based tourism, hospitality industry, infrastructure and adventure sports. However, some measures like creation of Vishwagram and Development of entertainment theme park, Indus valley civilisation sites, wayside amenities, sites related to Buddhism, places related to Sardar Patel and eco-tourism were either not implemented or partially implemented.

Government Support

GoG had released grants of ₹1229.25 crore out of which Company spent ₹1025.45 crore and grant amounting to ₹295.07 crore remained unspent as on March 2014. The Company spent only ₹20.82 lakh against the grant of ₹128.50 crore received for promotion of coastal tourism.

Destination Development

The Company had successfully implemented projects at Dwarka, Saputara, Siddhpur, Becharaji, etc. However, the facilities created under Dandi Heritage Corridor and Dandi Destination at a cost of ₹20.43 crore could not be put to use.

Fairs and festivals

While the Company successfully organised various fairs and festivals like International kite festival, Navratri, Rann Utsav, Tarnetar fair, Monsoon Festival etc., the Company had not made any data collection on tourist inflow and impact analysis of economic benefits from the fairs and festivals. Further, it did not conduct any cost-benefit analysis before organising the Rann-Utsav on PPP mode from 2013-14 onwards.

Management of Hotels

The Company operates and maintains 25 hotels (19 self-managed and six leased), 7 wayside amenities and 5 cafeterias. Out of 14 working hotels, only 4 hotels earned cumulative profits, while the remaining 10 hotels suffered losses. The main reasons for losses were attributed to poor occupancy, high fixed cost, non-revision of tariff and no marketing of hotels, etc.

Monitoring and Control

The projects implemented by the Company were monitored by the GoG at regular intervals. But, the end use of the projects was not monitored at GoG level leading to expenditure on some projects becoming unfruitful.

Recommendations

The GoG may consider framing a new Tourism Policy since there has been no new Tourism Policy after 2010. The Company may coordinate its efforts so that assets created are put to use as the Dandi Heritage Corridor and Dandi Destination Development were not being utilised even after an expenditure of ₹ 20.43 crore. The Company may analyse reasons for continuous losses in certain hotels operated by it and initiate suitable corrective/ ameliorative measures.

(Chapter 2.1)

Executive summary of **IT Audit of GSPC Gas Company Limited** is given below:

Introduction

GSPC Gas Company Limited (Company) was incorporated on 11 March 1999. The Company supplies compressed natural gas through 160 stations and piped natural gas to domestic households, commercial and non-commercial customers and industrial customers. The Company embarked into major computerisation in April 2010 by implementation of Enterprise Resource Planning (ERP) software SAP at a cost of ₹ 22.58 crore. The system was made operational with effect from 11 Febuary 2011.

Audit of operation and maintenance

Though the Company implemented ERP system for more than three years, it did not formulate Business Continuity and Disaster Recovery Plan.

Material Management (MM) module

In the MM module meant for managing material planning, procurement and inventory management of the organisation, purchase orders were issued without purchase requisitions. Further, purchase orders were issued without delivery dates. Also, there were delays in posting of goods issued and receipt document and non-availability of guarantee/warranty feature.

Financial Accounting and Controlling (FICO) module

The FICO module meant for capturing all financial processing transactions and providing cost centre wise operational information was not monitoring defaulting consumers and bank guarantee renewals through the system. The regional trial balances were not generated. Further physical verification of assets was not updated in SAP.

Human Capital Management (HCM) module

The HCM module aimed to automate employee administration, time management, pay-roll management and legal reporting process. There was no means to determine the genuineness of conveyance allowance reimbursement and dependency status was not updated.

Process Integration (PI) module

The PI module was not utilised for integrating existing systems of the Company with SAP.

Recommendations

The Company should review the segregation of duties and authorisations to prevent chances of fraud and other irregularities and should utilise all functionalities of the modules and monitor important areas through the system by updating all the fields. All the systems should be integrated to have an online single point MIS for effective control and avoiding dependence on manual controls.

(Chapter 2.2)

Executive summary of **IT Audit of Drug Logistic Information and Management System (DLIMS)** in **Gujarat Medical Services Corporation Limited** is given below:

A web-based system named Drug Logistics Information and Management System (DLIMS) was developed by National Informatics Centre (NIC) for Gujarat Medical Services Corporation Limited (Company) to cover activities starting from the collection of indents to the distribution of indented items of drugs and surgical items.

Issues related to system efficiency

No documentation existed of the authority which could create master data, nor were procedures for its amendment or verification prescribed; as a result unauthorised creation and tampering of master data could not be ruled out.

Quality Control

There was no pre-dispatch testing at four out of five depots. Further as the module for quality assurance monitoring had not been developed, the same was being done manually.

Inventory Management

The principle of First Expired First Out (FEFO) was not facilitated in the system hence issue of drugs was not made on the basis of FEFO. DLIMS was also not having any automotive alert for Near to Expiry Drugs.

Issue of Stores

A review of stock receipt module and stock issue module of drugs revealed that in 16 out of 3,16,347 cases, date of issue was prior to manufacturing dates. In 253 cases, date of

dispatch to depots was prior to date of issue from depots and in 92 cases stores were issued but not dispatched. This indicates that the control needs to be strengthened.

Integrity and Reliability of data

Six cheques involving 23 bills were issued prior to the passing of bills and 25 out of hundred cheques issued were not found in the system database. Further, bill numbers were not system generated.

Documentation

There was no agreement or understanding between the Company and NIC and the Company was not having system development related documents.

Monitoring and Internal control

The Hospitals and other health institutions did not submit e-receipt for acknowledging receipt of stores from depots. Audit trail was not facilitated in the system to recover the history of transactions.

Conclusion and Recommendation

IT audit of DLIMS revealed that due to improper planning without taking into account inter-related activities of the Company and lack of support from the developer etc., the Company was left with a system which had issues relating to integrity and reliability of information. It is recommended that an integrated software package be developed which would take care of the entire business operations of the Company with forward and backward integration.

(Chapter2.3)

3. Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of PSUs which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹541.68 crore in one case due to non compliance to rules and regulations.

(Paragraphs 3.6)

Loss of ₹ 65.99 crore in five cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.2, 3.3, 3.4, 3.5 and 3.7)

Loss of ₹132.27 crore in three cases due to defective/deficient planning.

(Paragraphs 3.1, 3.8 and 3.9)

Gist of the major observations is given below:
Gujarat State Road Development Corporation Limited incorrectly calculated the value of work done leading to excess payments of price

variation of ₹ 4.76 crore to the contractors during January 2011 to March 2014.

(Paragraph 3.4)

Gujarat State Petroleum Corporation Limited did not obtain forest clearance for use of reserve forest area resulting in avoidable standby charges of ₹ 541.68 crore.

(Paragraph 3.6)

Naini Coal Company Limited contravened the terms of allotment which resulted in de-allocation of the allocated mine and invocation of performance guarantee of ₹ 16.25 crore in January 2013.

(Paragraph 3.8)

Chapter I

Overview of State Public Sector Undertakings

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Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of the Government of Gujarat (GoG) companies and the statutory corporations. The PSUs are established to carry out the activities of commercial nature keeping in view the welfare of people and occupy an important place in the state economy. The working results of 84 State PSUs comprising of 80 State Government companies (including 12 Non-Working companies) and four statutory corporations are discussed here. The turnover of 72 working PSUs was ₹ 98,718.90 crore in 2013-14 as per their latest finalised accounts as of September 2014. This turnover was equal to 12.75 *per cent* of State Gross Domestic Product (GDP) of ₹ 7,73,990 crore for 2013-14. Major activities of the Gujarat State PSUs are concentrated in power sector and miscellaneous sector. The working State PSUs earned an overall aggregate profit of ₹ 2,252.11 crore for 2013-14 as per their latest finalised accounts as of September 2014. They had 1.12 lakh[1] employees as on 31 March 2014.

1.2 The sector wise summary of investments in the State PSUs is given below:

Table 1.1 : Sector-wise summary of investment in the PSUs

Name of Sector	Government/619B companies		Statutory corporations[2]	Total	Investment
	Working	Non-Working	Working		(₹ in crore)
Power	11	00	00	11	33,084.87
Manufacturing	08	07	00	15	13,724.56
Finance	12	02	01	15	4,059.93
Miscellaneous[3]	03	00	00	03	43,107.50
Service	20	00	01	21	1,0271.54
Infrastructure	10	01	01	12	1,374.08
Agriculture & Allied	04	02	01	07	150.59
Total	**68**	**12**	**4**	**84**	**1,05,773.07**

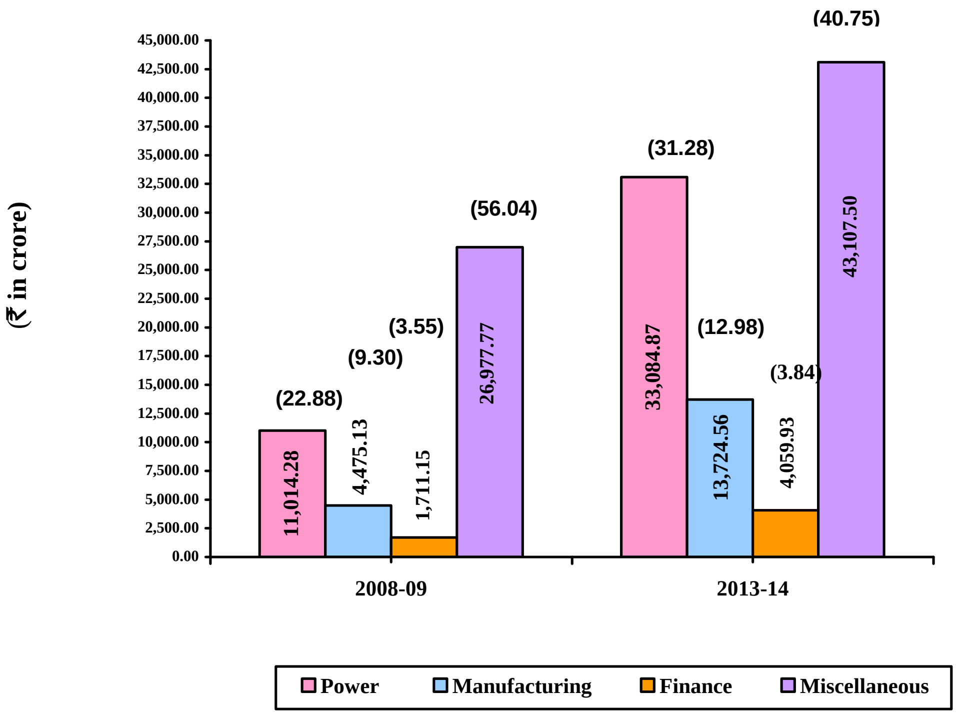
1.3 The investment in four important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2014 are indicated below in the bar chart. The thrust of PSU investment was mainly in power sector which increased from 22.88 *per cent* to 31.28 *per cent* during 2008-09 to 2013-14.

[1] As per the details provided by 72 PSUs.

[2] All statutory corporations are working..

[3] Out of the total investment shown under this sector, ₹ 42,335.81 crore pertains to Sardar Sarovar Narmada Nigam Limited.

Chart 1.1: Sector wise investment in PSUs



(Figures in brackets show the percentage of total investment)

Accountability Framework

1.4 The accounts of Government companies/statutory corporations for every financial year are required to be finalised within six months from the end of the relevant financial year i.e., by 30 September.

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by the Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act, 1956.

Statutory audit

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of the Section 619(4) of the Companies Act, 1956.

Audit of statutory corporations is governed by their respective legislations.

- Out of four statutory corporations, CAG is the sole auditor for Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation.
- In respect of Gujarat State Warehousing Corporation, the Statutory Auditors are appointed by the State Government in consultation with the CAG and the supplementary audit is conducted by the CAG.
- In respect of Gujarat State Financial Corporation, the Statutory Auditors are appointed by the Corporation out of the panel approved by the Reserve Bank of India and supplementary audit is conducted by the CAG.

Role of Government and Legislature

1.6 The State Government exercises control over the affairs of these PSUs as an owner through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of CAG, in respect of State Government companies and Separate Audit Reports in case of statutory corporations are to be placed before the legislature within three months of their finalisation/ as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Gujarat

1.7 As an owner, GoG has huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans**- In addition to the Share Capital Contribution, GoG also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** GoG provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** GoG also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

1.8 As on 31 March 2014, the total investment (Capital and Long-term loans[4]) in 84 PSUs (including 619-B companies) was ₹ 1,05,773.07 crore as per details given below:

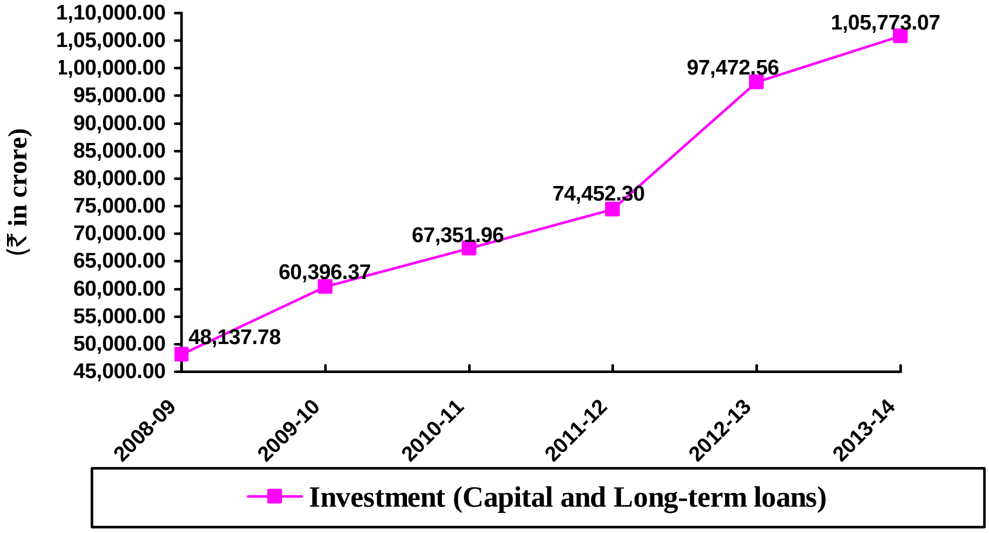
[4] This represents loans from the Government and financial institutions.

Table 1.2: Investment (Capital and Long term loans) in PSUs (₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	58,526.11	41,705.14	100,231.25	1,452.45	3,295.03	4,747.48	1,04,978.73
Non-Working PSUs	82.58	711.76	794.34	-	-	-	794.34
Total	58,608.69	42,416.90	101,025.59	1,452.45	3,295.03	4,747.48	1,05,773.07

As on 31 March 2014, of the total investment in State PSUs, 99.25 *per cent* was in working PSUs and the remaining 0.75 *per cent* in non-working PSUs. This total investment consisted of 56.78 *per cent* towards capital and 43.22 *per cent* in long-term loans. The investment has grown by 119.73 *per cent;* from ₹ 48,137.78 crore in 2008-09 to ₹ 1,05,773.07 crore in 2013-14 as shown in the graph below. The total investment in PSUs had increased by ₹ 8,300.51 crore during 2013-14 as compared to 2012-13 which was mainly due to increase in equity and loans to the Power Sector PSUs.

Chart 1.2: Total investment in PSUs



Special support and returns during the year

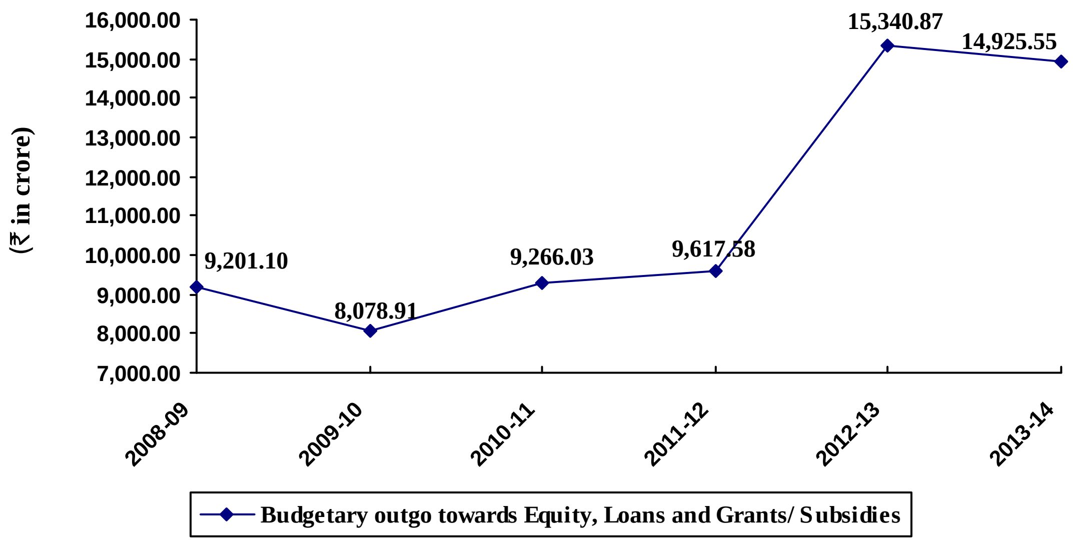
1.9 The GoG provides financial support to PSUs in various forms through annual budget. During the year 2013-14, the GoG extended budgetary support of ₹ 14,925.55 crore to 40 PSUs. The details of budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs for three years ended 2013-14 are summarised below.

Table 1.3 Details regarding budgetary support to PSUs **(₹ in crore)**

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	15	3,970.14	17	7,952.92	14	7,503.48
2.	Loans given from budget	7	1,129.68	4	610.34	4	279.10
3.	Grants/Subsidy from budget	29	4,517.76	31	6,777.61	33	7,142.97
4.	**Total Outgo (1+2+3)**	**--**	**9,617.58**	**--**	**15,340.87**		**14,925.55**
5.	Waiver of loans and interest	--	--	-	--	--	--
6.	Guarantees issued	1	5.00	1	8.00	--	--
7.	Guarantee Commitment	7	3,376.31	6	2,718.74	6	2,239.79

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below:

Chart 1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The budgetary outgo in the form of equity, loans, grants/subsidies, etc., decreased from ₹ 15,340.87 crore in 2012-13 to ₹ 14,925.55 crore in 2013-14. Similarly, grants/subsidies increased from ₹ 6,777.61 crore in 2012-13 to ₹ 7,142.97 crore in 2013-14.

Guarantees for loans and outstanding guarantee fee

1.10 In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee under Gujarat State Guarantee Act, 1963 subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.25 *per cent* to one *per cent* as decided by the State Government depending upon the loanees. The guarantee commitment decreased to ₹ 2,239.79 crore during 2013-14 from ₹ 3,376.31 crore during 2011-12. Further, nine PSUs paid guarantee fee[5] to the tune of ₹ 27 crore during 2013-14.

Reconciliation with Finance Accounts

1.11 The Finance Accounts of GoG prepared by the Accountant General (Accounts & Entitlement) and certified by CAG depicts the Government stake in PSUs in the form of equity, loans and guarantees. The amount of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the amount appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2014 is stated below.

Table 1.4: Equity, loans, guarantees outstanding as per finance accounts and records of PSUs **(₹ in crore)**

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	54,611.98	52,208.34	2,403.64
Loans	3,955.15	6,109.74	2,154.59
Guarantees	5,176.39	2,239.79	2,936.60

Audit observed that the differences occurred in respect of 52 PSUs. The audit brought (December 2014) the matter to the notice of the Finance Department, concerned Administrative Department and the respective PSUs about the differences in figures indicated in the Audit Report (PSUs) and Finance Accounts for the year 2013-14. The Government and the PSUs should take concrete steps to reconcile the differences in a time bound manner.

Arrears in finalisation of accounts

1.12 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under the Sections 166, 210, 230, 610 and 619-B of the Companies Act, 1956. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2014.

5 In case of subsidiaries of GUVNL, the details of Guarantee fees as allocated by the holding Company (GUVNL) have been considered.

Table 1.5: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of Working PSUs	58	60	66	69	72
2.	Number of accounts finalised during the year	73	58	58	71	65
3.	Number of accounts in arrears	36	38	47	42	50[6]
4.	Number of Working PSUs with arrears in accounts	25	27	35	30	33
5.	Extent of arrears (numbers in years)	1 to 4	1 to 4	1 to 4	1 to 3	1 to 4

It can be observed that the number of accounts in arrears has increased from 36 (2009-10) to 50 (2013-14).

The GoG had invested ₹ 10,161.59 crore in 24 PSUs {equity: ₹ 4,775.40 crore (8 PSUs), loans: ₹ 1,265.60 crore (2 PSUs) and grants ₹ 4,120.59 crore (23 PSUs)} during the years for which accounts have not been finalised as detailed in ***Annexure* 1**. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

1.13 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of 12 non-working PSUs, seven were in the process of liquidation whose accounts were in arrears for seven to 19 years. Of the remaining five non-working PSUs, only one PSU[7] had arrears of accounts.

Table 1.6: Position relating to arrears of accounts in respect of non-working PSUs

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	1999-00 to 2013-14	15

1.14 Of the four statutory corporations, two had finalised their accounts for the year 2013-14.

The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG (up to 31 December 2014) on the accounts of statutory corporations in the Legislature.

6 Includes arrears of four accounts in respect of Infrastructure Finance Company Gujarat Limited which was taken over by GIDC.

7 Gujarat Fisheries Development Corporation Limited.

Table 1.7: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government/Present Status
1.	Gujarat State Warehousing Corporation	2011-12	--	Accounts in arrears since 2012-13
2.	Gujarat State Financial Corporation	2012-13	2013-14	3 December 2014
3.	Gujarat Industrial Development Corporation	2012-13	2013-14	SAR under finalisation
4	Gujarat State Road Transport Corporation	2009-10	2010-11	23 December 2014

Impact of non-finalisation of accounts

1.15 As pointed out in **Paragraph 1.12,** delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant acts. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2013-14 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

Performance of PSUs

Performance based on finalised accounts

1.16 The table below provides the details of working PSUs turnover and State GDP for the period 2008-09 to 2013-14.

Table 1.8: Details of working PSUs turnover vis-a vis State GDP (₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover[8]	50,289.48	58,451.76	63,008.20	79,641.86	91,309.63	98,718.90
State GDP	3,61,846	3,81,028	5,14,750	5,91,175	6,97,298	7,73,990[9]
Percentage of Turnover to State GDP	13.90	15.34	12.24	13.47	13.09	12.75

Out of the total turnover of ₹ 98,718.90 crore, ₹ 84,886.97 crore pertains to 39 working PSUs who have finalised their accounts for the year 2013-14 and the balance turnover of ₹ 13,831.93 crore was taken as per the latest finalised accounts.

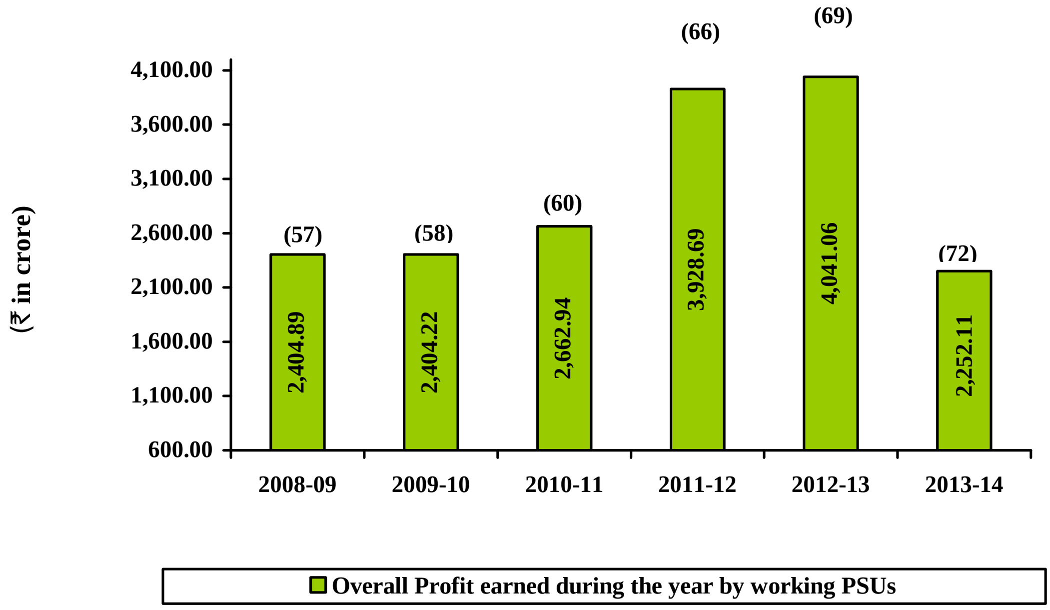
Details of overall profit[10] earned by working State PSUs as per their latest finalised accounts during 2008-09 to 2013-14 are given in a bar chart below:

[8] Turnover of working PSUs as per the latest finalised accounts as of 30 September 2014.

[9] As per Statements prepared under the Gujarat Fiscal Responsibility Act 2005, Budget Publication No. 30.

[10] Represents net profit before tax.

Chart 1.4: Profit/Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

It can be observed from the above that the working of PSUs improved over the period from 2008-09 to 2012-13 but declined in 2013-14. During the year 2013-14, out of 72 working PSUs, 46 PSUs earned profit of ₹ 3,363.96 crore and 20 PSUs incurred loss of ₹ 1,111.85 crore. Three PSUs are under construction, one PSU[11] had transferred excess of expenditure over income to non-plan grant, one PSU[12] had set off expenditure from grants and one PSU[13] had transferred excess of expenditure over income to works completed.

The major contributors to the profit were:

- Gujarat State Petronet Limited (₹ 659.98 crore),
- Gujarat Mineral Development Corporation Limited (₹ 629.59 crore) and
- Gujarat Gas Company Limited (₹ 611.93 crore).

Heavy losses were incurred by:

- GSPC Pipavav Power Company Limited (₹ 307.10 crore),
- Gujarat State Energy Generation Limited (₹ 151.21 crore),
- GSPC Gas Company Limited (₹ 134.68 crore),
- Gujarat State Road Transport Corporation (₹ 132.50 crore) and
- Gujarat State Financial Corporation (₹ 112.76 crore).

The following factors were responsible for major reduction in profitability as compared to last year:

---

[11] Gujarat Women Economic Development Corporation Limited.

[12] Gujarat Foundation for Mental Health and Allied Sciences.

[13] Gujarat State Police Housing Corporation Limited.

- Gujarat State Petroleum Corporation Limited which earned a profit of ₹ 1,247.14 crore in the year 2012-13 earned a profit of only ₹ 97.01 crore in the year 2013-14 due to writing off the exploration cost of ₹ 1,610 crore during the year.
- There was a reduction in the profit of Gujarat Mineral Development Corporation Limited (₹ 294.48 crore) and Gujarat State Petronet Limited (₹ 165.74 crore).
- GSPC Gas incurred loss in the current year against profit of ₹ 97.93 crore during last year and GSPC Pipavav Power Company Limited showed significant increase of ₹ 304.32 crore in losses.

1.17 Though the PSUs were earning overall profits, there were instances of deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of the latest three Audit Reports of the CAG shows that the working State PSUs incurred losses to the tune of ₹ 3,278.28 crore and made infructuous investment of ₹ 51.11 crore, which were controllable with better management. Year wise details from Audit Reports are stated as follows:

Table 1.9: Controllable losses and Infructuous investment commented in Audit Reports **(₹ in crore)**

Particulars	2011-12	2012-13	2013-14	Total
Net Profit	3,928.69	4,041.06	2,252.11	10,221.86
Controllable losses as per CAG's Audit Report	894.70	1,652.66	730.92	3,278.28
Infructuous Investment	11.05	10.61	29.45	51.11

The above losses pointed out in the Audit Reports of the CAG are based on test check of records of the PSUs. The actual controllable losses could be much more. The above table shows that with better management, the controllable losses could be minimised (or eliminated or the profits can be enhanced substantially). PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for increased professionalism and accountability in the functioning of PSUs.

1.18 Some other key parameters pertaining to the State PSUs are given below.

Table 1.10: Key Parameters of State PSUs **(₹ in crore)**

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Capital Employed (*per cent*)	3.95	5.24	5.24	6.97	6.40	5.00
Debt	13,048.33	23,734.37	26,862.15	30,253.60	44,835.60	45,711.93
Turnover[14]	50,289.48	58,451.76	63,008.20	79,641.86	91,309.63	98,718.90
Debt/ Turnover Ratio	0.26:1	0.41:1	0.43:1	0.38:1	0.49:1	0.46:1
Interest Payments	2,021.74	2,255.99	2,423.60	2,935.83	3,390.99	4,214.21
Accumulated Profits/ (Losses)	(814.56)	(595.03)	169.34	1,693.73	2,865.09	3,805.28

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

[14] Turnover of working PSUs as per the latest finalised accounts as of 30 September 2014.

The turnover of PSUs had increased gradually from ₹ 50,289.48 crore in 2008-09 to ₹ 98,718.90 crore in 2013-14. The debt-turnover ratio increased during 2012-13 as compared to various other years and again decreased in 2013-14 to 0.46:1 because of significant increase in the turnover. Accumulated losses of ₹ 814.56 crore in 2008-09 turned into profits of ₹ 3,805.28 crore in 2013-14. Thus, performance of state PSUs registered marked improvement since 2010-11.

1.19 The State Government had not formulated any dividend policy regarding payment of minimum return by the PSUs on paid-up share capital contributed by the State Government. As per their latest finalised accounts as on 30 September 2014, 46 PSUs earned aggregate profit of ₹ 3,363.96 crore. However, only six PSUs declared dividend of ₹ 270.75 crore of which the State Government's share was ₹ 74.11 crore.

The State Government may consider formulation of a dividend Policy regarding payment of reasonable return from the profit earning PSUs on the paid up share capital contribution by the State Government.

Winding up of non-working PSUs

1.20 There were 12 non-working companies as on 31 March 2014. Of these, seven PSUs have commenced liquidation process while the decision of the GoG regarding closure of remaining five PSUs was awaited. During 2013-14, three non-working PSUs[15] incurred an expenditure of ₹ 5.06 crore towards establishment expenditure. This expenditure was financed by borrowings (₹ 4.80 crore[16]) and through interest received on their investments (₹ 0.26 crore[17]).

The stages of closure in respect of non-working PSUs as on 30 September 2014 are given below.

[15] Gujarat Dairy Development Corporation Limited, Gujarat State Construction Corporation Limited, Gujarat State Machine Tools Limited.

[16] Gujarat Dairy Development Corporation Limited (₹ 0.35 crore), Gujarat State Construction Corporation Limited (₹ 4.39 crore) and Gujarat State Machine Tools Limited (₹ 0.06 crore).

[17] Gujarat Dairy Development Corporation Limited (₹ 0.08 crore) and Gujarat State Construction Corporation Limited (₹ 0.18 crore).

Table 1.11: Details of investment and accumulated losses in Non-working PSUs

(₹ in crore)

Sl. No.	Particulars	No. of PSUs	Investment	Accumulated profit/(loss)
1.	Total number of non-working PSUs	12	794.34	(354.25)
2.	Of (1.) above, the number under:			
(a)	Liquidation by Court (liquidator appointed)	6	660.64	(105.37)
(b)	Voluntary winding up (liquidator appointed)	1[18]	27.07	(74.93)
(c)	Closure, *i.e.* closing orders/ instructions not issued.	5	106.63	(173.95)

The GoG may a take suitable decision on the five non-working PSUs early and further action in case of the seven PSUs under liquidation.

Comments on Accounts and Internal Audit

1.21 Fifty six working companies forwarded 61 accounts to AG during the year 2013-14 for the purpose of supplementary audit. The audit reports of Statutory Auditors appointed by the CAG and the supplementary audit of the CAG indicate that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments[19] of the Statutory Auditors and the CAG are given below.

Table 1.12: Details of aggregate money value of comments (₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	10	14.79	5	56.54	2	0.23
2.	Increase in loss	1	0.35	2	135.57	3	34.99
3.	Non-disclosure of material facts	5	159.32	2	17.31	2	277.78
4.	Errors of classification	3	22,917.62	1	23,885.27	8	25,512.22

It is observed from the above that cases of non-disclosure of material facts increased from ₹ 159.32 crore in 2011-12 to ₹ 277.78 crore in 2013-14. Similarly, cases of error of classification increased from ₹ 22,917.62 crore in 2011-12 to ₹ 25,512.22 crore in 2013-14 in which one error of classification in 2013-14 was in respect of SSNNL persistently appearing since 2007-08.

During the year, the Statutory Auditors had given unqualified certificates for 46 accounts and qualified certificates for 15 accounts. The compliance of companies with the Accounting Standards (AS) remained deficient as there were 17 instances of non-compliance in 10 accounts during the year as reported by the Statutory Auditors. In addition, five instances of non

[18] Gujarat Small Industries Corporation Limited.

[19] For the purpose of CAG comments only those comments actually issued during October 2013 to September 2014 have been considered including accounts of previous period for which comments were issued in the current period.

compliance of accounting standards were also noticed by CAG in four accounts.

1.22 Similarly, three working statutory corporations[20] forwarded four accounts to AG during the year which pertained to 2010-11, 2012-13 and 2013-14. The Separate Audit Report of Gujarat State Road Transport Corporation Limited (2010-11) was under finalisation and in respect of Gujarat Industrial Development Corporation the comments of 2013-14 were under finalisation as on 30 September 2014. The details of aggregate money value of comments of Statutory Auditors and CAG are given below.

Table 1.13: Details of aggregate money value of comments (₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	4.81	2	1.49	0	0.00
2.	Increase in loss	1	243.51	2	120.05	1	20.40
3.	Non-disclosure of material facts	2	247.73	1	896.59	1	844.65
4.	Errors of classification	1	46.96	1	115.73	1	80.99

It is observed from the above that the money value objection for non-disclosure of material facts increased from ₹ 247.73 crore in 2011-12 to ₹ 844.65 crore in 2013-14. Likewise, the cases of errors of classification increased from ₹ 46.96 crore in 2011-12 to ₹ 80.99 crore in 2013-14.

Audit by Statutory Auditors under the directions of the CAG

1.23 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of two companies[21] for the year 2010-11, two companies[22] for the year 2011-12, 17 companies for the year 2012-13 and 21 companies for the year 2013-14 are given below:

[20] Gujarat State Road Transport Corporation, Gujarat Industrial Development Corporation and Gujarat State Financial Corporation.

[21] Gujarat Growth Centre Development Corporation Limited, Gujarat Foundation for Mental Health and Allied Sciences.

[22] Gujarat Sheep and Wool Development Corporation Limited and Gujarat State Handloom and Handicraft Development Corporation Limited.

Table 1.14: Comments of Statutory Auditors on the internal audit/Internal control system of companies

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made
1.	Non-fixation of minimum/ maximum limits of store and spares	05
2.	Internal Audit required to be strengthened	06
3.	Non maintenance of cost records	08
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	08
5.	Absence of credit policy for providing doubtful debts, write-off of liquidated damages	11
6.	Non evolution of security policy for software/ hardware and backup of past records	12
7	Ineffective system of monitoring advances/ outstanding dues	06
8	Non-existence of separate vigilance department and effectiveness of delineated fraud policy	35

Recoveries at the instance of Audit

1.24 During the course of compliance audit in 2013-14, Audit pointed out recoveries of ₹ 309.50 crore to the Management of various PSUs, of which recoveries of ₹ 0.17 crore were admitted and recovered by PSUs during the year 2013-14. The progress of recovery is very slow.

Follow-up action on Audit Reports

Outstanding 'Action Taken Notes'

1.25 As per Rule 32 of the Rules of Procedure (Internal Working) of COPU, Gujarat Legislative Assembly, the administrative departments of PSUs should submit the Action Taken Notes (ATNs) on the recommendations within a period of three months from the date of its presentation. The status of non receipt of ATNs on recommendations of COPU Reports is given below:

Table 1.15 Table showing ATNs not received

Sl. No.	COPU Report No. And Assembly	Date of placement of Report in the Assembly	Year of the AR to which it pertains	Total recommendations in the Report	Recommendations in respect of which ATNs not received
1	1st Report/ 12th Assembly	19.02.2009	AR 1993-94 to 2003-04	44	1
2	14th Report/ 12th Assembly	29.03.2011	AR 2004-05	4	0
3	17th Report/ 12th Assembly	22.03.2012	AR 2004-05	1	1
4	18th Report/ 12th Assembly	19.07.2012	AR 2005-06 and 2006-07	6	1
5	1st Report/ 13th Assembly	03.10.2013	AR 2007-08	4	2
6	2nd Report/ 13th Assembly	15.07.2014	AR 2008-09	17	17
	Total			**76**	**22**

The Reports in all contained 76 recommendations on 52 paragraphs and 13 performance audits related to 18 PSUs falling under nine administrative departments included in the Audit Reports for the years 1993-94 to 2008-09 (Commercial), Government of Gujarat.

ATNs on five recommendations pertaining to four PSUs[23] falling under three[24] Administrative Departments had not been received for vetting by Accountant General as on 30 September 2014. Further, no ATNs pertaining to the 2nd Report of the 13th Assembly of COPU, which were due up to 15 October 2014 i.e., within three months of placement of report in the State Legislature were received as on that date.

Outstanding Explanatory Notes

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

[23] Gujarat Industrial Investment Corporation Limited, Gujarat State Financial Corporation, Gujarat Women Economic Development Corporation Limited and Gujarat Water Resources Development Corporation Limited.

[24] Industries and Mines Department and Women and Child Development Department, Narmada, Water Resources and Kalpsar Department.

Table No.1.16: Explanatory notes not received

Year of the Audit Report (Commercial /PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2009-10	30 March 2011	2	16	0	2
2010-11	30 March 2012	2	15	0	1
2011-12	2 April 2013	2	10	1	3
2012-13	25 July 2014	1	13	1	13
Total		**7**	**54**	**2**	**19**

From the above, it could be seen that out of 61 paragraphs/ performance audits, explanatory notes to 21 paragraphs/ performance audits in respect of six departments, which were commented upon, were awaited (September 2014).

Chapter II

Performance Audit and Information Technology Audits relating to Government Companies

Chapter II

Performance Audit and Information Technology Audits relating to Government Companies

2.1 Tourism Corporation of Gujarat Limited

Promotion of tourism in Gujarat with emphasis on the functioning of Tourism Corporation of Gujarat Limited

Executive Summary

Introduction

The Industries and Mines Department (I&MD) of the Government of Gujarat (GoG) is the nodal department for the administration of the tourism sector in Gujarat. Tourism Corporation of Gujarat Limited (Company) was incorporated in June 1975 and was entrusted with the responsibility of development of tourism industry in the state. The performance audit focused on the efforts made by the Company for development of tourism in the state in accordance with the tourism policy of the state and covered the period 2009-14.

Tourist Inflow

The state adopted three-pronged strategy viz., strengthen existing attractions, develop low profile tourism places into attractions and create new attractions, which resulted into increase in tourist inflow from 1.70 crore in 2009-10 to 2.88 crore in 2013-14. Gujarat registered marginally higher growth than all-India average and when compared to its neighbouring state of Rajasthan, the growth rate was higher though in absolute terms (i.e., the total tourist inflow) Rajasthan still attracted higher footfalls. However, the growth of tourism in other two neighbouring states of Maharashtra and Madhya Pradesh was double than that of Gujarat.

Tourism Policy

GoG declared tourism policy 2003-10 aimed at providing services of international standards, creating excellent infrastructure, connectivity and facility to tourists. The Company implemented some of the policy measures like development of event-based tourism, hospitality industry, infrastructure and adventure sports. However, some measures like creation of Vishwagram and Development of entertainment theme park, Indus valley civilisation sites, wayside amenities, sites related to Buddhism, places related to Sardar Patel and eco-tourism were either not implemented or partially implemented.

Government Support

GoG had released grants of ₹1229.25 crore out of which Company spent ₹1025.45 crore and grant amounting to ₹295.07 crore remained unspent as on March 2014. The Company spent only ₹20.82 lakh against the grant of ₹128.50 crore received for promotion of coastal tourism.

Destination Development

The Company had successfully implemented projects at Dwarka, Saputara, Siddhpur, Becharaji, etc. However, the facilities created under Dandi Heritage Corridor and Dandi Destination at a cost of ₹20.43 crore could not be put to use.

Fairs and festivals

While the Company successfully organised various fairs and festivals like International kite festival, Navratri, Rann Utsav, Tarnetar fair, Monsoon Festival etc., the Company had not made any data collection on tourist inflow and impact analysis of economic benefits from the fairs and festivals. Further, it did not conduct any cost-benefit analysis before organising the Rann-Utsav on PPP mode from 2013-14 onwards.

Management of Hotels

The Company operates and maintains 25 hotels (19 self-managed and six leased), 7 wayside amenities and 5 cafeterias. Out of 14 working hotels, only 4 hotels earned cumulative profits, while the remaining 10 hotels suffered losses. The main reasons for losses were attributed to poor occupancy, high fixed cost, non-revision of tariff and no marketing of hotels, etc.

Monitoring and Control

The projects implemented by the Company were monitored by the GoG at regular intervals. But, the end use of the projects was not monitored at GoG level leading to expenditure on some projects becoming unfruitful.

Recommendations

The GoG may consider framing a new Tourism Policy since there has been no new Tourism Policy after 2010. The Company may coordinate its efforts so that assets created are put to use as the Dandi Heritage Corridor and Dandi Destination Development were not being utilised even after an expenditure of ₹20.43 crore. The Company may analyse reasons for continuous losses in certain hotels operated by it and initiate suitable corrective/ameliorative measures.

Introduction

2.1.1 Gujarat is a state in north-western India with an area of 1,96,077 square kilometers and a population of around six crore (2011 census). It is a state having diverse culture with its history extending over 4,500 years from the Harappan civilisation to the British period. The State has some of the great historical and archaeological monuments representing religions of Hinduism, Buddhism, Jainism, Islam, Zoroastrianism (Parsi) and Sikhism.

The State is well connected by road, rail and air and its capital city is Gandhinagar. The state was visited by 11.34 crore tourists including 8.48 lakh foreign tourists during the years 2009-10 to 2013-14, registering a marginally higher growth *vis-a-vis* the all-India average.

Administration of the tourism sector in Gujarat

2.1.2 The Industries and Mines department (I&MD) of the Government of Gujarat (GoG) is the nodal department for the administration of the tourism sector in Gujarat. The role of the I&MD is limited to that of a facilitator. The Tourism Corporation of Gujarat Limited (Company) incorporated in June 1975 was entrusted with the responsibility of development of tourism industry in the State in line with the tourism policy.

To develop and promote tourism as an engine of economic growth, I&MD declared the Tourism Policy for 2003-10 considering tourism as an important economic activity for overall sustainable economic growth, increasing employment generation and optimum utilisation of the tourism potential of the state.

Organisational set up

2.1.3 The Principal Secretary (Tourism) is the administrative head of the Department and is assisted by the Commissioner of Tourism (CoT) who heads the tourism branch of the I&MD. The CoT also acts as the Managing Director of the Company. The management of the Company is vested in the Board of Directors (BoD) consisting of eight members and is headed by the full time Chairman. The Managing Director is assisted in day-to-day functioning by a General Manager and two functional managers for Marketing and Public Relations and two executive engineers. As on 31 March 2014, the Company had 25 hotels, five cafeterias and seven wayside amenities and manned 277 employees.

Activities of the Department and the Company

2.1.4 The activity of the I&MD is focused on policy framing for developing tourism in the state, release of GoI and GoG grants and facilitating land acquisition for implementation of its projects.

The activity of the Company is focused on the overall development of tourism in the state by creating infrastructure, connectivity and providing tourists with facilities in important tourist destinations and religious places. In the development of various tourists destinations, the Company had successfully implemented the projects at Dwarka, Saputara, Siddhpur, Becharaji etc.

Further, the Company upgraded its hotels with modern facilities at Ahmedabad, Dwarka, Junagadh and Saputara for extending better hospitality to tourists. The Company gives a special thrust to **'**Event (Festival) based Tourism' and promotes the major events like Kutch Rann Utsav, Kite festival, Navratri festival, Somnath festival, Dwarka festival, Tarnetar fare etc., both within and outside the country.

Scope of Audit

2.1.5 The performance audit covered the period from 2009-10 to 2013-14. The review focuses on the efforts made by the Company to realize the objectives of the Tourism Policy. We reviewed the Company's plan for development of various destinations, creation/ improvement of facilities for the tourists visiting the state, maintenance and management of hotels, cafeterias and wayside amenities and expenditure incurred on advertising and publicity. We scrutinised the records of the Principal Secretary (Tourism), CoT, the records of the project, marketing and finance branches of the Company and 14 working hotels located across the state.

Audit Objectives

2.1.6 We conducted the performance audit with objective to get reasonable assurance that:

- The GoG framed the tourism policy and detailed plans to promote tourism;
- The Company executed the development projects and put them to use;
- The Company effectively marketed 'Brand Gujarat' and its own hotels with efficient management; and
- Monitoring and evaluation was effective.

Audit Criteria

2.1.7 The performance of the Company was assessed against the following audit criteria:

- Tourism Policy of Gujarat 2003-2010 and the incentive schemes;
- GoG schemes guidelines, Gujarat Financial Rules, Government resolutions, and Company's plan for construction/renovation of hotels and cafeterias;
- Agenda and minutes of the BoD and its subsidiary committees; and
- The Advertising and publicity plan of the Company.

Audit Methodology

2.1.8 We explained the audit objectives and methodology to top Management of the Company and I&MD officials in an entry conference held on 7 April 2014. The audit queries were raised after scrutiny/examination of the records/interaction with the officials of the Company and the Department. The Draft Performance Audit Report (PA) was issued (September 2014) to the Company and Department. An exit conference was held on 6 January 2015.

We acknowledge the co-operation extended by the Department and the Company during the course of the Performance audit. The Company replied to the audit findings in December 2014; their replies have been considered while finalising the PA.

Audit Findings

Tourist inflow data and Tourism Policy

Tourist Inflow

2.1.9.1 The Gujarat Industrial and Technical Consultancy Organisation (GITCO) is the agency compiling the data of tourist inflow in the state for the Company.

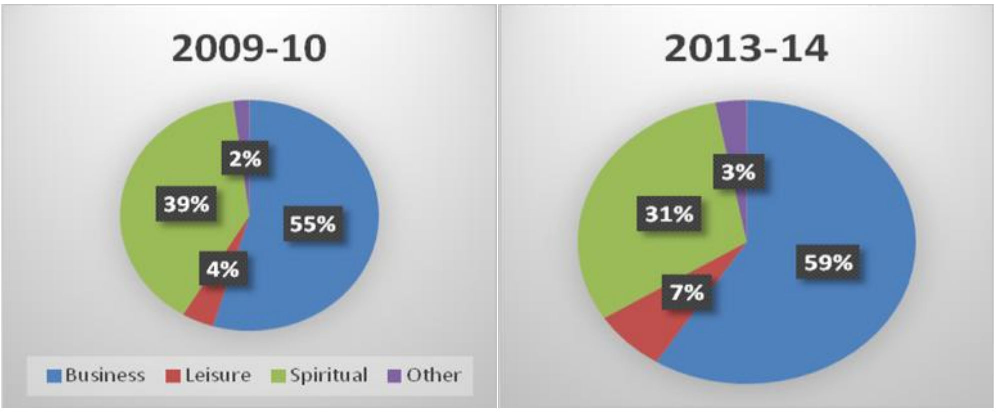
The tourist[1] inflow is one of the main yardsticks for assessing the effectiveness of the tourism policy of the state. As per the report for 2013-14, GITCO has built up a universe of 3,096 hotels/ guest houses/ dharmashalas at 199 locations in the state. A representative sample averaging 10 *per cent* of universe covering 41 locations is surveyed through a monthly structured questionnaire and then extrapolated to cover the entire universe. **Table 2.1.1** below shows the tourist inflow into the state during the period 2009-10 to 2013-14 as compiled by GITCO.

Table 2.1.1: Particulars of tourist inflow in Gujarat *(Numbers in lakh)*

Year	Tourists from within Gujarat	Tourists from other Indian States	Total Domestic Inflow	NRI and Foreigners	Grand Total
2009-10	130.78	36.24	167.02	3.09	170.11
2010-11	150.62	43.55	194.17	3.95	198.12
2011-12	171.76	47.28	219.04	4.60	223.64
2012-13	195.36	53.56	248.92	5.17	254.09
2013-14	221.61	60.61	282.22	5.66	287.88
Total	**870.13**	**241.24**	**1,111.37**	**22.47**	**1,133.84**

The classification of the tourists based on the purpose of visit during 2009-10 and 2013-14 is depicted in the chart below:

Chart 2.1.1 Segmentation of tourist as per purpose of visit



(**Source**: Tourist data compiled by GITCO)

It can be seen from the above chart that the percentage of the tourists who came for business purposes increased from 55 *per cent* in 2009-10 to 59 *per cent* in 2013-14, indicating a gradual shift towards business activity.

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[1] GITCO follows a Government of India definition of 'tourist'. As per the definition a 'foreign tourist' is a person visiting India on a foreign passport, staying at least twenty four hours in India and the purpose of whose journey can be classified as leisure (recreation, holiday, health, study, religion and sport) and business, family, mission and meeting. All Indians settled abroad but holding Indian passports will not be counted as foreign tourists even when they come to India for recreation, business and other purposes.
A 'domestic tourist' is a person who travels within the country to a place other than his usual place of residence and stays at hotels/ Dharamshalas etc., for a duration of not less than 24 hours or one night and for not more than 6 months at a time for any of the purposes viz., pleasure (holiday, leisure, sports etc.), pilgrimage, religious and social functions, business, conferences and meetings and Study and health. Thus, data on tourist does not include those who do not stay either overnight or for at least 24 hours at a destination.

The following **Table 2.1.2** shows the performance of Gujarat vis-à-vis All India average and its neighbouring states in terms of tourist inflow.

Table 2.1.2: Comparison of tourist inflow with other neighboring states

Particulars	Number of tourists (In crore)					Growth over 2009 (In percentage)	All India Ranking (December 2013)	
	2009	2010	2011	2012	2013		Domestic	Foreign
All India	68.32	75.81	88.40	105.71	116.52	70.55		
Gujarat	1.60	1.90	2.12	2.46	2.76	72.50	8	16
Maharashtra	3.31	5.35	6.01	7.15	8.69	162.54	5	1
Rajasthan	2.66	2.68	2.85	3.01	3.17	19.17	7	5
Madhya Pradesh	2.33	3.83	4.44	5.35	6.34	172.10	6	12

(**Source**: India tourism statistics published by Ministry of Tourism, GoI)

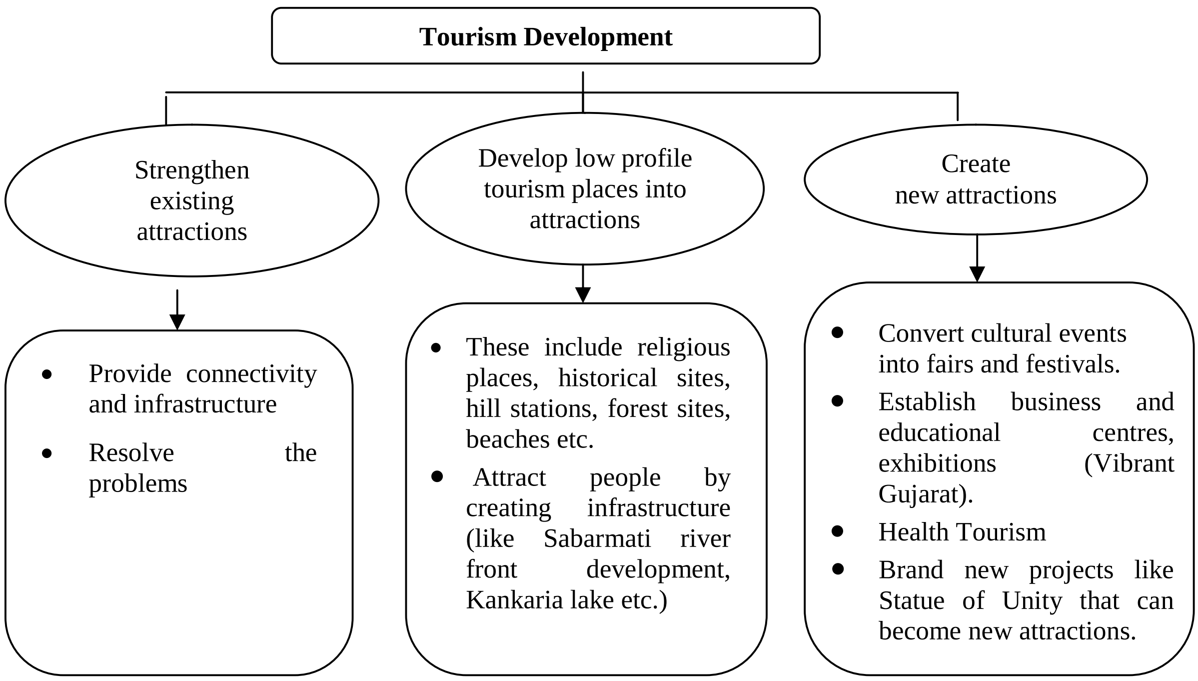
It can be seen that Gujarat registered a marginally higher growth in tourist inflow compared to all-India and much higher as compared to the neighbouring state of Rajasthan, though in absolute terms (i.e., the total tourist inflow) Rajasthan still attracted higher footfalls. However, the growth in the other two adjoining states viz., Maharashtra and Madhya Pradesh was more than twice that of Gujarat. Further, Gujarat was behind Maharashtra, Madhya Pradesh and Rajasthan in the all-India tourist inflow ranking.

Tourism development in Gujarat

2.1.9.2 Tourism is an employment friendly industry. It provides large scale employment opportunities to drivers, cooks, attendants, receptionists, guides, local artisans etc. However, for the tourists to visit a place there has to be a series of attractions in the form of tourist places, business centres and services (Health tourism). It also requires commensurate infrastructure.

The tourism industry generally develops in three stages (these could be overlapping) as shown below:

Chart 2.1.2: Stages of tourism development



Gujarat followed the above three pronged strategy to develop tourism with emphasis on massive advertisement campaign to place Gujarat prominently on the tourism map of India by appointing a celebrity as its brand ambassador; increasing the expenditure on advertising from ₹ 12.29 crore in 2009-10 to ₹ 71.74 crore in 2013-14; and road development works like Pragathipath improving connectivity, enabling people to move faster to reach tourist destinations spread across the state.

Tourism Policy

2.1.9.3 The GoG tourism policy 2003-10 considered tourism as an important economic activity for sustainable economic growth, employment generation and optimum utilisation of vast tourism potential in the state. It also aimed at providing services of international standards, creating excellent infrastructure, connectivity and facilities for tourists. The CoT cum MD of the Company is responsible for implementation of all policy proposals. The Gujarat Industrial Promotion Board (GIPB) was also to lay down the road map for the tourism promotion in the state and monitor the implementation of various projects. We observed that GIPB has not been formed as envisaged in the policy.

Table 2.1.3 below shows some of the policy measures implemented by the Company/Government:

Table 2.1.3: Policy measures implemented

Sl. No.	Policy	Achievement
1	Special thrust to Event (Festival) based tourism	Navratri festival, International kite festival, Rann Utsav, Tarnetar Fair, Beach Festival are organised every year by the Company. However, the information on the visitors to the venues of these festivals was not compiled.
2	Adventure sports like paragliding, rock-climbing and forest safaris etc.	This was being arranged wherever feasible during seasonal festivals and fairs by the Company.
3	Development of hospitality industry, pilgrim hotels and dormitories	The GoG introduced (October 2006) an incentive scheme (exemption from payment of electricity duty and luxury tax for five years and exemption from payment of stamp duty for purchase of land) for hotels started during two years of the policy period. However, the incentive was able to attract only five private hotels through this scheme.
4	Infrastructure development through rail and road connectivity to all important locations	All important tourist locations other than Dholavira (an Indus Valley Civilisation site), are well-connected.

(**Source**: Tourism Policy 2003-10 and information provided by the Company)

Table 2.1.4 below depicts the policy measures that were either not implemented or implemented partially:

Table 2.1.4: Non/Partial implementation of Policy measures

Sl. No.	Policy	Achievement
1	Creation of Vishwa Gram, by replicating structural modules and beauties of different countries with houses and accommodation models on the banks of Sabarmati	Not done as no specific grant was allocated for the purpose.
2	Development of entertainment theme parks and medical tourism	No action plan was framed by the GoG in this regard.
3	Development of beaches and water sports at nine locations	Out of ₹128.50 crore released during review period for coastal tourism only ₹ 21 lakh were spent in obtaining statutory clearances for taking up the project.
4	Development of Indus Valley Civilization cites at Lothal and Dholavira	Grant of ₹ 22 lakh received for Dholavira not utilised in seven years. No grant received for Lothal.
5	Twenty wayside amenities	The Company constructed five wayside amenities, of which only one was made operational.
6	Gandhi Circuit[2], Buddhist Circuit[3] and Sardar Circuit[4]	The Company undertook development of Gandhi Circuit. However, action plan was not prepared for Sardar Circuit and Buddhist Circuit.
7	Encouraging private sector participation in the tourism sector and privatisation of the Company's properties in a time bound manner.	A new Company Guj-Tour Development Company Limited was incorporated (April 2011) by GoG to create corpus fund for tourism project on PPP mode. The new Company is at a tendering process for identification of private participation.
8	Development of Eco-tourism	Infrastructure facilities were created mainly at Saputara at a cost of ₹ 7.75 crore during 2009-14.

(**Source**: Tourism Policy 2003-10 and information provided by the Company)

The policy document adopted by the GoG was for the period up to 2010 and has not been extended thereafter. However, some of the goals as indicated above are yet to be achieved, though they were intended to be achieved during 2003-10.

The Management stated (December 2014) that the GoG is currently planning to bring out a new tourism policy of the state.

We noticed several deficiencies in the implementation of tourism development measures as explained in the succeeding paragraphs.

Government Support

2.1.10 To develop the tourism in the state, GoG had released grants to develop existing and new tourist destinations across the state, showcase the fairs and festivals and undertake aggressive marketing campaign and creation of facilities for tourists. The grants given by GoG for various purposes during 2009-10 to 2013-14 are summarised below:

[2] Destinations related to Gandhiji viz. Dandi heritage corridor, Dandi Village and Porbandar.
[3] Cave temples and monasteries related to Buddhism at Junagadh and other places of the state.
[4] Places related to Sardar Patel viz. Nadiad, Karamsad, Bardoli and Ahmedabad etc.

Table 2.1.5: Details of GoG Grants segment wise **(₹ in crore)**

Sl. No.	Grant For	Opening Balance	Received	Utilised	Closing Balance
1	Advertisement	12.84	279.54	258.23	34.15
2	Destination development	50.20	642.42	506.90	185.72[5]
3	Fairs and festivals	8.56	152.70	155.29	5.97
4	Tourism promotion	0.23	55.49	52.30	3.42
5	Tourist facilities	1.16	11.00	1.17	10.99
6	Other grants	18.28	88.10	51.56	54.82
	Total	**91.27**	**1229.25**	**1025.45**	**295.07**

(Source: Annual accounts of the Company**)**

It can be seen from the above table that the unutilised grants had grown from ₹ 91.27 crore in 2009-10 to ₹ 295.07 crore at the end of 2013-14. The Company did not surrender the huge unutilised balance lying with it at the end of each year nor did it take the approval of the GoG for retaining such balances. In respect of GoI grants (as per the annual accounts of the Company), the Company had opening balance of ₹ 37.03 crore and ₹ 31.69 crore were received of which ₹ 35.18 crore were utilised during 2009-14.

The above includes grant for promotion of coastal tourism for which GoG released ₹120 crore (of which ₹ 36 crore was one-time assistance from GoI) in 2012-13 and ₹ 8.50 crore in 2013-14 for creating infrastructure and facilities like roads, electricity, water supply, public toilets, cafeteria, on sea beaches, etc. However, the Company spent only ₹ 20.82 lakh during the year 2013-14 and an amount of ₹ 128.29 crore remained unutilised with the Company and the tourism potential of a long coastline was not exploited. Though some plans were prepared for developing beaches, no concrete action was taken.

The Management stated (December 2014) that it is under the process of making decision either to utilise or surrender grant to the GoG.

Advertisement and Publicity

2.1.11 Publicity plays an important role in spreading the knowledge and creating interest in various tourist attractions of a state. The Company prepared media plans and engaged media agencies for placing advertisements about various places of tourist interest in the state. The Company is promoting the Gujarat tourism through the “Khushboo Gujarat Ki” promotion campaign by engaging services of Shri Amitabh Bachchan as a brand ambassador. The expenditure on advertisements was met out of grants received from the Government. The grant received for advertisement and publicity and tourism promotion campaign and their expenditure in the last five years is shown in **Table 2.1.6** below.

[5] This includes ₹128.50 crore received from GoG to promote coastal tourism in Gujarat, which also includes ₹ 36 Crore from GoI as one time assistance for the said project.

Table 2.1.6: Details of Grants for advertisement and publicity (₹ in crore)

Year	Opening balance	Receipts	Expenditure	Closing Balance
2009-10	12.84	8.30	12.29	8.85
2010-11	8.85	51.05	37.74	22.16
2011-12	22.16	52.69	61.26	13.59
2012-13	13.59	80.00	75.20	18.39
2013-14	18.39	87.50	71.74	34.15
Total		**279.54**	**258.23**	

(Source: Annual Accounts of the Company**)**

The Company utilised the grants for placing the advertisement in various media such as on national and international television channels, FM Radio, magazines & journals, including in-flight magazines, on Delhi Metro Rail, hoardings at airports and in digital media. This campaign has provided visibility to Gujarat tourism.

The Company has its own website providing information on all the important tourist centres categorised hub-wise/ destination wise. Besides the means to reach the tourist centre, the website states the places of stay and the local importance of the location. We noticed shortcomings in the dissemination of information to tourists as stated below:

Dissemination of information to tourists

2.1.11.1 Ideally it is expected that entry points at each tourist locations, i.e., railway stations and bus stands provide information in a conspicuous manner regarding major tourist attractions in that particular location, the distance from bus stand or railway station to these places of interest, mode of transport available and the approximate cost, the suitable time for visit and information about the Company's hotels. The information could be provided by display boards, through Tourist Reception Centres at railway stations and bus stands and through Brochures or Display boards at the reception of Company's Hotels.

In the nine[6] out of the 14 hotels that we visited, none of the hotels except Dwarka had any information for tourists either at the railway station or bus stand. Even in Dwarka, the information was displayed only in the bus stand which also was not easily visible. As far as Tourists Reception Centres are concerned, only Porbandar had one at the bus stand which also was not fully operational and the information given was not legible. Out of the nine hotels visited, only Narayan Sarovar had a Reception Centre at the hotel giving all relevant information. In Saputara and Veraval only limited information was available at the Reception Centres. In the remaining five hotels (other than the two under renovation), no information was available at the Reception Centres.

On a review of the website of the Company, we noticed that no travel tips and guidance to tourists were being offered, the hotels operated by the Company and its tariff structure, were not shown, the information about the tourist information bureaus spread across the state was not displayed and no effective

[6] Dholavira, Dwarka, Junagadh, Narayan Sarovar, Palitana, Porbandar, Saputara, Somnath and Veraval.

guidance was available to those intending to visit fairs and festivals in the fairs and festivals link, etc. The Company updated its website after addressing these shortcomings.

The Management accepted the audit observation and further stated (December 2014) that they approached Gujarat State Road Transport Corporation and Railway authorities to see that the tourists arriving in Gujarat get maximum possible information.

Implementation of the projects by the Company

The project branch of the Company executes various works/projects. The work of design and preparation of estimates for various works is being done through the private consultants. Estimates are prepared based on Roads and Building Department’s Schedule of Rates (SOR) of respective districts and works are being awarded on tender basis. Supervision and monitoring is done through the Project Management Consultants (PMCs) who are empanelled with the Company. Details of works undertaken by the Company for varied purposes during the period 2009-14 are summarised below:

Table 2.1.7: Particulars of works/projects

Sl. No.	Particulars	No. of works	Total awarded cost (₹ in crore)	No. of works as on March 2014	
				Completed	In progress
1	Destination Development	60	321.01	51	9
2	Renovation of Hotels and way-side amenities	26	47.81	19	7
3	Fairs and festivals	72	72.65	72	Nil
	Total	**158**	**441.47**	**142**	**16**

(**Source**: Data obtained from the Company and compiled by us)

Our observations on implementation of various projects are discussed below:

Destination Development

2.1.12 During the review period, 60 destination development works amounting to ₹ 321.01 crore were awarded of which 51 works such as Dwarka, Saputara, Siddhpur, Becharaji etc., were completed and 9 were in progress. We reviewed all the 60 destination development works and by and large the works undertaken were successfully completed. An example of successful completion of work was Saputara wherein the destination development work and renovation of hotel was done and occupancy of the hotel increased. However, certain instances of unfruitful expenditure/idle investment and inadequate facility creation were noticed as discussed below:

Dandi Heritage Corridor Project

2.1.12.1 In March 2008, the Ministry of Culture (MoC), GoI sanctioned Dandi Heritage Corridor Project covering 21 destinations from Ahmedabad to Dandi where Mahatma Gandhi stayed overnight during his Dandi March. The Company identified 15 of these locations for implementing the Dandi Heritage Corridor project to disseminate the message of Mahatma Gandhi and speeches made by him during the famous Dandi March and thereby spread the message of Gandhiji. The work was divided into six packages and the work orders were placed in February 2010 at a cost of ₹ 16.40 crore. The work included construction of Administrative office, Souvenir Shop, Guest Rooms, Restaurant, Library, Museum etc., in these locations. These works were completed during April 2011 to November 2011 at a total cost of ₹ 11.84 crore. The Company took possession of the constructed buildings with total 54 guest rooms at all the 15 locations and appointed GISF personnel for ensuring the safety of the assets created.

(Picture showing facilities created under DHC at Vanz Village)

During physical verification of these locations, we observed that even after over two years of completion, these buildings were not furnished and the water connections/ electricity supply were not provided, making them unfit for use. Some of the buildings were already showing signs of deterioration with broken glass windows and soiled paint. The reasons for not providing electricity and water connections and furnishings were not available on record. The Company belatedly floated tender in March 2014 for furnishing and artifacts, and contracts were awarded thereafter.

If the project was properly completed and opened to public, it could have been a major tourist attraction as it would have given a novel experience to the tourists to tread the historic path of Mahatma Gandhi. The expenditure of ₹ 11.84 crore also remained unfruitful.

Destination Development at Dandi

2.1.12.2 The Company initiated action to develop the basic infrastructure and tourist facilities including Gandhi Institute, Amenity Building, Guest House, etc., at Dandi as decided by GoI. This is the culmination point for the Dandi Heritage Corridor. The work order was placed (January 2009) on M/s. Krishna Constructions (Firm K) for development of the destination at a cost of ₹ 6.47 crore (revised to ₹ 7.32 crore due to excess and extra items). The schedule date of completion was 24 months from the award of work.

The value of the work done up to the last RA Bill released in April 2011 was ₹ 7.02 crore. The Project Management Consultant (PMC) certified (July 2011) that the work was completed as per the drawings. Based on the completion certificate, Firm K demanded (July 2011) refund of security deposit which was released in November 2011.

During actual inspection of the site we observed (May 2014) that the buildings viz., Gandhi Institute, Amenity Building and Guest House were in semi-finished condition contrary to the certificate furnished by the PMC. In addition, encroachment by the workers of a private contractor, executing the work in nearby areas, was also observed. It indicates that the Company made the payments relying on the completion certificate issued by the PMC without cross checking the actual status of the work.

(*Picture showing facilities created at Dandi*)

During the pendency of the above contract, another contract for infrastructure and stone work for the destination development at Dandi (Phase-II) was awarded in September 2010 to the same contractor at a cost of ₹ 3.80 crore. The scope included completing the balance work conceptualised by the architect in the previous work order *viz*., finishing items of amenity buildings, Gandhi Institute and 21 destinations display walls. The work was scheduled to be completed by September 2011. We observed during the inspection of site that only foundations were laid for all the 21 display walls and Gandhi institute and amenities building remained in semi-finished state.

The Company stated (July 2014) that the work was stopped (October 2010) at the instance of Ministry of Culture (MoC), GoI as some change in the design of the associated National Dandi Memorial project was under process with the MoC. The contractor was paid ₹ 1.57 crore for the work done under the work order.

The proposed facilities, if completed, would have helped in making this destination a major tourist attraction because of the historic role this act of breaking salt law played in the freedom movement. Thus, as a result of change in the design of the work midway, the Company was unable to take advantage of the natural potential of this historical place for development of tourism and at the same time incurred an unfruitful expenditure of ₹ 8.59 crore.

The Management stated (December 2014) that the operation of the activities/ facilities at night halt places under DHC was pending due to non-receipt of authenticated text, script, graphics and signage from the MoC, GoI and for the remaining works agencies are finalised for the execution. It further stated that MoC, GoI has constituted a committee for finalisation of management plan for night halt places and maintenance of National Dandi Memorial Complex. However, facts remain that the facilities created under DHC and Dandi Destination could not be put to use till date.

Change room and toilet facility at new Gomti Ghat of Dwarka

2.1.12.3 As it is the tradition to take bath before entering the temple, the Company developed at Dwarka new Gomti Ghat, Parikrama Path (consisting of dress changing place, toilet, platform, seating arrangement etc.) and repaired the old Gomti Ghat, at a total cost of ₹ 19.91 crore to facilitate the tourists in taking bath. There were no toilets and changing room places in the Old Gomti Ghat and the same were created for the first time in the new Gomti Ghat.

We observed that the new Gomti Ghat, adjacent to the existing old Ghat, had one toilet block (with partition for gents and ladies) and one place for changing dress with six partitions three each for gents and ladies. However, the number of toilets and places for changing dress are inadequate considering tourist flow of average 10,000 per day. This has largely reduced the utility of the facility created at a cost of ₹ 19.91 crore forcing the tourists to face some hardships for their basic requirements.

The Management stated (December 2014) that it is very difficult to cope up with 100 *per cent* requirement of tourist inflow and facilities would be augmented in future.

Renovation of hotels and way side amenities

2.1.13 The Company executed various works of renovation of hotels and wayside amenities out of GoG and GoI Grants. We reviewed the implementation of these projects to ascertain whether the renovation resulted into improved occupancy coupled with increased profitability and facilities to tourists. We reviewed all the 26 works awarded during review period out of which 19 works were completed and seven were in progress as on 31 March 2014. We observed that some of the works were not put to use and occupancy at hotels was reduced after renovation. Our observations are discussed below:

Construction of way side amenities and cafeteria

2.1.13.1 The Company operates way side amenities[7] and cafeterias, apart from full-fledged hotels. The Company had seven[8] way- side amenities as on 31st March 2014 of which two (Limbdi and Shamalaji) were closed. Of the other five which were constructed after the tourism policy, only one at Virpur was operational and four were yet to be inaugurated.

[7] A way-side amenity is facility with a restaurant and couple of rooms to cater to the tourists' requirements of food and rest. These are constructed on highways between important tourist destinations.

[8] Harshad Mata, Madhavpur, Patan, Limdi, Shamalaji, Balasinor, Virpur.

The Company operates cafeterias to provide refreshment to the tourists. Out of the five cafeterias[9] of the Company, Malavan and Gandhinagar were already closed, Modhera was under renovation and Siddhpur and Adalaj were not inaugurated during 2009-14. The details of these way side amenities and cafeterias, such as, the date of construction, cost of construction, date of commencement of operation/closure and reasons thereof were not provided by the Company. In absence of which, we could not analyse their performance.

(Wayside amenity at Madhavpur yet to be inaugurated)

The Company managed to keep functional only one out of seven way side amenities and it had not operated any of the five cafeterias. Despite this, the work for the construction of five more wayside amenities at new sites was awarded during the year 2013-14 at a total cost of ₹ 9.60 crore and the work was in progress (July 2014). While the Company had not drawn up any plan to make the already constructed way side amenities operational, further expenditure was being incurred on the construction of additional way side amenities, for which no justification was furnished to us. From the above, it is evident that expenditure on wayside amenities and cafeterias was incurred without any concrete plan.

The Management stated (December 2014) that the wayside amenities and cafeterias could not be put to use due to shortage of staff and pending policy decision to operate these units with the help of private parties under management contract.

Boating Activity at Saputara

2.1.13.2 Boating activity is carried out by the Company at Saputara Lake by operating five rowing boats and five pedal boats. As per the terms and conditions of licence granted by the District Magistrate (Collector) the tourists shall wear life jackets. We observed (May 2014) that no tourist wore the life jacket as per the stipulation made in the licence. Most of the life jackets kept at jetty/ wooden platform were torn, dirty and with broken straps and may not be of much help to tourists in the event of any untoward incident. No rescue kit and safety equipment was found in the boating area as stipulated in the licence. Thus, boating activity was being carried out without ensuring the prescribed safety norms.

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[9] Modhera, Sidhpur, Malavan, Gandhinagar Sector-28, Adalaj.

(Photos of Torn life jacket and safety ring tied with wooden platform at Saputara lake)

The Management stated (December 2014) that boating activity at Saputara had been stopped and the Company was in tendering process to operate it through the private party.

Fairs and Festivals

2.1.14 Tourism policy gives a special thrust to the event (Festival) based tourism. Special events and international fairs are being organised to promote tourism and showcase 'Brand Gujarat'. The Company organises various festivals like International Kite Festival, Navratri Festival, Rann Utsav, Monsoon Festival etc., and fairs like Tarnetar fair, the Chitra Vichitra fair, the Holi fair at Chhota Udepur, the Vautha Cattle fair etc.

The Company organises these fairs and festivals at designated venues and expenditure towards the works and services such as execution and supervision of temporary structures, PMC consultancy, theme pavilion, sound and lighting system, cultural activity, security services etc., are borne by the Company and these contracts are awarded on tender basis. During the review period the Company incurred an expenditure of ₹ 72.65 crore comprising of 72 contracts in organising fairs and festivals. We observed that the Company had not made any data collection on tourist inflow and impact analysis of economic benefits from the fairs and festivals.

Award of Rann Utsav contract on PPP[10] mode

2.1.14.1 During the period 2009-10 to 2012-13, the Company organised Rann Utsav at Dhordo, Kutch every year (December to January) by dividing the activities required to be done into five different packages (tabulated below) and awarding the same to different contractors through tender process. Besides, the Company separately arranged food and pick up services through hotels and travel agents. The Company received rent from the tourists for their stay in the tents and for the facilities.

The Company invited tenders (June 2013) for the five packages for the Rann Utsav 2013-14, which was to be held between 15 December 2013 and 15 February 2014. As per the tenders received, the L1 parties for the different tenders were as tabulated below.

[10] Public Private Partnership.

Table 2.1.8: Particulars of packages under Rann Utsav 2013-14

Package	Package description	L1 Party	Amount
I	Providing, erecting and furnishing tents with supporting infrastructure & services	M/s Gandhi Corporation	₹ 6.28 crore
II	Conceptualisation, design, execution and supervision of temporary structures and related infrastructure	M/s Exposition and Conventions	₹ 1.69 crore
III	Event management	M/s Exposition and Conventions	₹ 0.25 crore
IV	Theme pavilion	M/s Lalooji and Sons	₹ 0.23 crore
V	Soak pit suction and disposal	M/s Navin Lakhani	₹ 0.34 crore

Later, the Company invited (August 2013) Expression of Interest (EOI) for Package I on PPP basis. Three bids were received and only one agency M/s Lalooji & Sons, who was L2 in the original tender (June 2013), qualified the pre-qualification criteria. He offered to pay ₹ 1.60 crore per annum for the next five years for managing the tent city with 325 tents. In return, the revenue earned from the tents would belong to the bidder.

The contract for package I was awarded (October 2013) on PPP basis for a period of five years. The remaining four packages were awarded to the L1 bidders on contractual basis as originally approved. We observed the following deficiencies in the award of contract on PPP basis:

- It was observed that the occupancy during 2012-13 was 90.94 *per cent.* Moreover, the tariff also was increased from ₹ 9,500 to ₹ 15,000 which indicates the popularity of the Rann Utsav. Further, the Company organised Rann Utsav for a period of maximum 45 days in previous years whereas in the PPP mode the operator was permitted to operate the tent city throughout the year i.e. beyond the period of Rann Utsav also. As this was a major shift in the mode of operation of Rann Utsav, the Company should have either done cost benefit analysis keeping in mind present and future revenue streams and popularity of the brand or obtained a feasibility report from experts before awarding the operation of Rann Utsav for a period of five years. However, this was not done. Further, the Company finalised the operator inspite of the fact that only one bidder was qualified in the technical evaluation.

- The contract had a provision for increase in tent rent with the approval of the Company. However, there was no provision for increase in revenue share of the Company as it remained constant at ₹ 1.60 crore per annum for a period of five years.

- The PPP agreement has not been signed between the Company and the PPP Contractor till date (December 2014).

- As per the PPP tender conditions, the Company was entitled to 15 *per cent* of the tent rent if booking was made through the Company's website. However, we found that the website had no provision for booking for the Rann Utsav, hence this income could not be realised.

Thus, the Company before going in for the PPP mode should have done a proper cost benefit analysis considering all the factors brought out above so that the Company is not put to a loss.

The Management stated (December 2014) that during Rann Utsav 2013-14 the duration and tariff both were increased and thus there may be a decline in the occupancy and demand under the PPP mode. The fact remains that the management has not provided any data to prove the reduction in occupancy under the PPP mode. Further, our contention is that before switching over to the PPP mode, analysis based on past data should have been done to determine the reasonableness of the revenue sharing quoted by the developer. However, there was no such analysis on record.

Operational performance of the Company

2.1.15 The working results of the Company during five years ending March 2014 is given in ***Annexure*-2.** The net profit of the Company increased from ₹ 2.32 crore in 2009-10 to ₹ 32.58 crore in 2013-14. To meet its administrative expenses, the Company is entitled to receive 15 *per cent* of total amount spent out of the grant received for the development of tourism industry. The Company parked the unutilised grants in investments and earned interest out of this investment. The interest on investment so earned and 15 *per cent* grant income are major sources of revenue of the Company and constituted 68 to 83 *per cent* of total revenue during 2009-10 to 2013-14. The Company's operational income consisted of income from providing accommodation and sale of food and beverages which was 9 to 19 *per cent* of the total revenue during 2009-10 to 2013-14. Poor occupancy levels of the Company hotels and non-functional way side amenities and cafeterias also contributed to the low operating income.

Management of Hotels

2.1.16 To meet the requirement of food and accommodation of tourists the Company operates and maintains Hotels and Cafeterias at various tourist locations of the state. The Company had 25 hotels (19 self-managed and six leased) and five cafeterias and seven wayside amenities as on 31 March 2014. Among the self-managed hotels, only 14 were functioning with room capacity of 284 rooms and five were closed throughout the review period. Only one way side amenity at Virpur is operational and all the cafeterias are closed for operation. The Company had leased out six[11] hotels of which five are under litigation and it received a lease income of ₹ 96.12 lakh from the only one hotel located at Sasan Gir.

Operational Performance of hotels

2.1.16.1 The operating profits or losses of the 14 working hotels managed by the Company during the review period are as shown below:

[11] Ahmedpur Mandvi, Ankleshwar, Dakor, Nagrol, Sasan Gir and Ubhrat.

Table 2.1.9: Operational performance of hotels during 2009-14 (₹ in lakh)

Hotel	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Ahmedabad	(1.22)	0.33	(3.58)	5.05	(3.53)	(2.95)
Dholavira	(7.46)	(4.11)	(4.29)	(3.03)	(3.33)	(22.22)
Dwarka	5.69	5.99	6.19	2.17	6.62	26.66
Junagadh	(10.35)	(9.10)	(28.95)	(6.43)	(21.64)	(76.47)
Mount Abu	2.23	0.80	6.55	12.00	1.28	22.86
Nal Sarovar	(5.61)	(8.67)	0.00	0.00	0.00	(14.28)
Narayan Sarovar	(1.89)	(3.13)	(4.88)	(8.13)	(11.12)	(29.15)
Palitana	(4.69)	(4.23)	(13.17)	(8.68)	0.00	(30.77)
Pavagadh	19.77	19.99	23.64	22.43	4.80	90.63
Porbandar	6.64	4.28	(0.59)	(13.16)	0.00	(2.83)
Saputara	38.49	38.04	32.87	69.18	75.90	254.48
Vadnagar	(3.48)	(2.69)	(2.26)	(4.70)	(2.23)	(15.36)
Valthan	(2.03)	(2.07)	(0.69)	(1.75)	(2.77)	(9.31)
Veraval	(2.42)	(3.81)	(13.14)	(12.41)	(19.12)	(50.90)
Total	33.67	31.62	(2.30)	52.54	24.86	140.39
Profit making hotels	5	6	4	5	4	4
Profits	72.82	69.43	69.25	110.83	88.60	394.63
Loss making hotels	9	8	9	8	7	10
Losses	(39.15)	(37.81)	(71.55)	(58.29)	(63.74)	(254.24)
Under renovation	0	0	1	1	3	

Note: The figures in parenthesis indicate losses incurred by the hotels.
(**Source:** Hotel MIS Data and records kept at Hotels**)**

It can be seen from the above table that only four hotels earned cumulative profits, while the remaining 10 hotels suffered cumulative losses. Seven hotels reported losses in all the last five years from 2009-10 to 2013-14, while four hotels located at Dwarka, Mount Abu, Pavagadh and Saputara earned profits throughout the five year period. We observed that the Company has not analysed reasons for continuous losses in these hotels and no action plan has been drawn up to improve the profitability.

Though the tourist inflow in the state increased over *50 per cent* during review period, the overall profit of the Company's hotels came down from ₹ 33.67 lakh to ₹ 24.86 lakh. It can also be observed that Saputara hotel is the major contributor to the overall profitability of hotels of the Company. During the year 2011-12, the Saputara units were partially closed for renovation; hence the Company registered an overall loss of ₹ 2.30 lakh. We observed that lack of marketing, poor infrastructure, inadequate or poor quality services in comparison to the private sectors were the main reasons for poor occupancy. The high fixed cost against the low occupancy contributed to the losses. These aspects are discussed in the succeeding paragraphs.

Accommodation

2.1.16.2 The occupancy levels of hotels and the fixed cost of the hotels during the period 2009-2014 are as shown below:

Table 2.1.10: Occupancy details of hotels during 2009-14

Particulars		2009-10	2010-11	2011-12	2012-13	2013-14
Number of hotels operated		14	14	13	13	11
Number of room days available		87,450	86,356	78,805	62,473	66,537
Number of room days occupied		37,409	35,373	36,040	27,733	23,261
Occupancy in percentage		42.78	40.96	45.73	44.39	34.96
All-India Average Occupancy in percentage		59.90	62.10	60.90	58.30	
Number of hotels having occupancy in percentage	below 20	3	3	2	4	3
	20 to 40	4	4	4	5	5
	40 to 60	4	4	6	2	1
	above 60	3	3	1	2	2

(**Source:** Hotel MIS Data and records kept at Hotels**)**

It could be seen from the above that the performance was deteriorating as the occupancy of 42.78 *per cent* in 2009-10 declined to 34.96 *per cent* in 2013-14. Majority of the hotels were having lower occupancy as compared to the all-India average[12]. Further, though these hotels are situated at famous tourist places having a rich heritage, culture, wild life, hill station and religious importance etc., the average occupancy was always lower than the all India average. This indicates that even the hotels located at famous tourist places could not capture the inflow of tourists. A further analysis of hotel wise income, fixed expenses and occupancy for 2009-14 given below:

Table 2.1.11: F&BA Income vis-à-vis fixed expenses

Hotel	F&BA[13] Income (₹ in lakh)	Salary (₹in lakh)	*Per cent* of salary to F&BA	Occupancy in *per cent*
(a)	(b)	(c)	(d=c/b)	(e)
Ahmedabad	174.70	111.38	63.76	53.10
Dholavira	19.28	32.76	169.92	14.12
Dwarka	98.96	57.79	58.40	45.25
Junagadh	49.22	105.11	213.55	23.16
Mount Abu	179.08	67.52	37.71	30.77
Nal Sarovar	3.81	15.40	404.20	7.88
Narayan Sarovar	3.56	28.51	800.84	9.05
Palitana	30.26	49.87	164.82	33.00
Pavagadh	292.22	131.42	44.97	48.16
Porbandar	77.37	79.50	102.75	34.80
Saputara	793.24	254.33	32.06	49.57
Vadnagar	62.71	62.89	100.29	141.25[14]
Valthan	35.39	35.69	100.85	87.96
Veraval	49.82	80.64	161.85	37.91
Total	**1,869.62**	**1,112.81**	**59.52**	

(**Source:** Hotel MIS Data and records kept at Hotels**)**

As discussed in paragraph 2.1.16.1, ten out of the above 14 self-managed hotels suffered cumulative losses. It was also noticed that a very significant

12 As per the survey reports of the Federation of Hotel and Restaurant Association of India.
13 Food and Beverages and Accommodation (F&BA).
14 The occupancy at Vadnagar was more than 100 *per cent* due to more than one check-in registered for the same room in a day.

portion of their F&BA income was spent on the salaries of the staff serving in these hotels, thus not recovering even the fixed cost from F&BA income.

Fixation of Tariff

2.1.16.3 The Company fixes and revises room tariff at the head office on the basis of inputs received from the units. We noticed that there was no rational basis for fixation of tariff based on various factors like actual occupancy, availability of infrastructure, tariff structure of other private hotels in close vicinity, etc. Further, there was no policy for periodical tariff revision and the Company revised tariff inconsistently.

In case of Vadnagar, the fixed expenditure towards salary expenses per available room was ₹ 863 which was higher than the tariff fixed for the hotel i.e., ₹ 400 and ₹ 800 for Non-AC and AC rooms. These rates were not revised since last three years ending 2013-14, despite very high occupancy of 141.25 *per cent* and the Company could have taken the advantage of increased tourist inflow to its hotel at Vadnagar. Thus, Vadnagar was not able to achieve the profit during 2009-10 to 2013-14, due to high salary cost and lower tariff in spite of more than 100 *per cent* occupancy.

Further, the tariff of the hotel at Valthan was last fixed in 2009. The tariff fixed in 2009 was ₹ 300 and it remained the same till 2013-14. We observed that despite company enjoying very high levels of occupancy ranging from 64 *per cent* to 112 *per cent* during the review period the Company incurred losses from its operations in respect of this hotel in all the years from 2009-10 to 2013-14[15].

There was no justification for the Company's decision to keep tariff at the same levels of 2009, despite the losses. The tariff in other hotels of the Company for the same type of rooms ranged from ₹ 300 to ₹ 500 in 2009-10 and increased over the years to ₹ 400 to ₹ 900 by 2013-14.

We further analysed effect of increase in tariff of hotels at Dwarka and Junagadh which were renovated during the review period. Prior to renovation, both the hotels at Dwarka and Junagadh had different categories of rooms, i.e., ordinary, deluxe and AC rooms. The tariff of rooms at Hotel Toran, Dwarka ranged from ₹ 400 to ₹ 1,200 and that of Hotel Girnar, Junagadh, from ₹ 300 to ₹ 1,000. The Company converted all the rooms in both the hotels into AC rooms and increased tariff manifold. Post-renovation, tariff of Hotel Toran at Dwarka ranged from ₹ 1,700 to ₹ 2,500 from November 2012 and that of Junagadh from ₹ 1,800 to ₹ 2,500 from March 2013.

We observed that occupancy[16] level which ranged between 53 to 56 *per cent* during 2009-10 to 2011-12 at Dwarka prior to renovation dropped to 25 *per cent* during 2013-14. At Junagadh too, occupancy dropped to 11 *per cent* during 2013-14 after renovation from the earlier levels of 26 to 30 *per cent*. The different categories of rooms with a wide range of tariff as prevalent

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15 Hotel was closed from October 2013 onwards for renovation.
16 Occupancy excludes occupancy of dormitories.

earlier catered to various categories of tourists arriving at these two important places. However, steep increase in tariff resulted in lower occupancy and further limited the utility of the hotels to the upper segment of tourists.

The Company needs to have a tariff policy clearly laying down a consistent and rationale basis for tariff revision, as even in the hotels where tariff was increased, it was done at different times and at different time intervals lacking justification and consistency.

Food and Beverages

2.1.16.4 The Company is having two types of catering systems in their hotels. In seven hotels, the Company itself is managing the restaurants with its own staff and in the remaining seven hotels the Company has outsourced the catering services under Khansama System. However in none of the hotels room service and choice of food was available. These factors may have resulted in low occupancy and consequent losses as discussed below:

Catering system managed by the Company

2.1.16.5 The income and expenditure of the restaurants at seven hotels managed by the Company for the period from 2009 to 2014 are tabulated below:

Table 2.1.12: Details of F&B income and expenditure of hotels (₹ in lakh)

Hotel	F & B Income	F&B Salary	Other F&B Cost	Total F&B Cost	Profits/(losses)
Ahmedabad	55.20	68.46	36.09	104.55	(49.35)
Mount Abu	65.26	37.10	36.13	73.23	(7.97)
Nalsarovar	1.45	10.52	0.98	11.50	.(10.05)
Pavagadh	117.68	64.22	71.12	135.34	(17.66)
Porbandar	9.66	19.81	5.12	24.93	(15.27)
Saputara	299.29	101.54	154.84	256.38	42.91
Vadnagar	11.36	10.87	6.76	17.63	(6.27)
Total	**559.90**	**312.52**	**311.04**	**623.56**	**(63.66)**

(**Source:** Hotel MIS Data and records kept at Hotels**)**

It can be seen from the above that except Saputara hotel, all other hotels were not able to recover the food and beverages cost from their F&B Income.

Catering system under Khansama

2.1.16.6 The restaurants at Seven Hotels of the Company (Narayan Sarovar, Palitana, Dwarka, Veraval, Junagadh, Valthan and Dholavira) are managed under the Khansama System. Under this system a cook appointed by the Company manages the restaurant. The salary of the cook is borne by the Company. All the expenditure in preparation of food including the salary etc., of other supporting staff is borne by the cook. The cook is entitled to the income from sale of food. The cook is required to remit 10 *per cent* of the total sales made by him to the Company or a minimum guaranteed sale amount whichever is higher as per the Company's circular dated 20 May 2005. However, the company had not fixed minimum guaranteed amount in this regard.

A review of the income (10 *per cent* of sales) received from the Khansama cooks by the Company and the expenditure incurred (salaries of the cooks) during the period from 2009-10 to 2013-14 revealed that the income could cover 2 to 18 *per cent* of the expenditure on salary shown as under:

Table 2.1.13: Details of F&B Income and expenditure under Khansama System

Hotels	Income from khansama sales (in ₹)	Khansama Salary (in ₹)	Income to expenditure (in *per cent*)
(a)	**(b)**	**(c)**	**(d)**
Dholavira	1,43,767	17,27,651	8
Dwarka	1,07,638	6,12,399	18
Junagadh	30,157	17,70,471	2
Narayan Sarovar	19,365	9,57,365	2
Palitana	1,23,040	9,68,917	13
Valthan	1,33,265	7,63,591	17
Veraval	1,02,183	12,43,328	8
Total	**6,59,415**	**80,43,722**	**8**

(**Source:** Hotel MIS Data and records kept at Hotels**)**

The Company incurred expenditure on salary of Khansama cooks without insisting for any minimum guaranteed income. The income of the Company was 10 *per cent* of the sales as disclosed by the Khansama and there was no system of verifying the same. The Company needs to review its Khansama system.

Monitoring and Control

Monitoring by the GoG

2.1.17.1 The projects implemented by the Company were monitored by the GoG at regular intervals. Though the projects during execution were monitored by the GoG, the end use of the project was not monitored at the GoG level leading to expenditure on some projects being rendered unfruitful. Further, the GIPB meant to be a coordinating agency for various tourism projects as per the policy was not formed.

Monitoring by the Company

2.1.17.2 The works which constitute the major portion of the Company's expenditure were not measured independently by the Company through measurement books. The loose leaves measurement sheets made by the Contractor and certified by the PMC were relied upon. The Company did not have sufficient technical staff to monitor the work of PMC. Further, prior to 2014, there was no clause in the agreement with PMC for levy of penalty.

The Company appointed architects for designing and preparation of estimates and consultants for preparation of tender documents. The design and the estimates for the work prepared by the Consultants were not scrutinised and approved by the competent authority of the Company. The Company has only four engineers and due to shortage of technical staff, the check and scrutiny of tender terms, independent inspections and measurement of works could not be effectively carried out. Considering the extent of works undertaken by the Company, it should consider appointing more technically proficient staff for monitoring the work of PMCs.

Further, the Company did not take steps to increase the profitability of its hotels through constant monitoring of their performance.

The matter was reported to Government/Management (September 2014) and the Management replies were received (December 2014). An exit conference was held in January 2015 which was attended by the Commissioner of Tourism, GoG, and the views of the Government as presented in the conference have been duly considered. However, a formal reply from the Government is awaited (January 2015).

Conclusions and Recommendations

The performance audit on Promotion of Tourism in Gujarat with emphasis on the functioning of Tourism Corporation of Gujarat Limited indicates that tourism sector received an impetus in Gujarat as a result of development of infrastructure, advertising and increased economic activity. Consequently, the State recorded an increased tourist inflow with more footfalls during the period 2009-14. The Company successfully implemented new projects under destination development and promoted major events within and outside the country, with advertisement campaign to attract more tourists to the State. However, there were some areas of concern in relation to the performance of the Company like implementation of projects, management of hotels, and dissemination of information as highlighted below, along with some recommendations as a way forward:

- The GoG had not framed new tourism policy after 2010, though the existing policy had been only for the period 2003-10.

    - ***The GoG may consider framing a new tourism policy defining action plan, laying down the road map and incentive for various policy measures in view of the increased tourist inflow and in view of greater emphasis on tourism for overall sustainable economic growth, as a further philip to develop and promote tourism.***

- There is need of better dissemination of the requisite information for the benefit of tourists at different locations.

    - ***The Company may consider providing signage, pamphlets, route maps, contacts of local guides, travel tips and other relevant information to tourists at entry point and other important destination places.***

- The Company had created assets incurring ₹ 20.43 crore under Dandi Heritage Corridor Project and Dandi destination development, but did not put them to use due to certain infrastructural deficiencies.

  - ***The Company may coordinate effectively with the agencies and GoG/GoI so that the facilities created become operational at the earliest for Dandi to become a major tourist attraction.***

- Grants received for various projects were under/non-utilised by the Company to the extent of ₹ 295.07 crore.

  - ***The Company and the GoG may develop a mechanism to monitor that grants given for a definite purpose are used in reasonable time and if not utilised, the same may be surrendered to the Government.***

- The Company's hotels continued to suffer from poor occupancy and many of them continued to incur losses.

  - ***The reasons for continuous losses in seven hotels be analysed and appropriate remedial action be taken. The Company may also consider framing a Tariff Policy which may provide for periodical revision on rationale and consistent basis.***

GSPC Gas Company Limited

2.2 IT Audit on GSPC Gas Company Limited

Executive Summary

Introduction

GSPC Gas Company Limited (Company) was incorporated on 11 March 1999. The Company supplies compressed natural gas through 160 stations and piped natural gas to domestic households, commercial and non-commercial customers and industrial customers. The Company embarked into major computerisation in April 2010 by implementation of Enterprise Resource Planning (ERP) software SAP at a cost of ₹22.58 crore. The system was made operational with effect from 11 Febuary 2011.

Audit of operation and maintenance

Though the Company implemented ERP system for more than three years, it did not formulate business Continuity and Disaster Recovery Plan.

Material Management (MM) module

In the MM module meant for managing material planning, procurement and inventory management of the organisation, purchase orders were issued without purchase requisitions. Further, purchase orders were issued without delivery dates. Also, there were delays in posting of goods issued and receipt document and non-availability of guarantee/warranty feature.

Financial Accounting and Controlling (FICO) module

The FICO module meant for capturing all financial processing transactions and providing cost centre wise operational information was not monitoring defaulting consumers and bank guarantee renewals through the system. The regional trial balances were not generated. Further physical verification of assets was not updated in SAP.

Human Capital Management (HCM) module

The HCM module aimed to automate employee administration, time management, pay-roll management and legal reporting process. There was no means to determine the genuineness of conveyance allowance reimbursement and dependency status was not updated.

Process Integration (PI) module

The PI module was not utilised for integrating existing systems of the Company with SAP.

Recommendations

The Company should review the segregation of duties and authorisations to prevent chances of fraud and other irregularities and should utilise all functionalities of the modules and monitor important areas through the system by updating all the fields. All the systems should be integrated to have an online single point MIS for effective control and avoiding dependence on manual controls.

Introduction

2.2.1 GSPC Gas Company Limited (the Company) was incorporated on 11 March 1999. The Company supplies natural gas in the form of Compressed Natural Gas (CNG) through 160 CNG stations across the state that caters to more than 90,000 vehicles per day. The Company also supplies Piped Natural Gas (PNG) to 5,11,561 domestic households, 1,967 commercial and non-commercial customers and 1,942 industrial customers. Net Loss of the Company for the year 2013-14 was ₹ 134.68 crore, on a turnover of ₹ 4,617.75 crore. The management of the Company is vested in Board of Directors (BoD) consisting of five directors, including a Chairman. The Chief Executive Officer of the Company looks after the day-to-day functioning.

IT Programmes implemented by the Company

2.2.2 The Company embarked upon a major computerisation by undertaking the implementation of Enterprise Resource Planning (ERP) software SAP[17] in April 2010. SAP ERP is an integrated software solution that incorporates the key business functions of the organisation. The platforms for the modules used by the Company are UNIX and Windows and the Database Management Systems are Oracle and Max DB.

The Company selected SAP for licence and implementation of the ERP software and incurred an expenditure of ₹ 22.58 crore on its implementation. The SAP project started in June 2010 was scheduled for completion in the first quarter of 2011. The system was made operational (Go Live) with effect from 11 February 2011. Thus, the SAP implementation was done within the time schedule fixed. The Company implemented various SAP modules which included:

- Maintenance of financial data and Balance Sheet generation of all other reports as applicable from the accounting point of view **(FICO)**
- Automation of PNG meter for Bill Processing **(IS-U)[18]**
- Automation of customer registration and customer complaints **(CRM)**
- Maintaining customer wise Contract Accounting **(FICA)**
- Tracking of Material Management **(MM)**
- Automation of O&M and Project activities **(PM/CS)**
- Tracking of new Projects and Capitalisation **(PS)**
- Automation of CNG meter and Bill Processing
- Maintenance of Employee Master Data and Payroll generation **(HCM)**
- Generation of MIS Reports **(BW)**
- Integration of Third Party Application to SAP **(PI)**

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17 SAP stands for Systems, Application and Products in Data Processing.
18 Industry specific solution for utilities.

- Online access of Pay Slips and Leave for Employees **(EP)**
- Handling of all SAP modules **(BASIS)**
- Tracking of SAP changes -Solution Management **(SOLMAN)**
- Uploading of the scanned documents of customers or vendors- Document Management System **(DMS)**

Scope of Audit

2.2.3 The IT Audit was conducted during the period from 11 February 2014 to 17 June 2014. Out of the above 15 SAP modules implemented by the Company, six modules i.e., FICO, MM, PI, SOLMAN, HCM and EP were selected for detailed audit. We visited three Geographical Area (Location) units *viz.*, Rajkot, Valsad (set up at Vapi) and Nadiad to assess the efficiency and effectiveness of the ERP at the location level. Two store locations i.e., Vapi (Chikhali) and Gandhinagar were also covered.

Audit objectives

2.2.4 The objectives of IT audit were to get a reasonable assurance that:

- The system development was managed efficiently and effectively and the objectives of SAP were achieved;
- IT controls were in place in the Company; and
- The documentation standards, the input controls, processing controls, output controls and data file controls were maintained in respect of the six selected modules.

Audit criteria

2.2.5 The requirement, acquisition and performance of ERP software (SAP) of the Company were assessed by utilising the following audit criteria:

- Feasibility reports and project reports;
- Agreements with software companies;
- Company’s perspective plans/ corporate plan/ annual plans;
- Agenda and minutes of the BoD and its subsidiary committees;
- Gujarat State Financial Rules, circulars issued by the Company, Government of Gujarat (GoG) resolutions, PNGRB guidelines, etc.; and
- Users’ Manual of the application delivered by the Software Company.

Audit Methodology

2.2.6 The following methodology was used for the above audit.

- Reviewed SAP modules i.e. FICO, MM, PI, SOLMAN and HR (HCM & EP) implementation plans;
- Reviewed data on existing Tally Software and HR systems including data collected and data suitability to SAP modules i.e., FICO, MM, PI, SOLMAN and HR tables;
- Reviewed Business Blueprints Build process and System Architecture[19]; and
- Assessed the efficiency and effectiveness in the operations and activities of the Company after the implementation and adoption of IT systems in various departments.

We acknowledge the co-operation extended by the Company during the course of audit. An entry conference was held on 27 May 2014 at the level of CEO in which the audit objectives and methodology were explained to the management of the Company. The exit conference was held on 14 October 2014. Responses received during the course of Audit are suitably incorporated at relevant paragraphs.

Audit Findings

Audit of operation and maintenance

2.2.7 Audit of operation and maintenance was done to ensure there existed necessary internal controls, organisation controls and authorisation controls to prevent frauds and errors.

Password policy

2.2.7.1 The National Informatics Centre (NIC) prescribed password policy that contains various specifications for passwords like having Upper & Lower case, not containing dictionary words, etc. Further, previous three passwords should not be used and that the password had to be regularly changed.

We observed that the Company was not having a password policy since inception. After our enquiry, a password policy was framed and circulated to all concerned with the approval of General Manager. The requirements prescribed in the NIC password policy were not insisted in the circulated policy.

The Company did not even insist for the strict compliance of the password policy framed by it and rather generic (easily guessable) words like GSPC, GAS, SAP, GUJARAT and even the names of the individuals were used as a password. This could lead to a) risk of unauthorised access b) vulnerability of the entire database.

[19] GSPC Gas has 3 tier client/server Architecture for SAP System. All data is stored in a database, and the data is processed in the application layer on the application servers. The SAP GUI frontend (presentation layer) is the interface to the user. All three layers are connected to each other with networks.

The Management (May 2014/September 2014) assured that for the sake of strengthening the password policy, it would refer NIC password policy.

Generic user names with overlapping authorisation

2.2.7.2 Provision was available in SAP to assign roles and authorisation to different users and to maintain log and audit trail. Seventy eight generic user names (group user names) were provided. However, a review/ monitoring of changing the password for employees leaving the Company was not being carried out. On a detailed analysis of three generic user names (group user names) of C & M wing, we observed that at least half a dozen officials were using the same user name and password. Hence, responsibility and accountability was diluted and it increased the risk of unauthorised access to data in case of any transaction taking place under the 78 generic user names (group user names).

During review of MM module, it was found that users enjoyed various combinations of critical transactions, the details of which are as follows:

- 275 users were authorised to create Purchase Requisition (PR) and out of that 10 users were authorised to approve the PR;
- 96 users were authorised to create Purchase Orders (PO) and out of that six users were authorised to approve the PO; and
- 15 users were assigned roles to receive goods (Enter Goods Receipt) and out of them 13 users were authorised to process vendor invoices.

We have also noticed some peculiar authorisations as listed below, which can result in misuse of authorisation powers; with the risk of fraud and other irregularities.

Sr. Manager is authorised to:

- create PR,
- release PR,
- create PO,
- release PO,
- enter goods issue,
- enter goods receipt, and
- purchase analysis.

He is also authorised to:

- create Request For Quotation (RFQ),
- create model service specification,
- create service entry sheet and
- release service entry sheet.

AGM is also authorised to:

- create PR,
- create PO,

- release PO,
- enter goods issue,
- enter goods receipt,
- purchase analysis, and
- create RFQ.

The usage of generic name combined with authorisation for various combinations of transactions as stated above carries risk of misuse and fraud. We observed that a fraud occurred at Halol office because of the fact that the power to reverse a bill and generate and regenerate bills was retained with the same person. The said employee took advantage of these multiple powers and reversed bills already paid by the customer, pocketed the proceeds of the bill already paid by the customer and regenerated the bill in the system to show that the bill was outstanding. This regenerated bill was not issued to the customer, hence the customer never complained.

The Management accepted (March 2014) the fact that it has not prescribed roles and responsibilities for its employees and stated that efforts towards segregation of duties have already been initiated. The Management also stated (May 2014/September 2014) that generic names were created to save license cost and recurring AMC cost and also stated that users enjoying various combinations of critical transactions were being reviewed for required rectification.

Business continuity and disaster recovery

2.2.7.3 Though the Company implemented ERP system for more than three years, it did not formulate business Continuity and Disaster Recovery Plan. On this being pointed out, the Company came out with a Business Continuity and Disaster Recovery Policy cum strategy in May 2014 without informing the Board of Directors. Having a policy (after more than three years of implementation of ERP) without informing the BoD is in violation of prudent practices which requires all policy decision to be taken with the knowledge of the BoD.

The BoD approved the Business Continuity and Disaster Recovery Policy cum strategy on 18 October 2014, which needs to be implemented.

Application Controls

2.2.8 The six selected modules were reviewed for documentation standards, input controls, output controls and data entry controls.

Material Management Module

2.2.9 SAP Materials Management (MM) helps in managing material requirement planning (MRP), the procurement activity and inventory management (IM) of an organisation. MM is also integrated with other business modules. The MM module has enabled the configuration of the entire procurement right from purchase order release to inventory management *via* multiple storage locations.

Purchase Orders issued without Purchase Requisition

2.2.9.1 After implementation of SAP, there is a procedure that purchase order (PO) is issued through the system after getting a Purchase Requisition (PR) from the user department. However, we observed that many POs were issued without PRs being entered in the system as tabulated below:

Table 2.2.1: POs without PRs

Sl. No.	Year	Total No. of Pos	No. of POs without PR	Value of POs without PR (₹ in Crore)
1	2013-14	1,172	1,003	328.90
2	2012-13	1,042	890	271.40
3	2011-12	1,414	1,314	717.58
Total			**3,207**	**1,317.88**

It can be inferred from the above table that during three years (2011-2014) the Company issued 3207 POs worth ₹ 1317.88 crore without having any formal PR in the system. A PR in the system is the starting point in the procurement cycle and will enable analysis of pending PRs at any given time and time taken for issue of POs after receipt of PRs. It will also help in the online assessment of requirement from different departments and in clubbing POs of similar nature. Further, it will also help in checking duplicate/excess requirements.

The Management accepted (March 2014/September 2014) the fact that these POs were issued without PRs in the system and also stated that as per the Company's requirement, hard copy of the approved note/PR is a must for processing the PO.

Fact remains that having PRs in hard copy is nothing but continued reliance on the manual system even after implementation of the SAP. Though having a PR in hard copy will satisfy the procedural requirements, the control requirements inbuilt in the system, the availability of data for future analysis will be satisfied only if the PR is routed through the system before any PO is issued. It would also be helpful in proper and definite assessment of requirement before issue of any PO.

POs without delivery dates

2.2.9.2 On a review of the POs, we observed that 1,420 POs worth ₹ 216.62 crore were issued without the delivery dates. These POs were issued from January 2011 to April 2014. In the absence of delivery dates, there can be no monitoring of performance against scheduled delivery dates and SAP features based on delivery dates will not get activated.

The Management stated (May 2014) that it would re-visit the process for ensuring system entry for validity period to the possible extent by meeting business requirement.

Posting of goods issue and receipts

2.2.9.3 Goods receipts and Goods issue documents should be posted immediately in the system as they are the basis on which total issues to a department or total goods received during a given period of time are worked out. Undue delays in their postings can lead to understatement of figures of issues and receipts generated by the system. We have noticed considerable delays in posting of issue and receipts as tabulated below during the period 2011-12 to 2013-14.

Table 2.2.2: Delay in posting of Goods receipt/issue documents

Sl. No.	Particulars	Numbers	Value (₹ in Crore)	Delay in days
1.	Goods issue documents	401	-	> 30 days
2.	Goods issue documents	8,300	-	1 – 30 days
3.	Goods receipt documents	199	48.69	> 30 days
4.	Goods receipt documents	3,361	204.42	1 – 30 days

The Management stated (May 2014/September 2014) that every year the delay in posting of documents is decreasing, which establishes that it has taken necessary measures. It added that further emphasis would be given to minimise processing delays.

Availability of guarantee/warranty features

2.2.9.4 The provision to capture information relating to warranty/guarantee terms of the materials procured was not available in the system. Absence of this provision posed the risk of failure to use/test the usability of the equipment within the warranty/guarantee periods and to invoke the same wherever the situation warranted.

The Management assured (May 2014/September 2014) that it would explore the possibility.

Utilisation of reminder feature

2.2.9.5 Standard SAP-ERP system has an inbuilt reminder features for keeping track of the POs issued. This feature, however, was not being used and the reminders were being issued manually. There were 2,845 numbers of materials in various POs which remained undelivered or partly delivered beyond their delivery dates as on 31 March 2014, for which reminders were not generated through the system despite availability of such a feature in SAP.

The Management accepted (May 2014/September 2014) the observation by stating that after taking inputs from the business process owners, it would initiate separate configuration.

Discrepancy Report functionality not used

2.2.9.6 SAP system provides a functionality of Discrepancy Report (DR), which incorporates all the issues of poor quality material, short receipt, wrong supply, transit damages, non-delivery or damage/breakage of material, rejection, etc. However, we observed that the Company was not using this functionality of SAP. The Company should generate the DR so as to have a proper control on materials.

The Management stated (May 2014/September 2014) that it would review the process of development of such reports.

Financial Accounting and Controlling Module

2.2.10 SAP Financial Accounting (FI) is the core module where all the financial processing transactions are captured. This is the module that is used to create statutory Financial Statements for external reporting purposes i.e., Balance Sheet and Profit and Loss Statement. Functions in SAP FI can primarily be divided into General Ledger Accounting, Accounts Receivable and Accounts Payable processing, and Fixed Asset Accounting.

SAP **Co**ntrolling (CO) provides details of cost center-wise operational information to the management of a Company to support business analysis and decision-making. Controlling also represents the internal accounting viewpoint of an organisation. It provides information to managers to help manage costs and operations of the organisation.

SAP Financial Accounting and Controlling (FICO) Module integrates with various other SAP Modules. All accounting-relevant transactions which are made are posted real-time to FICO by automatic account determination. The FICO module has enabled the generation of all required financial information and release of transaction based invoice documents through the system.

Monitoring of defaulting customers

2.2.10.1 The Company provides grace period to its customers for bill payment as 21 days, 10 days and seven days for domestic, commercial/non-commercial and industrial categories respectively. If the customer does not adhere to the grace period, then delayed payment charges are levied on the customer, which are included in the next billing cycle.

However, we noticed that in case when the outstanding amount of any customer exceeds the security deposit or bank guarantee amount given by him, there is no provision in SAP wherein any flagging is done. In the absence of such provisions in SAP, monitoring of customers outstanding is done through review committee meetings as and when held. Resultantly, as on 31 March 2014, debtors worth ₹ 2.20 crore were over six months old.

The Management assured (May 2014/ September 2014) that it would ensure regular follow up of defaulting customer by generating system based reminders through SAP. However, the fact remains that charging delayed payment charges and increasing the arrear amount will not prevent arrears from mounting unless the functionality as stated above is added.

Renewal of Bank Guarantee

2.2.10.2 The Company takes bank guarantee (Guarantee) from its commercial and industrial customers at the time of signing of Gas Selling Agreement to protect its financial interest in case of non-payment of bills by the customers. We observed that SAP system did not provide updated information about outstanding guarantees. During the period December 2013 to February 2014, 119 guarantees had expired but there was no information available in SAP to know whether these expired guarantees had been renewed or not. As per details provided by the Company, out of these 119 guarantees, 105 had already been renewed but details of renewal had not been updated in SAP. Even out of 105 guarantees renewed, 22 guarantees were renewed with a delay of one to 41 days. The remaining 14 guarantees were renewed (14 to 21 February 2014) only after the expiry was pointed out (13 February 2014) by Audit.

The Management accepted (March 2014 and May 2014) the observation and stated that monitoring of guarantees would be done through SAP system to prevent the non-renewal and delay that occurred in the cases mentioned above.

During a test check of 634 customers pertaining to Morbi location, we observed that in case of 110 customers, the guarantee periods were not entered. As the calculation of guarantee amount is dependent on the period, the correctness of the guarantee amount entered in SAP could not be verified.

The Management accepted (September 2014) the above observation and assured compliance.

Region-wise trial balance

2.2.10.3 The system was not envisaged to generate region-wise trial balances (TB) although separate regional cost centers were maintained. The Company is having nine regions viz., Nadiad, Navsari, Rajkot, Surendranagar, Jamnagar, Khambhat, Valsad, Palej and Gandhinagar. Though the system was capable of generating region-wise trial balances, the same was not utilised which deprived the Company the benefit of utilisation of SAP to the full extent for various analyses in financial matters.

The Management stated (February 2014/September 2014) that the system is capable of generating region wise TB and it may explore the possibility of using this feature.

Generation of TDS from the system

2.2.10.4 SAP provides the functionality to generate quarterly returns and TDS certificates from the system. We observed that the Company did not use this functionality of the system and continued to get the TDS return prepared through the tax consultant while appointing them for tax audit and assessment proceedings for the years 2011-12, 2012-13 and 2013-14.

The Management stated (May 2014/September 2014) that it would explore using the SAP functionality for filing TDS return.

Physical Verification of Assets not updated in SAP

2.2.10.5 The physical verification (PV) of assets is conducted regularly. However, the records of physical verification of assets are not being updated in the SAP.

The Management stated (February 2014/September 2014) that SAP was capable of updating Asset Master records with PV and it would be done.

Human Capital Management Module

2.2.11 SAP HCM (Human Capital Management) is an ERP Software aimed to automate mainly employee administration, time management, payroll management and legal reporting process etc. EP (Employee Portal) is basically an employee related database with viewing rights to each employee. SAP HCM ERP is the managing system which encompasses essentially Organisation Management (OM), Personnel Administration (PA), Time Management (TM), Payroll Management (PY), and Employee Self-Services Portal (ESS).

OM segment manages a gamut of organisational information for Organisation Units (O), Positions (S), Jobs (C) and Tasks (T). PA segment consolidates all workforce related and core process and data on to single platform. TM segment covers by and large all time management and leave related affairs. PY segment provides seamless and effective solutions to a series of payroll services. ESS segment allows employees to view payment details, view and update personal information and submit vacation requests from their Web browsers.

The HCM Module has enabled configuration of employee master data, structure management and payroll run for all employees, besides facilitating various employee portal facilities.

Reimbursement of conveyance allowance

2.2.11.1 The Company has a system of granting conveyance allowance to contractual employees and petrol allowance to regular employees. The contractual employees submit petrol bills for claiming income tax exemption towards conveyance allowance over and above the allowable limits under the Income Tax Act and regular employees submit bills for claiming income tax exemption for the petrol allowance.

We observed that though conveyance and petrol allowances were routed through SAP, the vehicles numbers against which the reimbursements were claimed, though required to be entered as a field under SAP, were not entered as the same was not mandatory. Therefore, there was no means to determine the genuineness of the claims for petrol and conveyance allowance.

Dependency status

2.2.11.2 The marital/employment status of daughters for deciding the dependency was not monitored through the system due to non-updation of such status in the system. Further, in some of the cases, parents of the employees were also treated as dependents without verifying their actual status. It is suggested that checks should be created in the system to verify the data regarding dependency status or status as manually verified should be updated in the system.

Process Integration (PI) Module

2.2.12 SAP Net Weaver Process Integration (SAP PI) is SAP enterprise application integration software, a component of the Net Weaver product group used to facilitate the exchange of information among Company's internal software and systems and those of external parties. SAP PI is necessary to integrate the SAP system with the pre-existing Non-SAP system. It is also single point integration for all systems of SAP.

The PI has enabled real time and secured integration of spot billing mobile based application with SAP for on-the-spot meter reading and bill generation at the same time.

Mapping of other application/software with SAP

2.2.12.1 The system was not designed to provide for mapping of the business needs of other application/software used by the Company which resulted in deviations with accepted practices. These systems are private applications purchased by Company before opting to go for SAP. A few illustrative deficiencies noted are indicated below:

- **Geographical information system (GIS) Application:** This application is used for tracking pipeline network across Gujarat. This application can be used to verify the genuineness of the invoices raised by the contractors. It can also be helpful to know the alternate route which can be cost effective also. If viewing rights are given to all end users, it can be used as a ready reckoner apart from its use in emergent situations.
- **Automatic Meter Reading (AMR) Application:** This application is installed in the meters of a few of the industrial customers wherein meter reading is automatically transmitted to a receiver at a zonal office. These readings are saved in AMR and then manually uploaded in SAP. However, as on date no mapping with SAP is being done which resulted in reliance on manual procedures.
- **Vehicle Tracking System (VTS):** This application is used for tracking LCV vehicles hired from the private operators. There are various types of penalty which can be levied based on the violation of the norms fixed for the operation of the vehicle. However, as on date no mapping with SAP is being done with the result that the Company had to rely on manual procedures.

- **Biometric System (BS) Application:** 'Biometric System" (BS) (17 units) was procured and installed in the Company (August 2011 to April 2013) for 'attendance monitoring system' at cost of ₹ 3.53 lakh. The annual maintenance cost was 15 *per cent* of the basic cost. The authorisation as well as taking reports from the BS is kept with HR Department and IT Department is giving technical support only. However, the biometric system has not been integrated with SAP despite three years of SAP existence.

The Management accepted (March 2014/September 2014) the fact that they had not integrated various applications like GIS, AMR, VTS, and BS with ERP. The Company assured that it would explore the possibility of integrating other applications with ERP.

Solution Manager Module

2.2.13 SAP Solution Manager (SOLMAN) is a centralised help desk provided to SAP's customers as part of their license agreement. As any SAP system landscape may include a large number of installed SAP and non-SAP systems, SOLMAN is intended to reduce and centralise the management of these systems and end-to-end business processes. SOLMAN early watch system has been configured for system performance management and fine tuning.

We observed that SAP solution has a centralised helpdesk in place to redress the problems faced by users in SAP environment. Each such communication made to the centralised helpdesk is called a ticket[20]. Range of time taken for resolution of tickets raised during February 2011 to February 2014 is tabulated below:

Table 2.2.3: Time taken for handling of tickets

Sl. No.	Types of action	Total Numbers	Range (days)
1	Confirmed tickets (Tickets in which solution has been given and confirmed by the Company)	2,420	0-351
2	Customer Action pending (Tickets which have not been confirmed as solved by the Company)	79	0-209
3	In process at different stages (Ticket pending solution)	249	0-345
Grand Total		**2,748**	

It can be seen from the table above that even the 2420 tickets which were confirmed with a delay of 0-351 days, there were 45 very high and high priority tickets wherein the delays were more than 100 days. The Company should lay down the time limits for confirmation atleast for very high and high priority tickets. In respect of 79 tickets which were pending settlement for

[20] Tickets are the errors or bugs forwarded by the end users, prioritised as per severity into high, medium and low, to the support team for resolving in a time bound manner along with suggestions wherever feasible.

want of confirmation from the Company, the same should have been given and the cases closed. In respect of 249 tickets which were in process, 155 tickets had high and very high priority ratings and in nine out of them 100-345 days had already been lapsed. The company needs to monitor this area and ensure timely solution of user tickets.

The Management accepted (February 2014) the fact that there was delay in resolving the problems of users but has also stated that the delay for more than 30 days was very less. The Management also stated (September 2014) that as on date, all pending tickets have been closed in SOLMAN and the actual status of tickets are updated.

The matter was reported to Government (August 2014); they have endorsed (October 2014) the replies of the Management.

Conclusions and Recommendations

The Company embarked upon major computerisation in the year 2010-11 by the implementation of ERP software SAP. The system was made operational with effect from 11 February 2011 without any delay in the scheduled time line. The Company implemented various SAP modules encompassing the key business operations of the organisation. However, certain deficiencies were noticed in the operation and maintenance of the system and implementation of individual modules reviewed as discussed below:

- The operation and maintenance of the system did not have an approved password policy and authorisation with required checks and balances.
  - ***The Company should review the segregation of duties and authorisation to minimise the possibility of the risk of misuse or fraud. The Disaster Recovery Plan needs to be implemented.***
- The Material Management module was deficient in terms of validation checks and input controls as purchase orders were issued without requisitions and there were delays in posting.
  - ***The Company should utilise all the functionalities of the modules and monitor important areas through the system by updating all the fields.***
- The Financial Accounting and Controlling Module did not generate a region-wise trial balance. The physical verification of assets was not updated in the module and neither the defaulting customers nor the bank guarantee renewals were monitored through the module.
  - ***Input controls and validation checks needs to be exercised to ensure generation of correct and required output from all the modules. The Company should minimise dependency on manual controls.***

- The Process Integration Module was not fully utilised to integrate existing systems of the Company with SAP, and the SOLMAN module meant to be a centralised help desk was not effective in providing immediate solution to problems.

    - ***The Company should integrate all the systems to have an on-line single point MIS.***

2.3 Gujarat Medical Services Corporation Limited

IT Audit of Drug Logistic Information and Management System (DLIMS)

Executive summary

A web-based system named Drug Logistics Information and Management System (DLIMS) was developed by National Informatics Centre (NIC) for Gujarat Medical Services Corporation Limited (Company) to cover activities starting from the collection of indents to the distribution of indented items of drugs and surgical items.

Issues related to system efficiency

No documentation existed of the authority which could create master data, nor were procedures for its amendment or verification prescribed; as a result unauthorised creation and tampering of master data could not be ruled out.

Quality Control

There was no pre-dispatch testing at four out of five depots. Further as the module for quality assurance monitoring had not been developed, the same was being done manually.

Inventory Management

The principle of First Expired First Out (FEFO) was not facilitated in the system hence issue of drugs was not made on the basis of FEFO. DLIMS was also not having any automotive alert for Near to Expiry Drugs.

Issue of Stores

A review of stock receipt module and stock issue module of drugs revealed that in 16 out of 3,16,347 cases, date of issue was prior to manufacturing dates. In 253 cases, date of dispatch to depots was prior to date of issue from depots and in 92 cases stores were issued but not dispatched. This indicates that the control needs to be strengthened.

Integrity and Reliability of data

Six cheques involving 23 bills were issued prior to the passing of bills and 25 out of hundred cheques issued were not found in the system database. Further, bill numbers were not system generated.

Documentation

There was no agreement or understanding between the Company and NIC and the Company was not having system development related documents.

Monitoring and Internal control

The Hospitals and other health institutions did not submit e-receipt for acknowledging receipt of stores from depots. Audit trail was not facilitated in the system to recover the history of transactions.

Conclusion and Recommendation

IT audit of DLIMS revealed that due to improper planning without taking into account inter-related activities of the Company and lack of support from the developer etc., the Company was left with a system which had issues relating to integrity and reliability of information. It is recommended that an integrated software package be developed which would take care of the entire business operations of the Company with forward and backward integration.

Introduction

2.3.1 The Central Medical Stores Organisation (CMSO) was established with the objective to procure and supply drugs, medicines, surgical items and medical equipments to cater to the needs of all the Government medical institutions[21] (hereinafter referred to as hospitals and other health institutions) of Gujarat State. Funds for purchase of drugs are placed at the disposal of four Additional Directors (ADs[22]), Gandhinagar working under Commissioner of Health, Medical Services, Medical Education and Research. The drugs are received at five depots[23] and are supplied as per the indents of the medical institutions. With a view to match the changing demands and pace of development in the health sector, CMSO was transformed into Gujarat Medical Services Corporation Limited (Company) with effect from July 2012.

About DLIMS

2.3.2 A web-based application named Drug Logistics Information and Management System (DLIMS) was developed (2007) by National Informatics Centre (NIC), free of cost, to cover interrelated activities starting from the collection of indents from hospitals and other health institutions to the distribution of the indented items. DLIMS only covers the procurement of drugs and surgical items. The system was developed using SQL server 2005 as back end and dot-net 2005 as front end. The system is hosted in the central server of NIC to get the benefit of the technical support.

Through DLIMS, online annual indents for drugs are received from approximate 500[24] hospitals and other health institutions. The indents are automatically consolidated for centralised purchase. A separate e-tender system is utilised for determining the lowest bidder and to fix rate contract (RC) for each item. After finalisation of RCs, purchase orders (POs) for supply of drugs are issued to vendors. The drugs, received from the suppliers are stored at five depots. Distribution of drugs is made to the hospitals and other health institutions from these depots against their indents. Stock available with the hospitals and other health institutions can also be monitored through DLIMS.

Objectives of DLIMS

2.3.3 DLIMS was developed with the following objectives:

- to improve efficiency and effectiveness of drug logistics system;
- to integrate all inter-related activities through common database to avoid redundancy, increase accuracy and enhance transparency;
- to improve various functions to serve in a better and effective manner; and

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21 All medical colleges-hospitals, district hospitals, sub-district hospitals, Community Health Centres (CHCs) and Primary Health Centres (PHCs).

22 In charge of Health, Medical Education, Medical Services and Family Welfare.

23 Amreli, Gandhinagar, Jamnagar, Patan and Surat.

24 Numbers of hospitals and other health institutions 470 (2009-10), 493 (2010-11), 499 (2011-12), 498 (2012-13), 502 (2013-14).

- to facilitate online monitoring of all activities.

Modules

2.3.4 Following modules are available in DLIMS:

Table 2.3.1: Modules under DLIMS

Sl. No.	Modules	Functioning
01.	e-IS	e-Indenting System
02.	PPS	Purchase Order Processing System
03.	BPS	Bill Payment System
04.	SIM	Store Issuable Monitoring System
05.	SRM	Store Receipts Monitoring System
06.	SMS	Stock Monitoring System
07.	MIS	Management Information System

Organisation structure of the Company

2.3.5 The Managing Director is the head of the Company. He carries out the activities through its Drugs branch which processes and finalises rate contracts for supply of drugs on receipts of e-indents from hospitals and other health institutions, its Depots, which distribute the stores to hospitals and other health institutions and its Quality Assurance branch which supervises the quality of the drugs. Each Depot is headed by a Manager.

Audit Objectives

2.3.6 IT Audit of the DLIMS was conducted to evaluate:

- whether there was effective planning for implementation of the system and the business rules were mapped adequately;
- adequacy and robustness of the system in achieving the stated objectives;
- completeness, correctness and reliability of data; and
- adequacy and implementation of various controls in the system.

Audit Criteria

2.3.7 The DLIMS was evaluated considering the business rule governing the functioning of the Company. Planning of computerisation, methodology of development and data management was examined keeping in view the best practice of IT governance.

Scope and Methodology

2.3.8 Records/data related to DLIMS for the period 2009-14 were reviewed at the Company, Gandhinagar. Two[25] out of five depots were selected for assessing supply of drugs against indents, quality assurance of drugs supplied by vendors etc. Entry and Exit conferences were held in April 2014 and

[25] Amreli and Gandhinagar.

November 2014 with the Managing Director and other officers of the Company.

IDEA (Interactive Data Extraction and Analysis) a data analysis tool, was used for analysis of data (2009-14) captured in DLIMS. Besides examining the data, adequacy of general and application IT controls was also assessed.

Audit Findings

Planning Management

Dependency on manual system for supplementary indents

2.3.9.1 DLIMS facilitates submission of online annual indent from all the hospitals and other health institutions. After due date, the procedure for online submission of annual indent is closed. Against their requirement, drugs are procured and supplied to the hospitals and other health institutions. However, during the year, if particular hospitals and other health institutions require additional quantity of items or new items, which had earlier not been included in the online indent, they are required to intimate the Company in writing to be included as supplementary indents.

Thus, due to non-facilitation of online indents for supplementary requirements, dependency on manual system continued. Audit noticed that there had been no effort towards enhancing the features of DLIMS to include additional demands. The Company had also not approached the developer on the issue.

The Management replied (November 2014) that due to less business of supplementary indents, matter of online submission of supplementary indents was not considered and same was done manually. The Management further stated that software development documents have not been provided by NIC and that a new software E-Aushadhi was under development through C-DAC[26], a unit of Government of India. It further assured that the audit suggestion would be attended to in the new software.

Manual dependency for risk purchase

2.3.9.2 As per clause 50 of the tender documents of the Company, risk purchase of the items ordered at the cost and the risk of the party will be carried out when the party fails to supply the items during the validity period. The risk purchase will be done at any time after the delivery period and it will be done from main/parallel/substitute RC holders for undelivered quantity of the stores. The vendor will be penalised to the extent of 10 *per cent* of the cost of undelivered items or difference of the purchase amount, whichever is higher. Audit observed that a manual register was maintained to work out the penalty for risk purchase and to monitor their recovery. The system had not facilitated the generation of risk purchase recovery order; the same was

[26] Centre for Development of Advanced Computing.

manually calculated and issued for affecting the recovery. The Management assured that the same would be incorporated in the new software.

Non-inclusion of various in-house modules to DLIMS

2.3.9.3 The Company requested (September 2008) NIC to develop four modules viz., (i) Quality Assurance/Control (QC) Module; (ii) Earnest Money Deposit/Security Deposit Monitoring; (iii) Grant Monitoring System; and (iv) Instrument Purchase Monitoring System. Three modules excluding QC module were developed in-house by the Company. NIC was requested to add these in-house developed modules to DLIMS but the same had not been done.

The Management replied (November 2014) that NIC had not developed the required modules for DLIMS by citing staff-scarcity and being overloaded by various tasks of the State Government.

This has kept these modules out of DLIMS with the result that the possibility remained of duplication of work for the same information at various places, redundancy of data and human interference during transferring data from one system to another.

Integration with HMIS developed for hospital management

2.3.9.4 Hospital Management Information System (HMIS) was developed (2007-08) by M/s Tata Consultancy Services Ltd. (TCS) to provide clinical and diagnostic tool, hospital management tool and to integrate various in-house functions. It covered six teaching (major) hospitals and 24 non-teaching (minor) hospitals across the State. HMIS is having module 'STORE' to capture drugs, medicines etc., received from the Company. It also receives online indents from various IPD/OPD wards, emergency counter, etc., and issues the stores to them.

Audit observed that even after six years of roll-out of DLIMS, no interface had been developed for integration with HMIS. Stocks received from the Company were manually entered by the hospitals into HMIS and manually updated on account of consumption at both the systems. This resulted in continuity of manual entry of medicines received from the Company into HMIS. The integration would also facilitate monitoring of consumption of medicines in the hospitals through DLIMS.

The Management replied (November 2014) that a meeting was held (May 2011) between NIC and TCS for integration between both the systems. However, there was no progress in this regard. They assured that same would be done in the new software.

Alert facility for monitoring of minimum stock at Depots

2.3.9.5 A Reorder Level (ROL[27]) of each item of drug was required to be defined for each depot based on the consumption pattern, so that the Company

[27] A quantity of an item which a company holds in stock, such that, when stock falls to this quantity, the item should be reordered.

can maintain minimum stock for a defined period and minimum stock in pipeline to reduce the chances of stock-out at the depot. The system was to be designed to give alert once the stock reached the minimum level.

Audit observed that such facility was not available in the system and thus no alert is popped up when the stock of an item goes down the minimum cut-off level. While a minimum cut-off level was defined for 218 items of drugs of Amreli Depot and 228 items for Gandhinagar, these levels were not maintained. During the period of five years (2009-14), the re-ordering levels were not maintained in 46,895 and 46,942 instances in the above two depots respectively.

The Management replied (November 2014) that at the time of development, NIC was requested (September 2008) to provide ROL facility in the system. However, the same would be facilitated in the new software.

Issues relating to System Efficiency

Input control

2.3.10.1 A system should be designed to control the risk of input of incorrect data in the system. The system should ensure that the data entered are accurate and without duplication. Weak input control may increase the risk of entry of un-authorised/irrelevant /incomplete /duplicate/redundant data with the possibility of error or fraud in the computerised system.

- **Reliability of Master Data -** Information stored in the master data files is usually critical for processing and reporting of financial and operational data. Master data affects many related transactions and must therefore be adequately protected from unauthorised and uncontrolled changes. There were approximately 500 hospitals and other health institutions from whom online indents were received during 2009-14. However, as per database[28], the hospitals and other health institutions were 1868 including 34 units, which were not actual hospitals or other health institutions in nature thus, creating doubts about the reliability and integrity of master data files. Further, procedures for changing of master data, verification of integrity of master data with proper manual records, etc., had also not been prescribed.
- **Duplicate code for drugs -** Drugs have been classified into various categories *viz*., tablet and capsule, injection, surgical items, etc. Each drug has been coded with a unique identification number. Audit noticed that there were 13 items out of 1,107 for which more than one code have been allotted.
- **Updation of declared formulary items -** A list of essential drugs/items is prepared annually by Formulary Committee after inviting opinions from all the stake-holders like district/civil hospitals, medical colleges, etc. There were 466 items of

[28] dbo_CMSO_DDO.

drugs/medicines/surgical/dressing etc., which have been included in the list of formulary for the year 2013-14. In the database, there were 1,107 drugs that were classified as formulary or non-formulary. Logically, those classified as non-formulary should be those not appearing in the list and vice-versa. However, Audit observed 569 drugs out of them have been classified as formulary which did not match with the declared 466 items of formulary drugs for the year 2013-14. It indicates that formulary list was not being updated in the DLIMS.

- **Data in rate contract -** Each rate contract (RC) has its validity period. Date of entering into an RC is invariably prior to the validity period of RC. However, in five cases, the validity of RCs was prior to the dates of the RCs.
- **Price preferences to non-SSI units as per database -** In order to encourage small scale industries (SSIs) and cottage industries to enable them to compete with large scale units, such units are eligible for price preference as per State Government policy (September 1997). Price preference for more than 15 *per cent* will not be admissible. Audit observed that 29 out of 39 units to whom price preferences were given were not SSI units as per the database. Thus, system was not designed in such a way to restrict price preference only to those vendors who were listed as SSI units in the database which would have been in consonance with the Government policy.

The system should be designed in such a way that there should be minimal possibility of input of incorrect data from the users' side. However, Audit observed that there were several cases, as discussed above, where mistakes occurred in capturing the data from the users due to inadequate input controls.

The Management replied (November 2014) that price preference had never been given to non-SSI units. Such errors might have occurred due to mistake and non-validation in data entry for the SSI status. They assured that adequate input control would be provided in the new software for avoiding such type of incorrect data entry.

Process control

2.3.10.2 A system should ensure that data is accurately and completely processed for generation of correct, complete and reliable output data. This objective is achieved by providing various controls. Weak process controls may lead to wrong outputs/results, unauthorised changes in the existing data etc.

- **Closing balance of stock -** Monthly stock (item-wise) of hospitals and other health institutions was captured in the table 'dbo_dlims_stock'. Audit observed that in 283 cases out of 75,05,641 cases, pertaining to eight hospitals and other health institutions, closing balances were not correctly calculated. This indicated that system-processed closing balances were not reliable.

- **Auto-change of quantity of items -** Quantities of the items which have been issued/supplied by the depots to the hospitals and other health institutions, automatically increased to twice or sometime more than four times the original quantity, which required re-check by the depot staff to ensure the supply of correct quantity to the hospitals and other health institutions. The possible implication could be erroneous stock position and incorrect bill generation, if the manual verification is not carried out.

The Management replied (November 2014) that NIC was requested (August 2014) to rectify it but the NIC has not taken action to upgrade the system. The entity assured that the same would be considered in new software.

Penalties for late supply

2.3.10.3 Audit observed that:

- **Manual calculation of penalty:** Despite having facility for auto-calculation of penalty for delay in delivery, it was manually calculated in a separate excel sheet and the same was put into DLIMS for further process. This indicated that either system process calculation was not reliable or altered value of penalty was effected in the system, which required dependency on manual system.
- **Incorrect/less penalty:** In 25 cases, though the drugs were supplied within the stipulated delivery period, even then penalty was deducted while in 1,311 cases, the penalty was not recovered as per the scheduled rates. There were differences between the system calculated penalty and penalty worked out by audit. The difference worked out to ₹ 41.50 lakh.

The Management agreed (November 2014) that lacunae in DLIMS resulted in incorrect calculation of penalty. Hence, late supply penalty was manually calculated. The Company also stated that in some cases, the amount of risk purchase was incorrectly shown as late supply penalty and in some cases the delivery period was extended upto eight to 12 weeks, whereas, in DLIMS, provision is made for a period upto six weeks only.

Quality control

2.3.11.1 Pre-dispatch testing (PDT) system at four depots

At the time of commencement of DLIMS, the samples were randomly taken and sent for testing to Food and Drug Laboratory (FDL), Vadodara, a Government laboratory.

On need-felt basis, a system of pre-dispatch testing (PDT) was started (July 2010). The PDT system was to be achieved up to 100 *per cent* by next three years. As per PDT procedure, the samples were required to be drawn by Senior Drug Inspector and sent to FDL for quality assurance. Drugs were required to be kept in quarantine and not to be distributed to hospitals and other health institutions till test report was received.

Audit observed that out of five depots PDT system was adopted only at Gandhinagar depot and drugs were distributed from other four depots without adopting PDT system, which could pose risk of consumption of drugs without pre-dispatch testing. Instead of following PDT system, post testing process was followed at four depots which was ineffective and served no purpose due to significant delay in getting the test results from FDL.

Module for Quality Assurance of medicines

2.3.11.2 The Quality Assurance Module has not been developed and thus the entire functioning of the Quality Assurance was being done manually.

The Management replied (November 2014) that NIC was repeatedly requested to develop module for Quality Assurance, however, the NIC expressed (August 2013) its inability for any modification/upgradation in DLIMS. The Company also stated that same would be developed in the new software.

Supply of drugs to hospitals and other health institutions against indents

2.3.12 On analysis of table containing data of indents of hospitals and other health institutions and supply of medicines there against, Audit observed that:

- **Negative value of demand –** In one case, the indent/demand of a IO named Central Jail, Vadodara for an item code 1,065 was found in a negative value (-10). This showed that there was no validation check to prohibit the user to enter irrelevant data in the demand field.
- **Supply against no demand -** In 9,681 cases, there were instances of supply against no demand from the hospitals and other health institutions. The quantity of supply made to these units ranged from one to 40,000 numbers when there was no demand for drugs from them.
- **Excess supply than demand -** In 32,585 cases, the supply of drugs was in excess of demand and the quantity of excess supply ranged from one to 57,000 numbers.

This indicated that the system lacked various validation checks. The Management agreed (November 2014) with the audit observations and stated that adequate controls would be facilitated in the new software for monitoring of supply of drugs against the demand.

Inventory Management

Adherence to principles of FEFO for issuing of drugs

2.3.13 An efficient drug logistics system should ensure that the principle of First Expired First Out (FEFO)[29]is followed while issuing drugs, so that expiry of drugs is avoided. Audit observed that the Company took up (September 2008) matter with NIC for requirement of issue of drugs on the basis of FEFO. However, the same was not facilitated in the system and as such inventory was not maintained on FEFO basis. DLIMS was also not having any automatic alert for 'Near to Expiry Drugs', so that the expiry of drugs can be avoided by issuing these to the hospitals and other health institutions or by depot transfer.

The Management replied (November 2014) that requests were made to NIC for using of FEFO principles. However, NIC expressed (August 2013) its inability to extend any module in DLIMS. They assured that the same would be done in the new software.

Issue of stores

Issuance of stores from Depots to hospitals and other health institutions

2.3.14.1 On receipt of drugs from the suppliers, stock is updated in Stock Receipt Module (SRM) and then these are dispatched by own/hired vehicles to the hospitals and other health institutions through Stock Issue Module (SIM) after showing issue from the store. Audit observed that:

- **Store issue dates prior to manufacturing dates -** In 16 out of 3,16,347 cases, the drugs were found issued from four depots (Amreli, Jamnagar, Patan and Surat) even before manufacturing dates.
- **Dispatch dates of stores prior to stores issue dates -** In 253 cases, date of dispatch of stores by own/hired vehicles to the hospitals and other health institutions were found prior to the date of issue of stores from depots.
- **Stores issued but not dispatched -** In 92 cases, the stores were shown issued from the SIM module but these were not found dispatched from depots in the module.
- **Store issue rate in negative value -** In 145 cases, the rate of drugs issued to the hospitals and other health institutions was found 'null' (i.e with no data input), while in 14 cases the rate of drugs issued was in negative value.

The above shows that the controls need to be strengthened.

The Management replied (November 2014) that mistakes were occurred at the time of manual data entry due to disconnection of internet/DLIMS and their

[29] A method of drug inventory management in which drugs with the earliest expiry date are the first products issued, regardless of the order in which they are received.

post entry in DLIMS. For stock issue rate in negative, the reason was attributed to deficiency in DLIMS.

Availability of transportation codes for four depots

2.3.14.2 The names of the vendors with whom rate contracts were entered into by the depots except Gandhinagar Depot, were not available in the database. Resultantly, other depots were forced to use the codes meant for transporters contracted for Gandhinagar depot, which was not proper. Thus, due to non-availability of transportation codes for four depots, incorrect codes were used by them.

The Management stated (November 2014) that these transportation codes for other four depots were not provided by NIC resulting in forced use of transportation codes of Gandhinagar depot by them. The same would be considered in the new software.

Stock Monitoring System

Reliability of Stock data

2.3.15 As per Stock Monitoring System (SMS), stock of a depot is processed monthly. Audit observed that:

- **Expiry dates prior to manufacturing dates:** In 81 cases, expiry dates of the drugs were prior to the manufacturing date of the drugs.
- **Invoice date prior to purchase order date:** In 36 cases, the invoice dates submitted by the vendors at the depot were prior to the dates of purchase order issued by the Company.
- **Closing balance of stock in 'minus':** Monthly stock of each depot is maintained in the database. In 26 cases, the closing stocks were in minus. Thus, the system was not properly designed to control issue of drugs in excess of availability of stock, which was not practically possible.

The Management stated (November 2014) that due to deficiency and limitation of DLIMS, the data entry errors were occurred. The same would be resolved in the new software.

Integrity and Reliability of data

Bill Processing System

2.3.16 Prior to commencement of the Company, the accounts branch of CMSO sanctioned the bills and sent them to the treasury for prescribed checks before issue of cheques. After set-up of the Company, its accounts branch sanctioned the bills and issued cheques to the suppliers. Audit observed that:

- **Issuance of cheques prior to preparation of bills:** Dates of six cheques (involving 23 bills) for making payment of ₹ 39.58 lakh to the suppliers were prior to the dates of passing of bills.

The Management replied (November 2014) that manual register was maintained for monitoring the issue of cheques to the vendors, but incorrect dates were mistakenly entered in the DLIMS, which would be rectified.

- **Cheques issued but not found in DLIMS:** Audit randomly selected 100 cheques for their verifications in DLIMS database. Out of them, 25 cheques were not found in the database. Further, discrepancies were found in three cheques wherein the names of vendors on cheques did not match with the names of vendors in the database.

The Management replied (May 2014) that the manual system of issue of purchase order and preparation/passing of bills was adopted and hence their corresponding entries were not made in DLIMS. However, the discrepancy was not clarified by the Company.

- **Receipt of stores prior to purchase orders:** In 14 cases, the dates of receipt of drugs at depots were prior to the dates of purchase orders issued by the Company. It included two records wherein the receipt dates of drugs were even one year prior to purchase order dates.
- **Gap in Bill Numbers:** Bill numbers were not system generated but manually allotted numbers, following the preceding number. Further, bill numbers were having huge gaps between the bill numbers 1 and 092942. This indicated that either bill numbers were not chronologically followed or these numbers were deleted after allotting the bill numbers, for which no reasons were offered by the entity.

The Management stated (November 2014) that while preparing the bills in DLIMS, next bill number is given manually after considering the numbers of bills prepared outside the DLIMS. However, the fact remained that completeness of the data in DLIMS was not ensured as evident from the gaps.

Documentation

System Development Documentation

2.3.17 To ensure the effective utilisation and future maintenance of a system, all the system development related documents should be prepared and suitably updated for any changes. Lack of updated documentation hampers the continuity of development activity.

Audit observed that there was no agreement or Memorandum of Understanding between the Company and NIC. Normal software development methodologies like preparation of URS, SRS, SDD[30], Users Manual etc., were not adopted by NIC. Maintenance and changes in the application were not

[30] URS-User Requirement Specification, SRS-System Requirement Specification, SDD-System Design Document.

recorded. No policy was adopted to document the authorisation of changes/modification/up-gradation required in DLIMS. Resultantly, the Company was not having system development related documents. Absence of documentation policies increases the risk of unauthorised working practices being adopted and may render the system difficult for future maintenance.

The Management replied (November 2014) that software development documents have not been provided by NIC. They further stated that a new software E-Aushadhi was under development through C-DAC, a unit of Government of India and assured that the audit suggestion would be attended in the new software.

Monitoring and Internal control

2.3.18 The existence of an adequate system of internal control minimises the risk of errors and irregularities. However, the Company has not defined any such policy to reduce risks associated on account of lack of internal control.

Submission of e-receipt by hospitals and other health institutions for acknowledging the receipt of stores from depots

2.3.18.1 Hospitals and other health institutions were required to issue e-receipts as acknowledgment for receipt of the drugs from their respective depots. Audit noticed that:

- In 14,851 out of 23,619 cases, e-receipts had not been issued by hospitals and other health institutions. In other cases, time taken in delivery of the stores to these units after dispatch from the depot ranged up to 1,579 days from the dates of dispatch.

The Management replied (November 2014) that the quoted cases might pertain to the legacy data. Reply was not correct as these pertained to the period 2009-14.

- In 176 cases, the dates of receipt of stores by hospitals and other health institutions were even prior to the date of dispatch of vehicles from depots, which were unreliable. Audit observed that the e-receipts to be issued by these units had not been monitored by the Company for ensuring actual delivery of stores to them.

The Management accepted (November 2014) the audit observations and stated that incorrect data entry might have been the reason for such discrepancies. It was further stated that care would be taken to avoid such deficiency in the new software.

Audit Trail

2.3.18.2 There was no internal control mechanism to detect any attempts of deletion which may enhance the risk of manipulation by unauthorised users. ‘Audit trail’ was not facilitated in the system to recover the history of transactions *viz*., updated by, updated on, updated from, deleted by, etc. In absence of the activity logs for audit trail, changes/modifications done by NIC were not available on record. Consequently, the activities of all the users including managerial/monitoring staff could not be tracked for fixing responsibility in case of any unauthorised manipulation.

Thus, the Company had not considered the designing and incorporating audit trails to track the transactions and to monitor the changes made to the data.

Business Continuity Plan and Disaster Recovery Plan

2.3.18.3 Business continuity and Disaster recovery plan is to enable a business organisation to continue its operations in the event of a disruption and to survive disastrous interruption to their information systems. Further, backup media is required to be kept at a location other than the server room, so as to avoid fatal loss of the vital data in case of any unforeseen accident. Further, backup media is required to be tested for assuring recovery in the case of database servers getting damaged.

Audit observed that no such policy has been framed for continuing their operations in case of any disaster, security policy for the periodical back-up of data and its testing for retrieval of data. This would lead to disruption of activities in case of any unforeseen eventuality.

The Management replied (July 2014) that audit suggestion would be considered for the new software.

The matter was reported to Government/Management (September 2014); while the Management replies were received (November 2014) which have been duly incorporated, a formal reply from the Government is awaited (December 2014).

Conclusions and Recommendations

DLIMS was a web-based system developed by NIC free of cost for the Company to cover inter-related activities starting from the collection of indents to the distribution of indented items to improve efficiency and effectiveness of the drug logistics system. The following deficiencies were noticed in the implementation of this system:

- On account of planning without taking into account the inter-related activities of the entity, lack of support from the developer for timely updation etc., the Company was left with a system which had issues relating to the integrity and reliability of information stored and processed therein.

  - ***The Company should formulate IT strategy defining inter-alia the goals and objectives of the intended computerisation and benefits which would accrue from it.***

- Non-integration of various in-house modules and modules of HMIS has defeated very purpose of computerisation of drug logistics system.

  - ***It is essential that an integrated software package be developed which would take care of the entire business operations of the Company with forward and backward linkages from demand generation to procurement as well as issue to hospitals and other health institutions and other users of the healthcare system in Gujarat.***

- Important functions such as Quality Control and real time pre-dispatch testing system were yet to be fully comprehended. Data captured in the system was not fit for immediate benefit to the organisation. Hence, the manual system was still in use for various purposes.

  - ***The Company should ensure documentation of all stages of system development and the changes carried out to the system at later date to ensure its smooth and error free functioning***.

- Running the system in the present form based on the information generated by it may affect the decision making process. The software is yet to stabilise its system controls.

  - ***Adequate validation checks for data entry, use of barcode system to avoid human error and auto capturing the vital information of drugs and efficiency of process control should be embedded in the systems to avoid erroneous data entries and incorrect generation of reports.***

Chapter III

Compliance Audit Observations

Chapter III

Compliance Audit Observations

Important audit findings that emerged from the test check of transactions of the Government of Gujarat Companies and Statutory Corporations are included in this Chapter.

Government Companies

Gujarat State Electricity Corporation Limited

3.1 Construction and Performance of Ukai Thermal Power Station Unit VI

Introduction

3.1.1 The Gujarat State Electricity Corporation Limited, Vadodara (Company) was incorporated in August 1993 as a wholly owned subsidiary of the erstwhile Gujarat Electricity Board (Board) to mobilise resources from the market for adding to the generation capacity of Gujarat and improving the quality and cost of generation. Post-unbundling of the Gujarat Electricity Board in April 2005, the Company became the generation arm of the erstwhile Board. In Ukai, the Company had five units (2x120 MW, 2x200 MW and 1x210 MW), with a total capacity of 850 MW. The Company proposed to install (2005) a 500 MW unit as Unit No VI in the existing land of the Ukai thermal power station which was commissioned in June 2013. With this unit, the installed capacity of the Company increased to 5,496 MW as on 31 August 2014 with nine[1] power stations (four coal based, two hydro-based, two gas-based and one lignite-based). This paragraph covers the construction and performance of the Unit VI of Ukai Thermal Power Station.

Execution of the Project

3.1.2 The Detailed Project Report and Project Estimates (DPR) of Unit VI, Ukai were prepared by Tata Consulting Engineers Limited (TCE) (March 2007). The project cost was estimated at ₹ 2,842.49 crore, including interest during construction (IDC) besides financial charges of ₹ 226.85 crore. PFC sanctioned (September 2007) loan of ₹ 1,775 crore for the project. The Engineering, Procurement and Construction (EPC) contract and the contract for spares were awarded in September 2007/July 2008 to Bharat Heavy Electricals Limited (BHEL) at a cost of ₹ 2,054.58 crore (₹ 1,950 crore EPC plus ₹ 104.58 crore for spares). Besides, other contracts for ₹ 91 crore were also awarded adding the total project cost to ₹ 2,145.58 crore. The major contract, being the EPC contract, was awarded to BHEL on nomination basis. The EPC contract awarded to BHEL was subsequently increased in scope

[1] **Ukai (coal)** – 6 units of 1350 MW, **Ukai Hydro** – 305 MW, **Gandhinagar (coal)** – 5 units of 870 MW, **Wanakbori (coal)** – 7 units of 1470 MW, **Sikka (coal)** – 2 units of 240 MW, **KLTPS (Lignite)** - 4 units of 290 MW, **Dhuvaran (Gas**) CCPP stage I -106.617 MW, **Dhuvaran (Gas)** CCPP stage II – 112.45 MW, **Utran (Gas)** CCPP I 135 MW, **Utran (Gas)** CCPP stage II – 375 MW and **Kadana Hydro** – 242 MW.

during 2009-2014 increasing the value of total contract cost to ₹ 2,177.72 crore.

The contractual completion schedule for Unit VI for the purpose of liquidated damages and other provisions of the contract was 5 February 2011 being 40 months from zero date of 6 October 2007. In this case, as the works of BHEL relating to Civil, Mechanical, Electrical and Control and Instrumentation in respect of the project were still in progress (October 2014), the Company neither conducted reliability run nor provisionally took over the unit with punch list items, but declared commercial commissioning on 8 June 2013. It was only on 6 July 2014 that the reliability run was conducted and provisional takeover of the unit was done. Though the Performance Guarantee Test has to be conducted within three months of provisional take over, the same was pending as some works were still pending (October 2014). The Company had provisionally levied the liquidated damages of ₹ 196.34 crore[2] on BHEL for delay in completion of project of which ₹ 93.84 crore was still to be recovered/adjusted (August 2014). Against the estimated project cost of ₹ 2,615.64 crore and IDC of ₹ 226.85 crore, the actual expenditure till 31 March 2014 was ₹ 2,357.83 crore and ₹ 655.59 crore respectively.

The major reasons for delay in completion of the project as cited by the Company were:

- Gradual release of sites by the Company to BHEL
- Delay in finalising agencies by BHEL.
- Delay in soil investigation by BHEL due to gradual site release.
- Delay in civil works due to inadequate resources of civil contractor of BHEL.
- Unidentified underground utilities[3]/impediments coming to notice during excavation resulting in re-routing/relocation of equipment/system.
- Delay in material supply by BHEL.

The Company stated (May 2014) that the activity-wise detailed analysis for the delay in completion of the project would be done at the time of finalisation of the time limit extension proposal of the project.

We observed that the Company was responsible for delayed release of sites to BHEL, which consequently led to delay in soil investigation by BHEL. Being brown field[4] project, the Company needed to demolish existing godowns at the land where Unit VI was to be constructed for which the Company invited tender (12 January 2008) for demolishing 20 existing central stores and the construction of 20 new central stores at a different location after delay of six months from bid clarification meeting (August 2007). The order was placed on

[2] 10 *per cent* of EPC contract value ₹ 1963.69 crore (up to March 2014 excluding foreign currency transaction).

[3] Pipelines, Drains, Cables etc.

[4] The term brown field implies a land that at some point was occupied by a permanent structure.

M/s. Pooja Construction Company, Ahmedabad on 19 April 2008 at a total cost of ₹ 6.84 crore. The contract including the demolition and construction was to be completed by 15 October 2008. The Company could not get the work expedited and the same was completed only by February 2014 and that too after short-closing the contract by the Company after construction of 14 godowns. Thus, due to slow progress in the demolition work, the sites could not be released to BHEL in time. As such, the civil work of BHEL could start only by November 2008 after a delay of seven months. This being a controllable factor could have been better managed to avoid the cascading effect of this delay.

The Management stated (October 2014) that Ukai TPS was a brown field project requiring demolition of existing building/structure and diversion of several underground amenities/impediments. It was also stated that BHEL also abnormally delayed the execution and commissioning of the project, for which penalty of ₹ 102.50 crore had been deducted/adjusted from BHEL and ₹ 93.84 crore remained to be recovered as yet.

While acknowledging the action of the Company in levying penalty on BHEL, Audit would like to emphasise that the Company had past experiences in implementing brown field projects, and with better planning for release of sites to BHEL, initial delays could have been avoided. Further, Audit would like to recommend that the remaining ₹ 93.84 crore may be recovered early.

Operation of Unit VI of Ukai TPS

3.1.3 The Company entered into a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) on 1 January 2011 for sale of power from Unit VI of Ukai TPS. The scheduled commercial operation date (COD) of the Unit as per PPA was 60 months from the Zero date (6 October 2007) i.e., 5 October 2012. The Company could achieve COD only on 8 June 2013. The GUVNL recovered a penalty of ₹ 107 crore as liquidated damages (LD) from the Company for the delay in achieving COD.

As already mentioned in Paragraph 3.1.2 the Company had provisionally levied LD of ₹ 196.34 crore on BHEL out of which ₹ 93.84 crore was still to be recovered (August 2014). However the final amount of LD had to be determined after identifying the areas of delay. As stated by the Management, payment of LD to GUVNL was on account of BHEL not adhering to its contract conditions in spite of its rigorous follow-up. However, as observed by us in preceding paragraphs, the Company was also responsible for the overall delay in completion of the work of Unit VI due to belated and gradual release of sites to BHEL and improper assessment of works related to re-routing/re-location of equipment/system.

The Unit VI was commissioned in June 2013. The year-wise summary of generation of units I to VI of Ukai Thermal Power Plant is as under:

Table 3.1: Year wise generation of Ukai Thermal Power Plant (in MUs)

Year	Unit No.1	Unit No.2	Unit No.3	Unit No.4	Unit No.5	Total (Unit 1 to 5)	Unit No.6	Total
2012-13	494.00	607.73	1,342.45	1,481.82	1,445.75	5,371.75	0.00	5,371.75
2013-14	222.43	128.95	967.22	1,133.45	1,148.23	3,600.28	1,378.45	4,978.73

Source: MIS Report of generation of GSECL

Comparison of performance with GERC norms

3.1.4 The details of Energy Generated, Plant Load Factor, Plant Availability Factor, Auxiliary Consumption, Heat Rate and Oil consumption of the Unit VI, as against norms, are as under:

Table 3.2: Targets and achievements by Ukai Unit VI

Month	Energy Generated (MUs)	PLF[5] (*per cent)*	PAF[6] (*per cent)*	Auxiliary Consumption (*per cent)*	Heat Rate[7] (Kcal/Kwh)	Specific Oil Consumption (ml/Kwh)
GERC Norms			**85**	**6**	**2,385**	**1**
June 13	45.78	16.59	16.59	11.13	3,079	5.86
August 13	25.66	6.90	42.03	28.83	3,673	71.98
September 13	109.34	30.37	40.67	12.53	2,768	14.86
October 13	69.54	18.69	20.58	14.42	2,871	7.63
November 13	135.74	37.71	60.19	10.53	2,882	4.22
December 13	244.93	65.84	76.21	8.70	2,804	2.49
January 14	243.66	65.50	70.22	8.35	2,698	0.66
February 14	237.03	70.54	84.78	7.78	2,590	0.48
March 14	266.77	71.71	86.55	8.60	2,542	1.37
Total	**1,378.45**					

Source: MIS Report of generation of GSECL. In July 13, there was no operation.

As can be seen from the above table, none of the operational norms were achieved by Unit VI, Ukai excepting specific oil consumption during January and February 2014 and PAF during March 2014, though the company was closing in on the norms in the later months of the year. The outages during the period as mentioned below also contributed to the non-achievement of laid down norms. The plant remained shut down for 3,141 hours in the year 2013-14 mainly from 14 June 2013 to 6 August 2013 for completion of pending work, from 13 August 2013 to 4 September 2013 due to reserve shut down[8], 3 October 2013 to 24 October 2013 due to boiler tube problem and 24 November 2013 to 3 December 2013 due to bottom ash clinker problem. The shut down period for other than reserve shut down was 2,487 hours.

The Management stated (October 2014) that there were many teething problems in Unit VI and the unit was either under planned or forced shut down for various technical reasons. They further stated that such problems were inevitable and unforeseen.

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5 The ratio of the actual output of a power plant over a period of time and its output if it had operated at full capacity during that time period.

6 The availability factor of a power plant is the amount of time that it is able to produce electricity over a certain period, divided by the amount of the time in the period.

7 The amount of heat that has to be supplied in order to produce a specified generator power output.

8 Non- utilisation of available units due to their complete shutdown for want of load.

While the Unit VI is progressively narrowing the gap between its performance on various technical parameters and the norms set by GERC, it should be noted that PPA gives a stabilisation period during which lower norms are fixed considering the teething problems. The factors cited by the Company were already taken care of in the PPA and should have been anticipated.

Non availability of coal

3.1.5 It is evident from the Table 3.1 above that even after commissioning of Unit VI in June 2013; the total generation of the TPS in year 2013-14 remained less than the previous year. We observed that there was no additional receipt of coal after the commencement of Unit VI, as receipt of coal during July 2012 to June 2013 was 37.59 MTs which was reduced to 36.12 MTs during July 2013 to June 2014. There was backing down of generation of other units and Unit VI was operated with the available coal meant for those units, as separate allocation of coal to this unit had not materialised, as mentioned below.

3.1.5.1 As per the Detailed Project Report (DPR), the coal for the proposed plant was to be received from the Machhakata and Mahanadi coal blocks in Talcher area, Orissa. The Ministry of Coal (MoC) allocated the coal blocks in Orissa jointly to the Company and Maharashtra Power Generation Corporation Limited (MAHAGENCO) in February 2006. Both the Companies formed (November 2006) a new Joint Venture named MahaGuj Collieries Limited (MGCL) for development and exploration of the said blocks. The scheduled date for start of production for coal was 6 August 2009. However, the production had not started (November 2014) due to non availability of the forest clearance, environmental clearance and the completion of the land acquisition for the said coal block.

In the meantime, the Company had also approached South Eastern Coal Field Limited (SECL) (a subsidiary of Coal India Limited) for supply of fuel for Unit VI and got Letter of Assurance in August 2011. MoC directed (October 2013) SECL for supply of fuel to Unit VI of Ukai TPS for two years under agreement, which was also not finalised (July 2014). In absence of the fuel supply agreement, the Company was managing to run the Unit VI by utilising the coal available for other units of Ukai Thermal Power Plants as they are under backing down/reserve shut down.

The Management stated (October 2014) that the MoU for the coal linkage had been signed (August 2014) with SECL and that the supply would be commenced shortly. Further progress was awaited (November 2014). It was also stated that lower generation during 2013-14 as compared to 2012-13 was on account of backing down instructions from SLDC.

Conclusion and Recommendations

The main objective of constructing a new Unit VI in the Ukai TPS was to increase own generation capacity. However, we observed certain delays in the construction of the unit and deficiencies in the performance of the unit resulting in non-increase in overall generation as discussed below:

- The delay in the commissioning of Unit VI resulted in payment of liquidated damages to GUVNL whereas the amount recoverable from BHEL was still undecided as delays were on both sides.
  - ***The Company may consider finalising the liquidated damages amount payable by BHEL in view of delays attributable to them in completion of the project. Further, the Company needs to tie up coal supply for Unit VI in order to increase the generation.***

The matter was reported to Government/Management (July 2014); Government replies have not been received. (December 2014).

3.2 Irregular waiver of penalty

The penalty of ₹ 62.89 lakh for delayed completion of work was irregularly waived extending undue benefit to a firm during May 2012.

The Kutch Lignite Thermal Power Station (KLTPS) of the Gujarat State Electricity Corporation Limited (Company) awarded (March 2006) the supply, erection, testing and commissioning work for Circulating Water (CW) system of Unit IV (1x 75 MW) to Kirloskar Brothers Limited (firm) for ₹ 15.76 crore. The scope of work *inter-alia* included application of polyurethane (PU) coating[9]/ corrocoat[10] for all concrete walls, retaining walls, piers, basin slabs, raft slabs and MS pipe ducts inside surfaces which are in direct contact with brackish water[11]. The scheduled date of completion of the contract was 11 October 2006.

As per clause 12 of the Work Order, penalty was leviable (not liquidated damages) at the rate of 0.5 *per cent* of the contract price of delayed supply/ works per week or part thereof subject to a maximum of 10 *per cent* of the contract value. The clause did not contain any provision for full or partial waiver of penalty for any reasons/ circumstances that may arise during the contract. We noticed that the main equipment of the CW system (Pumps A and B) were completed in July 2008. However, the performance guarantee test was taken on 8 September 2010 after completion of all the related works by the firm. The CW system completed in July 2008 was with a delay of 637 days of which 122 days were attributable to the firm and 515 days attributable to the Company. The Unit started commercial operation from December 2009.

The unit authorities noticed in February/March 2010 that the PU coating of the condenser cooling water inlet chamber had peeled out. As the incident occurred before the completion of performance guarantee period (i.e., up to September 2011), the firm was required to repair it free of cost as per clause 9 of the Work Order. After much persuasion, the firm agreed (February 2011) to take up the corrocoating work and the same was completed by April 2011. This caused shutting down the plant for two months. The Company

9 Polyurethane coating on metal provides a smooth durable finish that has superior resistance to corrosion, abrasion, and chemical exposure.

10 Corrocoating/PU coating is an anti corrosive coating which significantly increases the operating life of the metallic parts and critical plant and structures from corrosion attack and helps bottom line, through reduced repair, maintenance and replacement and downtime costs.

11 Brackish water is water that has more salinity than fresh water, but not as much as sea water.

(June 2011) levied penalty of ₹ 125.78 lakh as per the Work Order. However, at the request (February 2012) of the firm, Board of Directors (BoD) of the Company decided (May 2012) to levy 50 *per cent* of the penalty amount and release the balance of ₹ 62.89 lakh to the firm on the considerations that CW system was ready before commissioning of Unit IV and that the firm had not charged any extra amount for the corrocoating work. Accordingly, the penalty of ₹ 62.89 lakh was released in June 2012.

We observed that in terms of clause 12 of the work order, penalty was leviable with reference to actual delay and not related to consequential losses. We noted that the corrocoating work was done during the guarantee period and had to be done free of cost as per Clause 9 as the same was necessitated owing to the poor PU coating work done by the firm. Consequently, the rectification work was carried out by keeping the plant shut down for two months which led to generation loss of 53.31 MUs[12] worth ₹ 11.62 crore[13]. Thus, waiver of penalty of ₹ 62.89 lakh on the grounds mentioned by the BoD was not justified and the Company extended an undue benefit to the firm to this extent.

The Management/ Government (July 2014) in their reply stated that the penalty was released as there was no financial loss to the Company and the firm carried out the corrocoating work free of cost. It also stated that the penalty clause in the tender is included basically to pressurise the supplier for adhering to the time schedule and protecting the interest of the Company hence releasing half the penalty was done as a business gesture.

The reply is not convincing as the penalty was leviable on account of delay in completion of the work hence, releasing the penalty on the ground that there was no financial loss to the Company, lacks justification. The corrocoating done free of cost by the firm was only as per terms of the tender and infact the poor workmanship resulting in the corrocoating repair had led to shut down and generation loss to the Company. Further, this decision sets a wrong precedence for the future, defeating the very purpose of provision of penalty clause.

Gujarat State Road Development Corporation Limited

3.3 Public Private Partnership road projects developed by the Gujarat State Road Development Corporation Limited

Introduction

3.3.1 Projects under Public Private Partnership (PPP), are based on a contract or a Concession Agreement (CA) between a Government or a statutory entity and a private sector entity for delivering an infrastructure service. The Government of Gujarat (GoG) formulated a “Road Policy” in December 1996. The policy enables private participation in the development, construction, repair, upgradation, management, operation and maintenance of roads within the State. The GoG set up Gujarat State Road Development

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[12] 1440 hours (2 months) X 75MW X 1000 X 49.36 *per cent* PLF (PLF for May 2011 considered for valuation).

[13] Valued at GERC approved fixed charges of ₹ 2.18 per unit for the year 2010-11.

Corporation Limited (Company) in May 1999, as a wholly owned Government undertaking with the objective to develop the road infrastructure projects in the State under PPP, besides other objectives.

The Government of India (GoI)[14], introduced (July 2005) Viability Gap Funding (VGF) scheme[15] for support to PPP in infrastructure projects. The scheme is confined to PPP projects taken up by the Government or its agencies, where the private sector is selected through open competitive public bidding.

Up to March 2014, the Company had taken up 10 road projects with 807.34 kilometers (km) under PPP mode on Build-Operate-Transfer (BOT) basis at a total cost of ₹ 3,876.85 crore. Out of that, eight road projects were completed and opened for public use between March 2003 and November 2012 and remaining two projects were yet to be completed (December 2014) as per details provided in ***Annexure* 3.**

We conducted (July 2013 and October 2013) audit of records of three road projects[16] with 485 km road length (completed at a total cost of ₹ 2,598.81 crore and opened for traffic in the year 2012). These three projects constituted 95 *per cent* of the total project cost of eight completed projects.

Bidding Process and project details

3.3.2 The Company approved (March 2006) projects for four laning of three roads under VGF scheme of GoI on Built-Operate-Transfer basis and started process of tenderisation (October 2006). The Company carried out (January 2008) financial evaluation of the bids considering bidder quoting least VGF or the highest premium in fixed concession period and for fixed user fees.

L&T IDPL was the most responsive bidder for all three projects and quoted highest premium for undertaking these projects. The Company accepted (March 2008) offers of L&T IDPL for all the three projects and signed (September 2008) CAs with the Special Purpose Vehicles[17] (Hereinafter referred to as concessionaires) formed by L&T IDPL for the development of each project for the concession period of 20/22 years. The concessionaires commenced the toll collection between February 2012 and November 2012.

The details of the projects are shown in **Table 3.3** below:

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14 Ministry of Finance, Department of Economic Affairs.

15 In order to attract private capital as well as the techno-managerial efficiencies associated with it, the Government of India (GOI), Ministry of Finance, Department of Economic Affairs has introduced Viability Gap funding (VGF) scheme for support to PPP in infrastructure project in July 2005.The scheme is confined to PPP projects taken by the government or its agencies, where the private sector is selected through open competitive bidding. Under the scheme, GoI support is limited to 20 *per cent* of the cost of the project in the form of capital grant.

16 (i) Ahmedabad- Viramgam-Maliya (AVM), (ii) Rajkot- Jamnagar-Vadinar (RJV), and (iii) Halol-Godhra-Shamlaji (HGS).

17 1) L&T Ahmedabad-Maliya Tollway Private limited for AVM, 2) L&T Rajkot Vadinar Tollway Private limited for RJV and L&T Halol-Shamlaji Tollway private limited for HGS.

Table 3.3: Details of the projects

Project	Concession period (in years)	Project Cost (₹ in crore)	Road length (in km)	Premium quoted of the realisable fee[18] (in *per cent*)	Construction period (in days)	Financial Closure and Appointed date	Scheduled Completion date	Date of Commercial Operation (COD)
AVM	22	1,015.36	180.05	12.13	913	12-10-2009	12-04-2012	12-04-2012 to 22-11- 2012[19]
RJV	20	774.80	131.65	12.95	820	12-09-2009	11-12-2011	01-02-2012
HGS	20	808.65	173.03	10.21	820	12-09-2009	11-12-2011	04-04-2012

Source: Information furnished by the Company

The premium *per cent* quoted above were for the first year from the date of COD and were to increase by additional one *per cent* as compared to the immediate preceding year for each subsequent year up to the end of the concession period. Based on the premium rate quoted and the subsequent increases in the premium amount on the realisable fee, the minimum premium receivable by the Company during the concession period was worked out by the Company as ₹ 2,513.36 crore, ₹ 1,736.71 crore and ₹ 1,771.58 crore respectively for the above three projects. The realisable fee being the higher of the projected and actual traffic, protected the interest of the Company and also entitled it to higher premium in case of actual traffic being more than projected. A software system was installed at 11 toll plazas for monitoring toll collection. The same was integrated with the system software at the Company.

Audit Findings

3.3.3 We have segregated our observations on the basis of certain project specific irregularities and also common irregularities related to all the three projects. These are discussed in the succeeding paragraphs.

Rajkot-Jamangar-Vadinar Road Project (RJV)

Recovery of dues due to dropping of a portion of work

3.3.3.1 Article 16.6 of the CA stipulates that if the Concessionaire fails to complete any construction work on account of Force Majeure or for reasons attributable to the Company, then the Concessionaire has to pay 85 *per cent* of the cost so saved within 90 days of such order to the Company.

The scope of the RJV Project included construction of a Railway Over Bridge (ROB) at Motikhavadi Railway Crossing in front of oil refinery owned by the Reliance Industries Limited (RIL), Mumbai. At the request of the RIL and considering the safety aspect of the refinery, the GoG directed (24 December 2009) the Company not to construct the ROB. Accordingly, the construction of the ROB was dropped by issue (December 2009) of "Change of Scope Notice"[20] and the Concessionaire was asked (August 2010) to pay 85 *per cent*

[18] The **realisable fee** is the amount of fee collectible based on the projected passenger car units (PCUs) estimated to pass through the projects roads or the actual PCUs passed in a given point of time, whichever is higher.

[19] Section-wise completion and toll collection started.

[20] Under Article 16.

of the saved amount to the Company. The concessionaire, however, did not prepare and submit the estimated cost for the dropped ROB to the company for Independent Engineer (IE) scrutiny till November 2011. Meanwhile, the delay in working out the cost and non recovery of the amount due as per Article 16.6 of the CA was also pointed out by audit in May 2011. The Concessionaire submitted (December 2011) estimated cost (₹ 8.55 crore) of the dropped work and deposited ₹ 7.27 crore (85 *per cent*) with the Company after two years (December 2011).

We observed that the IE also took nearly one year in scrutinising the estimates submitted by the Concessionaire and reported (November 2012) cost estimates of the dropped work as ₹ 19.18 crore. The Company calculated the savings of the cost of dropped work at ₹ 21.19 crore[21] and directed the Concessionaire (February 2013) to deposit ₹ 18.01 crore (85 *per cent* of ₹ 21.19 crore) and applicable interest. Thus, the Company did not enforce recovery of saved amount as per Article 16.6.2, of ₹ 10.74 crore (₹ 18.01 crore less ₹ 7.27 crore) from the Concessionaire.

The Management stated (September 2014) that it has initiated (March 2014) the process for the amicable settlement which would be concluded shortly.

However, the fact remains that the Company did not expedite for the timely preparation of estimated cost of the dropped work by the Concessionaire and its scrutiny by the IE. Thus, ineffective follow-up led to non-recovery of ₹ 10.74 crore from the Concessionaire and consequential loss of interest income arising from delay in recovery.

Halol-Godhra-Shamlaji Road Project (HGS)

Partial reimbursement of dues and interest by the Concessionaire

3.3.3.2 Article 19.3 of the CA stipulates that the cost and expenses of the IE shall be reimbursed by the Concessionaire within 15 days of receiving a Statement of Expenditure from the Company. Further, under Article 29 of the CA, delay in reimbursement was subject to payment of interest by the Concessionaire.

The Company incurred ₹ 22.25 crore on the cost and expenses of the IE up to September 2014 inclusive of the expenses during O&M period against which the Concessionaire had reimbursed ₹ 16.27 crore only. Thus, ₹ 5.98 crore was outstanding as on September 2014.

The Management stated (September 2014) that it was pursuing the Concessionaire for reimbursement of fees.

The Company should expedite the recovery process.

[21] The cost saved worked out by IE ₹ 19.18 crore + Maintenance Charges for the Concession period at 3 *per cent* ₹ 1.90 crore + Supervision charges for the maintenance work at 6 *per cent* ₹ 11.69 lakh.

Common irregularities in adherence to the provisions of CA

Revenue sharing arrangement

3.3.4.1 As per CA, the Concessionaire has to pay concession fee of ₹ one *per annum* to the Company. Further, the Concessionaires of AVM, RJV and HGS BOT Road projects had to pay to the Company for the first year of concession period, commencing from zero day from COD, a premium in the form of Additional Concession Fee (ACF)[22] equal to 12.13 *per cent*, 12.95 *per cent* and 10.21 *per cent* respectively of the total realisable fee[23] during that year as brought out in Paragraph 3.3.2 above.

The user fee used for calculating the realisable fee is notified by the Government of Gujarat (GoG) annually every year in April as per the provision of the respective CAs. Further, the Concessionaire has to calculate the monthly ACF payable to the Company provisionally on the basis of total realisable fee for the immediately preceding month and pay it within seven days from the date of close of each month. This is again subject to final settlement within 120 days of completion of the respective accounting year based on the Audited Accounts of the Concessionaire.

We observed (October 2013) that the Company accepted ACF paid by the Concessionaire on the basis of his Monthly Fee Statements based on fee actually collected and did not carry out assessment of realisable fee even during the annual settlement within 120 days of completion of the respective accounting year 2011-12 to 2013-14 based on the Audited Accounts of the Concessionaire.

The year wise ACF receivable by the Company and actually received from date of COD to 2013-14 are shown in **Table 3.4** below:

Table 3.4: Difference of Premium (ACF) **(₹ in crore)**

Road Project	Year	Premium receivable as per realisable fee	Premium actually received	Difference
AVM	2012-13	12.56	10.74	1.82
	2013-14	20.61	16.50	4.11
RJV	2011-12	2.74	1.26	1.48
	2012-13	11.10	8.97	2.13
	2013-14	13.53	11.27	2.26
HGS	2012-13	11.52	9.52	2.00
	2013-14	13.70	10.23	3.47
Total		**85.76**	**68.49**	**17.27**

After we pointed out, the Company completed its assessments of ACF on realisable fee basis for the AVM, HGS and RJV Projects and instructed (May 2014) the Escrow bank to deposit differential realisable fee ₹ 5.93 crore,

[22] ACF is the premium payable by the Concessionaire as a fixed percentage of the total realisable fee during the year.

[23] The realisable fee is the amount of fee collectible based on the projected passenger car units (PCUs) estimated to pass through the projects roads or the actual PCUs passed in a given point of time whichever is higher.

₹ 5.47 crore and ₹ 5.87 crore respectively. However, the Concessionaire had disputed (June 2014) the claim.

The Management stated (September 2014) that it had not taken harsh steps to recover the ACF in the interest of the Project.

However, fact remains that the acceptance of the ACF by the Company based on actual collection of user fee, without an assessment of realisable fee, led to short recovery of ACF of ₹ 17.27 crore for the year 2011-12, 2012-13 and 2013-14 and consequential interest loss thereon to the Company.

Recovery of cost of punch list items not completed

3.3.4.2 The terms of the CA stipulates that the IE may issue a Provisional Certificate (PC) for completion of the project at the request of the Concessionaire even if certain works or things forming part of the project are not completed provided the highway can be legally, safely and reliably placed in commercial operation. In such an event, a list of outstanding items of work called as Punch List is prepared and signed jointly by the IE and the Concessionaire and shall be appended with the PC of completion.

The items shown in the punch list were required to be completed within 90 days from the date of issue of PC of completion. Thereafter also, further time extension of 90 days in case of RJV and HGS projects and 120 days in AVM Road project were admissible but subject to payment of damages as per CA clause[24].

Our scrutiny revealed that pending completion of some of the major works *viz.*, construction of Toll Plaza, ROB, widening of existing bridges *etc.*, the PCs of completion were issued and the left out major works were brought under punch list items defeating the very purpose of issuing the PC. Further, in none of the cases under the three projects, the Concessionaire could complete all punch list items even in extended time as indicated in the **Table 3.5** below:

Table-3.5: Details showing the punch list items not completed

Project/ particulars	AVM road project	RJV Road project	HGS Road project
Numbers and Description of type of works in punch list	50 items such as ROB, widening of existing bridges, construction of pedestrian under passes, lining of drains, stone pitching, rain water harvesting, plantation on median and in avenue, bus shelters, emergency call booths.	56 items such as Toll plaza, Bus shelters, widening of major bridges and ROBs, truck lay bays.	31 items such as widening of existing bridges, construction of pedestrian under passes, bus bays, rain water harvesting, cattle crossings, truck lay bays, service road and fencing in urban areas.
Our remarks	The Company instead of imposing penalty signed (November 2012) a supplementary agreement (SA) for completion of major eight items of the Punch List by giving fresh time schedule of 180 days to 540 days.	The Concessionaire was liable to pay damages of ₹ 6.97 crore to the Company on 26 July 2012 *i.e.*, on completion of 180 days.	The Company imposed damages of ₹ 19.73 crore for delays up to 05 May 2013 for completion of the project; however, recovery was not made.

[24] For AVM Road project, lower of (a) 0.1 *per cent* of the Performance Security, and (b) 0.2 *per cent* of the cost of completing such items as estimated by the IE for each day of delay until all items are completed and for RJV and HGS road projects, ₹ 0.01 *per cent* of the total project cost per day on account of any delay.

The Company in respect of AVM road project stated (September 2014) that it was regularly forcing the Concessionaire to complete the punch list items. The Company further stated that once it was established that no further execution was possible after best possible efforts, it would conclude its view on final pending items of punch list.

For RJV project, the Management stated (September 2014) that most of the items were completed except some items due to land constraints, obstruction from local populace *etc*. In case of HGS Road Project, the Company stated (October 2013) that it had also written to the Concessionaire for the recovery of damages for non-widening of the bridges.

Notwithstanding the response of the Company, the facts remain that the Company should not have included major works as punch-list items as considering the time limit provided for completion of these items it is evident that they can only be petty works. Inclusion of major item such as ROB, widening of bridge etc in the punch list was not justifiable. Further in this particular case, the Company had also not recovered the penalty of ₹ 26.70 crore as brought out in the table above. The Company could have considered recovering the penalty for non-completion of punch list items from Escrow account by approaching the Escrow banker.

Recovery of cost towards the services of safety consultant

3.3.4.3 The Company appointed (September 2009) Mott Macdonald Private Limited as safety consultant for carrying out safety audit of all the three Project Highways in accordance with the safety requirement set forth in CA.

As per the provisions of the CAs, all cost and expenses arising out of or relating to safety requirement were to be borne by the Concessionaire to the extent such cost and expenses form part of the works and services included in the scope of the project. We noticed (October 2013) that the Company incurred ₹ 1.14 crore for AVM, ₹ 1.21 crore for HGS and ₹ 0.81 crore for RJV Road project on hiring services of the Safety Consultant for the period from September 2009 to June 2012 and demanded ₹ 1.33 crore for AVM, ₹ 1.02 crore for HGS and ₹ 0.41 crore for RJV Road projects. But, the Concessionaires did not reimburse the expenses of the Safety Consultant (September 2014). Further, the Company did not raise demand for interest on the non-payment also.

The Management stated (October 2013) that as the Concessionaires had not reimbursed the expenses despite raising demands, it did not raise demand for recovery of interest. However, it would follow up with them again for depositing the amount with interest. If they fail, necessary action would be taken to recover the same from Escrow account.

However, the fact remains that even after lapse of 15 months (from October 2013), the amount was not recovered by the Company.

Compliance to the conditions of the Environment Clearance

3.3.4.4 As required under the provisions of the Environment Protection Act and Rules as incorporated in the respective CAs, the Union Ministry of Environment and Forests accorded (May 2008) Environment Clearance (EC) for the construction of additional two lanes for RJV and AVM Projects as the above projects fell under category 'A' being located within 10 kms of bird/wild life sanctuary. The EC to the above road projects had 17 special conditions and 22 general conditions in addition to providing rainwater harvesting structures at an interval of 500 meter alternatively on either side of the road.

For HGS project, the EC was accorded (September 2006) by the State Level Environment Impact Assessment Authority, Gujarat being a project under B category (not within 10 kms of any wildlife sanctuary[25]). The EC to the above road project had 57 conditions under specific and general conditions.

We observed that the Concessionaire did not take various measures *viz.*, construction of rain water harvesting structures, avenue and median plantations *etc.*, as per the conditions stipulated in the EC. The plantation in median was necessary to avoid glare from the vehicle coming from opposite direction. Further, avenue plantation improves the aesthetic appearance of highways in addition to keep environmental protection. Since, AVM and RJV road projects being located in semi-arid zone of Gujarat, providing rainwater harvesting facilities was necessary to recharge ground water by utilising the runoff water.

However, the Concessionaires did not complete various items related to the EC. Moreover, the Company did not initiate any action against the Concessionaire for non-fulfilment of EC conditions.

The Management stated (September 2014) that except in AVM project, water harvesting system had been laid. In AVM project, works related to water harvesting could not be done due to local hindrance and land constraints. The Company further stated that the Concessionaire had been persuaded to develop median and avenue plantation.

The non-fulfilment of EC conditions by the Concessionaire was causing recurring adverse impact on environment and depriving the benefit of recharging the ground water areas adjacent to the project highways.

Conclusion and Recommendations

The Company by entering into PPP contracts completed four-laning of three road projects of 485 km within three years with investment of ₹ 2,598.81 crore made by the concessionaires. The Company was assured of a minimum premium of ₹ 6021.65 crore during the concession period of 20 to 22 years from the three projects. The following deficiencies were noticed in the implementation of the agreements:

- The instances of non-adherence to the provisions of Concession Agreements both by the Company and by the Concessionaires were

[25] Besides this there were also other criteria for categorising the project under Category B as per GoI notification of June 2006.

observed, which included delay in assessment and recovery of Additional Concession Fees by the Company and non-completion of punch list items by the Concessionaire. In RJV, cost of dropping of ROB work had not been recovered fully. The conditions of environmental clearance were also not complied with.

- ***The Company should avoid inclusion of the major works such as ROB, widening of bridge etc., in the punch list as it defeats the very purpose of issue of provisional certificate of completion.***
- ***The Company may consider developing a mechanism for timely assessment of the ACF and also ensure adherence to the terms and conditions of the Environment Clearance by the Concessionaire.***

The matter was reported to Government (August 2014); their replies were awaited (December 2014).

3.4 Excess payment of price variation

Incorrect calculation of value of work done by the Gujarat State Road Development Corporation Limited led to excess payments of price variation of ₹ 4.76 crore to the contractors during January 2011 to March 2014.

As per clause 59 of the tender for award of various road works, the amounts payable towards price variation (PV) to the contractor for the work done shall be adjusted for increase or decrease in the rates of labour, materials and Petroleum, Oil & Lubricants (POL) as per the prescribed formula[26]. The PV on labour, material and POL is to be calculated on value of work done (defined as 'R' in the PV formula) during the quarter under consideration after excluding the value of extra items. A further deduction is also done for cost of material supplied from the Departmental store to the contractor at fixed rate as specified in Schedule-A and value of cement, steel and asphalt brought by the contractor valued at star rate[27] plus increase decrease for which PV is paid as per clause 59-A.

Regarding the payment of PV for the work done involving the use of cement, steel and asphalt brought by the contractor, the same is regulated as per the provisions of clause 59 A of the tender.

The Gujarat State Road Development Corporation Limited (the Company) working under the administrative control of the Roads and Buildings Department awarded (January/March/June 2011) three works for widening

[26] Price variation (VI) = 0.75 x {p/100 x Rx i-io/io}, where in, **P** is the percentage of Labour/Materials/POL (petrol, oil and lubricants), **R** is the value of work done in rupee during the quarter under consideration, **io** is the average price index of the quarter in which tender was opened and **i** the average price index of the quarter under consideration.

[27] The price of steel/cement *per* MT prevailing in the month in which draft tender papers (DTP) are approved and the price of asphalt of Koyli Refinery prevailing on the date on which estimate is prepared is specified in the tender as 'star rate' which is to be adopted for calculation and payment of price variation.

and strengthening of various roads[28] to three different contractors at a total cost of ₹ 281.44 crore. These works were scheduled for completion during June to December 2012. However, the execution of all the three works was in progress (June 2014). The Company had paid PV of ₹ 9.20 crore on labour, material and POL to the contractors under clause 59 for the works executed up to March 2014.

We observed (October 2013) that during January 2011 to March 2014, the Company while working out value of ‘R’ for each quarter for the payment of PV on labour, material and POL under clause 59 had not deducted PV amount paid under clause 59 A on cement, steel and asphalt brought by the contractors. Thus, the incorrect working of ‘R’ value and the subsequent payments of PV under clause 59 based on the incorrect ‘R’ value led to excess payment of PV of ₹ 4.76 crore is shown in **Table 3.6** below:**.**

Table 3.6: Over-payment to contractors on account of Price Variation

(₹ in crore)

Name of work	**Work order**	**Tender Cost**	**Period**	**"R" value worked out by GSRDC**	**"R" value as per tender provisions**	**Total Excess PV paid by the GSRDC**
Sarkhej Dholka Vataman Pipli Dholera Bhavnagar	January 2011	54.04	January 2012 to June 2013	20.67	14.44	0.34
Bharuch Dahej Road (SH-6)	March 2011	119.63	April 2012 to June 2013	21.27	11.01	1.46
Sarkhej Dholka Vataman Pipli Dholera Bhavnagar	June 2011	107.77	October 2012 to March 2014	15.82	4.8	2.96
Total		**281.44**		**57.76**	**30.25**	**4.76**

(**Source:** Information furnished by the Company and RA bills)

The Management stated (February/September 2014) that it had referred the matter of excess payments of PV as pointed out in audit to the State Government for getting necessary clarifications/directions.

As tender provisions are clear for deriving value ‘R’, there was no necessity for seeking any clarifications/directions in this regard. Deriving an incorrect value of ‘R’ for calculation of PV led to overpayment of ₹ 4.76 crore.

The matter was reported to the Government in May 2014; their reply had not been received (October 2014).

[28] **(i)** Sarkhej-Dholka-Vataman-Pipli-Dholera-Bhavnagar Road Km. 133/2 to 168/8 awarded to M/s. Ketan Construction Limited **(ii)** Bharuch-Dahej road (SH-6) Km. 200 to 225 including ROB approaches awarded to M/s. Welspun Projects Limited and **(iii)** Sarkhej-Dholka-Vataman-Pipli-Dholera-Bhavnagar Road Km. 16/8 to 133/2 (Section-1) awarded to M/s. SMS Infrastructure Limited, Nagpur.

3.5 Short recovery of consultancy expenses

Inordinate delay in issue of demand notice to the concessionaire for recovery of expenses incurred on Independent Consultant led to short recovery of ₹ 1.02 crore (including interest of ₹ 0.49 crore).

The Gujarat State Road Development Corporation Limited (Company) entered into a Concession Agreement (CA) (November 2005) with M/s. MSK Projects Private Limited (the Concessionaire) for improvement and widening of Kim-Mandavi Section of State Highway-65 on Build, Operate and Transfer (BOT) basis. As per Article 19.1 of CA, the Company could appoint a Consultant to act as an Independent Consultant (Consultant) for implementation of this BOT project. Further, Article 19.4 of CA stipulated that the remuneration, cost and expenses of the Consultant shall be initially paid by the Company and the Concessionaire shall reimburse the same to the Company within 15 days of receipt of statement of expenditure (SOE) from the Company.

Accordingly, the Company appointed (May 2006) Consultant[29] to the project for a period of four years (up to May 2010: one year construction period and three year operation and maintenance period) at a cost of ₹ 40.76 lakh[30] (excluding service tax). The Company extended (March 2010) the construction period[31] up to June 2010 at an additional payment of ₹ 42.55 lakh (excluding service tax) to the consultant. The Consultant issued (July 2010) provisional completion certificate to the project and commercial operation started from August 2010.

We noticed (October 2013) that the Company incurred an expenditure of ₹ 86.95 lakh (inclusive of service tax) between May 2006 to July 2010. However, the Concessionaire had reimbursed ₹ 28.81 lakh in July 2008/ April 2009. The Company did not raise demand notice after August 2009 to the Concessionaire to reimburse the expenses. However, on being pointed out by audit, the Company issued (October 2013) demand notice for ₹ 58.14 lakh for expenses and ₹ 30.80 lakh towards interest. The Concessionaire further reimbursed ₹ five lakh in March 2014. Thus, non-initiation of timely action against the Concessionaire to reimburse the expenditure incurred by the Company on Independent Consultant led to short recovery of ₹ 53.14 lakh.

The Management stated (March/ September 2014) that the Concessionaire had not paid the amount and the matter was taken up (March 2014) with the Escrow Account Manager[32] to pay the remuneration, cost and expenses incurred for the Consultant. Now the Company was in process of recovery of reimbursement.

However, the fact remains that the inordinate delay in issue of demand notice and lack of follow up action of the Company led to short recovery of

[29] M/s. Frischmann Prabhu (India) Private Limited.
[30] Construction period ₹ 35.66 lakh and operation and maintenance ₹ 5.10 lakh.
[31] The work of operation and maintenance will be carried out by the Company.
[32] State Bank of India, Indore.

₹ 1.02 crore (₹ 53.14 lakh unreimbursed expenses and interest of ₹ 49.09 lakh[33] from May 2009 to September 2014) from the Concessionaire.

The matter was reported to Government (August 2014); their replies were awaited (December 2014).

Gujarat State Petroleum Corporation Limited

3.6 Avoidable payment due to non obtaining forest clearance

The Company did not obtain forest clearance for use of reserve forest area resulting in avoidable standby charges of ₹ 541.68 crore.

The Government of India, Ministry of Petroleum and Natural Gas (GoI-MoPNG) awarded an offshore area of approximately 1850 sqkm off the east coast of India identified as KG-OSN-2001/3 block Krishna and Godavari basin (KG block) to a consortium comprising of Gujarat State Petroleum Corporation Limited (GSPC), Jubiliant Enpro Limited and Geo Global Resources (India) for exploration, development and production of petroleum. A Production Sharing Contract (PSC) was entered (4 February 2003) between GoI-MoPNG and the above three consortium members. GSPC holding 80 *per cent* participating interest was appointed as the operator in the PSC. Based on the discovery of gas in the south west of KG block for 17 sqkm (Deen Dayal West Field), GSPC awarded (June 2011) the contract for the Submarine Pipe line Project (SPP) connecting the Well Head Off shore Platform[34] (WHP) with the On Shore Gas Processing plant[35] (OGP) to M/S Punj Lloyd Limited (PLL) at a lump sum price of USD 95.314 million plus ₹ 400.479 crore. The SPP interconnecting the WHP and OGP was for a distance of twenty two Kms offshore and three Kms onshore. The SPP was to be commissioned by April 2013.

The Ministry of Environment and Forest (MoEF) granted environment clearance[36] for the entire project consisting of the WHP, OGP and SPP in September 2008 under the Environment (Protection) Act, 1986. GSPC believed that there was no reserve forest area in the vicinity and as such, it did not apply for prior permission of the Government of Andhra Pradesh (GoAP) and the Government of India (GoI) under Andhra Pradesh Forest Act, 1967 and Forest (Conservation) Act of 1980[37] respectively for use of reserve forest area for non forest purpose.

The Forest department of the GoAP issued three notices during the progress of the work to GSPC (May/September 2012) for laying of pipe lines in the reserve forest area of Rathikalava without prior permission of GoAP and GoI

[33] Calculated at SBI PLR plus 2 *per cent* (ranged from 13.75 to 16.75 *per cent*).
[34] The contract for construction of WHP was separately awarded to M/S Larson and Tubro.
[35] The contract for construction of OGP was separately awarded to M/S Engineers India Limited.
[36] As per the procedure prescribed in the EIA notification of 2006, the above project being a Category A project had to be given environment clearance by the Central Government.
[37] This central Act laid down that notwithstanding anything contained in any other law, any area categorized as reserved forest area within the State law cannot be permitted to be used for non forest purpose without the prior approval of the Central Government.

under Forest (Conservation) Act, 1980 and unauthorised digging in Coringa wildlife sanctuary without permission under the Wildlife Protection, Act 1972. Consequently, the work was stopped and GSPC applied (November 2012) for permission for diversion of 19.44 hectares of Rathikalava reserve forest for non forest purpose under Forest (Conservation) Act, 1980. GSPC also applied (January 2013) to the GoAP for permission under the Wild Life (Protection) Act, 1972 as the pipe line was passing through the Coringa wild life sanctuary. Stage I forest clearance was received from GoI–MoEF (January 2014) and final clearance was awaited. Permission under the Wild life Protection Act was also received (January 2014). Consequently, date of completion of the pipeline work was provisionally extended up to January 2014.

We observed that as per clause 2.2.2.2 and 5.3.3 of the contract PLL was entitled to appropriate extension of time and compensation for the marine spread[38] deployed at the off shore site in case access to the site was denied to the contractor. In view of the stoppage of work owing to non availability of forest clearance and other factors *viz*., fishermen agitation and heavy rains from September 2011 onwards, PLL claimed standby charges (November 2013) from GSPC based on Independent Engineer's Report (Engineers India Limited, a Government of India undertaking) amounting to 136.47 million USD of which 97.09 million USD was on account of non-receipt of Forest and Wild Life permissions. Meanwhile, with the approval of Project Committee (August 2013), GSPC released 79.25 million USD (₹ 442.20 crore) to PLL as an 'on account payment' subject to final decision on the standby charges. Further, BoD of GSPC constituted a new committee (December 2013) to review the above claims.

Had GSPC done due diligence and applied in time for forest and wild life clearance, the incidence of standby charges would have been avoided/minimised on this account as pipeline work was awarded only in June 2011. Thus, payment of ₹ 442.20 crore and a future liability of ₹ 99.48 crore was avoidable.

The Government/Management stated (July 2014) that no separate application was made for forest and wildlife clearance under the bonafide belief that the pipeline did not traverse through any environmentally protected area based on the observations and report of Government recognised agencies like NEERI and NIO. It was further stated that the standby charges occasioned only on account of doubts and divides amongst the Forest authorities regarding boundaries of protected areas.

The reply is not convincing as in a project of this nature, three clearances are important and critical *viz*., environment clearance under Environment (Protection) Act, 1986; Forest clearance under Forest (Conservation) Act, 1980 and wild life clearance under Wild Life (Protection) Act, 1972. The Company applied for permission only under the first Act. NEERI though a government agency was required to prepare only an environment impact assessment report for the specific purpose of obtaining environment clearance.

[38] Marine spread refers to barges/vessels/equipments which are brought by the contractor for the purpose of the work and can be used both offshore and onshore.

Their maps cannot be the basis for deciding reserve forest area under the other two Acts, as for that the government records of the respective forest department have to be taken into consideration, which was not done in this case leading to violation of two out of the three Acts stated above. Further, the Company had a period of over two years after the date of environment clearance to apply for the permission under the two Acts violated.

Gujarat State Petronet Limited

3.7 Non-recovery of interest

The Company did not raise the supplementary bills for recovery of interest from RIL and TPL in violation of the decision of its Board of Directors and suffered loss of ₹ 1.71 crore during May/June 2012.

The Gujarat State Petronet Limited (Company) is engaged in laying a gas grid and the transmission network for transportation of natural gas through pipeline from supply points to demand centres since December 1998. The Petroleum and Natural Gas Regulatory Board (PNGRB) issued (27 July 2012) authorisation to GSPL for laying, building, operating, or expanding the High Pressure Gujarat Grid Natural Gas Pipeline Network (HPGN)[39] in Gujarat state.

On the application of the Company for determination of tariff for HPGN, PNGRB vide its Tariff regulations[40], notified uniform provisional tariff on 11 September 2012 which was further apportioned zone wise[41] on 19 February 2013. Both the orders stipulated that the differential tariff would be applicable retrospectively from 20 November 2008 i.e., the date from which the PNGRB (Tariff) regulations came into force.

Reliance Industries Limited (RIL), one of the HPGN customers of the Company, filed an appeal (No 222 of 2012) against PNGRB order of September 2012 in Appellate Tribunal for Electricity (APTEL) regarding retrospective application of tariff from 20 November 2008 instead of 27 July 2012 (date of authorization). Considering the appeal filed with APTEL, the Company issued (March 2013) the supplementary bills for the period from 27 July 2012 to 15 February 2013 instead of from 20 November 2008, as stipulated in PNGRB order, to RIL and Torrent Power Limited (Sugen) (TPL) for ₹ 83.59 crore and ₹ 31.88 crore respectively. On the requests from RIL and TPL, the Company allowed (April 2013) RIL to release their payments in four instalments ending on 20 June 2013 and TPL to pay ₹ 31.88 crore in two instalments ending on 20 May 2013. GSPL received ₹ 105.62 crore out of total instalments of ₹ 115.47 crore from RIL and TPL up to 20 June 2013. TPL was allowed to adjust ₹ 9.85 crore against its other receivables.

39 The network which carries maximum allowable operating pressure of 95 barg.
40 PNGRB (Authorising entities to Lay, Build, Operate or Expand City or Local Natural Gas Distribution networks) Regulations, 2008.
41 Zone 1- ₹ 18.49, Zone 2- ₹ 27.80 and Zone 3 ₹ 37.02 per MMBTU.

We observed that in terms of Gas Transmission Agreement (GTA), interest[42] shall mean a charge for late payment on the amount remaining unpaid. The Company proposed to the Board of Directors (BoD) (May 2013) to grant post facto approval for payment in instalments and waiver of interest for the instalments granted. The BoD did not approve the proposal for waiver of interest and resolved (May 2013) that the Company ask RIL and TPL to make payment of balance amount expeditiously. However, the Company did not raise any invoice for recovery of interest either on RIL or TPL on account of payments made by them in instalments during 26 April to 20 June 2013. Thus, the Company suffered loss of interest of ₹ 1.71 crore.

The Government /Management (June 2014) in their reply stated that GTA deals with routine invoicing of the fortnightly bills and is silent on the eventuality of a supplementary invoice arising out of a regulatory order and that too with retrospective effect. The Management also stated that the applicable rate for interest calculation in case of RIL is two *per cent* above PLR and not three *per cent* above PLR as worked out by the audit.

The reply of Management is not based on facts regarding the applicability of interest since the BoD had rejected the proposal for waiver of interest and asked the Company to recover the remaining amount from RIL and TPL expeditiously. Further, three *per cent* rate of interest has been correctly worked out in respect of RIL as long term GTA was in force during the period.

Thus, the action of the Company in not raising supplementary bills for recovery of interest undermined the authority of BoD.

Naini Coal Company Limited

3.8 De-allocation of mine due to contravention of allotment terms

Contravention of terms of allotment resulted in de-allocation of mine and invocation of performance guarantee of ₹ 16.25 crore in January 2013. Further, capital expenditure of ₹ 9.02 crore was rendered unfruitful.

The Union Ministry of Coal (MoC) allocated (25 July 2007) the Naini Coal Block (500 Million Tonnes reserves) in Odisha to Gujarat Mineral Development Corporation Limited (GMDC) and Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDICL) for setting up a 1,500 MW power plant at Angul in Odisha or Dumka in Jharkhand and another 1,500 MW power plant at the pithead of the mine. As per the condition of allotment, both Companies furnished (23 October 2007) a bank guarantee (BG) of ₹ 65 crore; being 50 *per cent* towards achievement of milestones and 50 *per cent* towards guaranteed production. Further, as per the condition of allotment, the exploration was required to be done by a Government Company. Accordingly, GMDC and PIPDICL formed a new company *viz.,* Naini Coal Company Limited (NCCL) in October 2009 with

[42] Interest rate equivalent to State Bank of India Prime Lending rate plus three *per cent* in both cases *i.e.* RIL and TPL.

equal stake holding total paid up capital ₹ 5 lakh[43]. The delay in the formation of the NCCL was due to delay in obtaining approvals from the respective Government of the promotees. The target date for starting coal production, as fixed by MoC, was January 2013.

In the meantime, GoG directed (February 2009) that since the coal extracted from the Naini block by NCCL to the extent of GMDC's share was to be supplied to M/S Adani Enterprises Limited and Torrent Power limited for the 1500 MW power plant to be set up by them and both the power developers had shown their intention to set up the plants in Gujarat instead of Angul (Odisha) or Dumka (Jharkhand), the coal was to be transported to Gujarat for the above plants. Though this was in violation of the terms of allotment, GMDC requested (August 2009) MoC to approve the setting up of the 1500 MW plant in Gujarat instead of Odisha or Jharkhand. Reminders were issued in October 2009, July 2010 and June 2011. In response to it, the MoC directed (April 2012) the GoG to pursue the matter with the Union Ministry of Power (MoP) and Government of Odisha and obtain their consent. Though the MoP acceded to the request (3 May 2012) for setting up the power plant in Gujarat, Government of Odisha rejected the request (September 2012) as it violated the terms of the allocation.

The MoC subsequently de-allocated (December 2012) the block as even five years after the allocation, application for prospecting licence was pending and no progress in respect of end use power project had been reported by NCCL. The MoC invoked (December 2012) 50 *per cent* of the BG of ₹ 32.50 crore for non-achievement of milestones, of which the share of GMDC was ₹ 16.25 crore. Aggrieved by this decision, the GMDC filed (March 2013) a Special Civil Application (SCA) 2013 in the Gujarat High Court against the de-allocation and invoking of BG. Simultaneously, GMDC treated the amount as an advance recoverable from NCCL.

Thus, a period of three years was lost by GMDC/NCCL upon the insistence of the GoG in attempting to change the location of the proposed power plant from Odisha to Gujarat which was in contravention to the allotment terms. Further, due to non-achievement of the milestones, the block had been de-allocated resulting in invocation (January 2013) of BG of ₹ 16.25 crore for GMDC, which has been passed on to NCCL. Further, the capital expenditure of ₹ 9.02 crore[44] and revenue expenditure of ₹ 13.61 lakh incurred till date by NCCL on the project became unfruitful as on date. NCCL stated (May 2014) that it had now intimated the MoC that the power plant would be set up in Odisha itself.

The Management stated (September 2014) that the High Court of Gujarat has granted an interim order stating inter alia that till the final disposal of the SCA filed by GMDC, the coal block in question will not be re-allocated to anyone else. Final decision on SCA was awaited (November 2014).

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[43] As on 31 March 2014.

[44] Administrative expenditure, fee paid for geological /topography studies, exploration fees paid etc.

The matter was reported to Government (July 2014), their replies are awaited (December 2014).

Statutory Corporations

Gujarat State Road Trasnport Corporation

3.9 The fulfilment of basic passenger requirements by GSRTC

Introduction

3.9.1 The Corporation had a fleet of 7,914 buses as on 31 March 2014 and operated 28 lakh kilometers (kms) per day carrying on an average 22 lakh passengers everyday during 2013-14. The Corporation has finalised its annual accounts upto 2010-11 registering accumulated loss of ₹ 1978 crore as at the end of March 2011. The accounts for the subsequent years are in arrears. The Corporation operates both mofussil[45] and city routes[46]. Only the services between Ahmedabad and Gandhinagar are classified as city routes and all others as mofussil routes. The mofussil routes consist of local and express trips. The day-to-day operations of the Corporation involves operation of the schedules and trips with the available fleet and cancellation thereof when there is shortage of crew or diversion of vehicles. Further, the Corporation provides basic amenities *viz.*, parking facility, water coolers, pay-and-use toilets, canteens and housekeeping of bus stations for the benefit of the passengers using the bus depot. The present compliance audit was done to assess the adequacy, reliability and the effectiveness with which basic services and amenities were provided to the passengers at the bus depots.

We reviewed (February 2014 to April 2014) records of Corporate Office and collected relevant information from selected eight[47] out of 16 divisions and 20[48] out of 125 depots covering the period 2011-12 to 2013-14. Of these, records of five depots were scrutinised in details. The audit findings are discussed in subsequent paragraphs.

Passenger service in terms of reliability and accessibility

3.9.2 The public transportation service of the Corporation was analysed in terms of Corporation’s coverage of villages, and extent of uncovered villages, cancellation of trips, delayed trips in view of limited alternate source of transport in rural areas. Further, passenger satisfaction was also ascertained through questionnaire to the passengers.

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45 Mofussil routes – All routes other than city routes.

46 City routes include urban routes operated within the Corporation or Municipal limits of a city or sub urban routes operated to link two urban areas.

47 Ahmedabad Godhra, Himmatnagar, Junagadh, Nadiad, Rajkot, Vadodara and Valsad. These covered all geographical zones of the State.

48 Ahmedabad, Ahwa, Bilimora, Chandola, Chhota Udepur, Dahod, Godhra, Himmatnagar, Idar, Jashdan, Junagadh, Khambat, Nadiad, Petlad, Rajkot, Vadodara, Valsad, Veraval, Viramgam and Wakaner.

Access of services to villages

3.9.3 The overall fleet position of the Corporation increased from 7,805 buses to 7,914 buses and overage buses reduced from 1,122 to 147 during the period from 2011-12 to 2013-14 improving the overall availability of buses. Nevertheless, there was no improvement in the number of villages covered by the Corporation as evidenced from the data given below:

Table No. 3.7 : Details of service provided by the Corporation in rural area

Particulars	2011-12	2012-13	2013-14
No. of Villages	18,408	18,408	18,408
No. of Villages served	17,974	17,976	17,976
Uncovered Villages	434	432	432
No. of Villages served throughout year	16,961	16,963	NA
No. of passengers travelled in mofussil (in lakhs)	8,351	8,205	7,885

(**Source**: As per the Corporation records)

In this regard, we observed the following:

- Despite increase in availability of buses, only 2 villages were added for providing the transportation and the number of villages uncovered remained at 432.
- Number of passengers travelled decreased by 5.6 *per cent* during 2013-14 as compared to 2011-12; though fleet increased by 1.4 *per cent* during the same period.
- The Corporation has not updated its record with regard to total number of villages which has increased to 18,584 as per census 2011.

Cancellation of local trips

3.9.4 The Corporation operated under the mofussil routes, two kinds of trips *viz.*, Express[49] and Local[50]. We observed that during 2012-13 (20 depots) and 2013-14 (19 depots[51]), maximum cancellation was done in the local trips as compared to express trips**,** as summarised below:

Table No. 3.8 : Details of cancellation of local trips as compared to express trips

Particulars	2012-13			2013-14		
	Express	Local	Total	Express	Local	Total
Total Trips	3,94,020	25,47,357	**29,41,377**	4,17,466	22,76,741	**26,94,207**
Cancelled Trips	20,885	4,26,597	**4,47,482**	10,021	3,98,367	**4,08,388**
Percentage of cancelled to total	5.30	16.75	**15.21**	2.40	17.50	**15.16**

(**Source**: As per the Corporation records)

During 2013-14, while cancellation of express service decreased from 5.30 *per cent* in 2012-13 to 2.40 *per cent*, cancellation of local trips increased from 16.75 *per cent* to 17.50 *per cent* during the same period. Considering that the

[49] Express Trip – It covers two points with limited stoppages mainly to cater to long distance passengers.
[50] Local Trip – It covers two points with more stoppages mainly to cater to all types of passengers.
[51] Junagadh depot has not furnished the classification of trips between express and local for the year 2013-14.

local trips cater to the smaller towns and villages, increased cancellation may have adversely affected the commuting of rural people.

The Management/Government stated (September/October 2014) that since profitability was higher in express service, cancellation was more in local services. However, the fact remains that higher cancellation of local trips adversely affects the villages not on the express route as the passengers have to traverse distances to reach the nearest stops on the express route.

Regularity in arrival and departure of trips

3.9.5 Quality and reliability of services can be measured in terms of regularities in arrival/departure of buses at bus stands and the effectiveness of public address system available there. **Table 3.9** below shows the incidence of delays in arrival and departure of buses at bus stands:

Table No. 3.9: Regularities in arrival and departure of buses ***(in per cent)***

Name of Division	2011-12		2012-13		2013-14	
	Arrival delays[52]	Departure delays	Arrival delays	Departure delays	Arrival delays	Departure delays
Himmatnagar	1.01	1.99	0.39	1.24	0.66	1.14
Ahmedabad	2..80	3.82	1.45	1.35	2.41	1.60
Vadodara	2.39	2.69	1.61	1.69	1.53	1.59
Godhra	4.05	5.54	6.70	7.87	11.19	10.70
Junagadh	2.66	2.46	1.06	0.83	1.37	0.75
Nadiad	2.57	2.87	3.17	3.00	3.30	3.00
Valsad	4.02	4.76	2.07	2.46	1.82	2.33
Rajkot	1.64	1.64	1.04	0.93	1.19	1.04

(**Source**: As per the Corporation records)

In terms of percentage it can be seen from the above table that the delays are nominal; however, it was seen that the above data was compiled by the Statistics Department at Corporate Office, based on manual control registers maintained at the Depot level. In absence of any cross verification of the manual data and absence of computerisation of the Depot Management System, the reliability of above data cannot be ensured. Our survey of 300 passengers revealed that, 26 *per cent* felt there should be more reliable and punctual services of buses. Even as per the above compiled data the incidents of delays are comparatively much higher in Godhra division, which needs to be addressed by the Corporation.

Further, providing information to passengers about arrival/departure and cancellation of trips is one type of passenger service. In absence of computerisation of depots, there was no online availability of information as to whether a bus arriving at a depot would be on time or late so that passengers could be accordingly informed. Further, on a review of 16 depots, we observed that the information about cancelled trips was not displayed in any form in seven depots, though in three out of seven depots LCDs were installed. In remaining depots, it was displayed either at the enquiry office or near the timetable. At the time of unit visit of five depots, it was also observed that four out of five depots have displayed old time table in which time

[52] In the table, percentage shows that how many trips (in *per cent*) were delayed division and year wise.

schedule had not been changed as per new schedule. This leads to inconvenience to the passengers. Our survey of 300 passengers revealed that 18 *per cent* passengers felt that there should be better information system at bus stations.

The Management/Government stated (September/October 2014) that instructions were issued to the divisions for displaying time schedule board at bus station.

Survey on Passenger satisfaction

3.9.6 We conducted (July 2014) a survey of 300 passengers in five depots to ascertain why they did not prefer the Corporation's bus services and elicit their opinion on steps to be taken for betterment of the services of the Corporation. In response to the survey, 24 *per cent* passengers opined that they did not prefer to travel by the Corporation's buses as it did not run enough trips and 30 *per cent* passengers felt that buses were over crowded. In respect of the suggestions for improvement of the Corporation's service, 45 *per cent* passengers suggested increase in frequency of trips and 26 *per cent* passengers desired more reliability and punctuality in services.

Analysis of Adequacy of amenities

3.9.7 The Corporation has to provide basic amenities *viz*., parking facility, water coolers, pay-and-use toilets and/or free toilets, canteens and housekeeping of bus stations to the passengers at bus depots. The availability of basic amenities in eight divisions (covering all depots) as on 31 March 2014 is tabulated below:

Table No. 3.10: Details of availability of basic amenities division wise

Division	Total No. of Depots	Pay and Use toilets	Vehicle parking	Water cooler	House keeping contract awarded	Canteens[53]
Nadiad	11	6	2	4	8	19
Himmatnagar	9	8	1	9	7	18
Junagadh	9	9	2	5	9	25
Godhra	7	7	3	7	7	12
Valsad	6	3	4	5	2	13
Vadodara	7	7	0	6	7	9
Ahmedabad	10	10	3	7	8	12
Rajkot	9	7	2	9	9	23
Total	**68**	**57**	**17**	**52**	**57**	**131**

(**Source**: As per the Corporation records)

We observed that out of 68 depots, vehicle-parking facility was available only in 17 depots (25 *per cent*), water coolers in 52 depots and housekeeping facility in 57 depots. Over and above free toilets, Pay-and-Use toilets were available in 57 depots. Absence of facilities in remaining depots resulted in inconvenience to the passengers. Test check of these facilities by Audit in five depots revealed the following:

[53] There is more than one canteen in a depot; hence, the number of canteens is more than the number of depots.

Water coolers in unhygienic surroundings

3.9.8 All the five depots visited had amenity of water coolers but in four[54] out of five depots, water coolers were functioning in unhygienic surroundings and therefore unfit for use.

Himmatnagar Depot

Poor condition of canteens

3.9.9 In bus stands where space for setting up canteen exists, the Corporation invites tenders from interested parties for running canteens in the depot premises under a leave and licence agreement[55]. The licence holder has to sell the items at prescribed rates and pay monthly rent to the Corporation. We observed (July 2014) that four[56] out of five depots had canteens of which three[57] were in very poor and unhygienic conditions. The licence holder is required to keep the premises clean. As per leave and licence agreement, the authorised representative of the Corporation is required to check the canteens at regular intervals. However, there was no record of any such inspection being done.

We noticed in the Himmatnagar depot that pan masala and gutkha were being sold at one stall in violation of the ban on the items. In the Godhra depot canteen was not cleaned, dustbins were open and kept near eating tables. Food also was not covered. In this regard, depot manager had issued notice in February 2014. But, still no improvement was visible. Similarly, in Rajkot depot also the food was not covered.

Himmatnagar Depot

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54 Godhra, Himmatnagar, Rajkot and Valsad.

55 A leave and license agreement is an instrument/agreement wherein the licensor allows the licensee to temporarily occupy and use one portion of immovable property for carrying on his business.

56 Godhra, Himmatnagar, Rajkot and Valsad.

57 Godhra, Himmatnagar and Valsad.

Poor condition of Pay and Use toilets

3.9.10 In all the five depots, contracts were awarded for Pay-and-Use toilets. We observed that the toilets were in very poor conditions in case of four[58] out of five depots. This filthy condition of toilets not only deprived the passengers of a vital amenity but also created an unhygienic environment at bus stand premises. Further, it was observed that the rate card was not displayed by the agency in Ahmedabad and Rajkot depot and this may leave scope for the contractors to collect unauthorised charges from the passengers.

Use of parking area in excess of allotted area

3.9.11 The Corporation provides vehicle parking space to the passengers at bus stand for which a contract is awarded in each depot. We observed that two[59] contractors were using more space than allotted. Rate chart at the parking place was not displayed in two[60] out of five depots. However, no action had been taken by the management in this regard.

In Rajkot depot, no contract was awarded for vehicle parking since July 2012 though the space was available. This resulted in absence of secured parking to passengers (1,30,000 daily passengers, on an average) as well as loss to the Corporation. Our survey of passengers revealed that 11 *per cent* passengers felt that parking was difficult at bus station and eight *per cent* passengers suggested better parking facilities at bus stands. Remaining passengers did not respond in this regard.

Inadequacy of First Aid Kit in Buses

3.9.12 As per rule 164 of Motor Vehicle Rules 1989, every public service vehicle shall carry a dust proof first aid kit containing sterilized dressings, cotton wool, tincture iodine, antiseptic cream etc. On a review of 19 selected[61] depots having a fleet of 1,436 buses, we observed that 12 depots[62] having a fleet of 860 buses did not have first-aid kit in any of the buses. The remaining seven depots having a fleet of 576 buses had first-aid kit in 135 buses only. The Corporation has no monitoring system for availability of first aid kit in buses and there is no system of addition/replacement of medicines in first-aid

[58] Ahmedabad, Godhra, Himmatnagar and Rajkot.
[59] Ahmedabad and Himmatnagar.
[60] Ahmedabad and Godhra.
[61] Information from Godhara awaited.
[62] Ahwa, Chhota Udepur, Dahod, Himmatnagar, Idar, Jashdan, Junagadh, Khambat, Nadiad, Petlad, Rajkot, Wakaner.

kit.

Ineffective housekeeping services

3.9.13 In the three[63] out of five depots selected for detailed scrutiny, House Keeping Contracts were awarded for cleaning the bus station. As per housekeeping Contract, a register was to be maintained by supervisor at depot and certified daily by depot manager. On verification, we observed that no such register was maintained in these three depots for monitoring. In remaining two depots wherein housekeeping contracts were not awarded, no register was maintained for monitoring the work of departmental sweepers.

In Ahmedabad depot the bus stand was not cleaned properly and dustbins were not emptied as per requirement in spite of issuing many notices to the housekeeping contractor. The contract stipulated that mopping and cleaning was to be done twice during the peak hours, however, the same was not carried out even once during the day. Notices for improper cleaning to contractors were also issued in respect of Rajkot depot since award of contract in 2011.

In Himmatnagar depot, the bus stand was not cleaned properly by the housekeeping contractor and there was no dustbin at the bus station. In Godhra depot, which did not have a housekeeping contract, we observed that dustbins were kept inside a room and not at the bus stand. It reflects inadequate monitoring of housekeeping.

Passenger Grievances

3.9.14 Assessing the grievances of passengers helps to improve the quality of the service provided by the Corporation for which it has a system of receiving complaints from passengers/local bodies/authorities/Government etc., at the depot, division and the Corporate Office levels. Besides, passengers can register complaints on the website. The divisional heads of the Corporation directly dispose of complaints received online. A complaint book is also to be kept with the conductor of each bus. The cause-wise analysis of complaints received for last three years are tabulated below.

[63] Ahmedabad, Himmatnagar and Rajkot.

Table No. 3.11 : Statement showing complaint received for last three years

Nature of complaint	2011-12	2012-13	2013-14[64]
Fare and refund	18	49	22
Irregularities in timings	158	151	49
Unsuitability of timing	10	6	10
Break-down	8	8	9
Expectations of travelling facility	81	60	57
Rude behavior	174	147	145
Loss or damage to property	0	2	2
Grievances relating to the administration of the Corporation	45	51	52
Others	474	502	336
Total	**968**	**976**	**682**

As per the Corporation's General Standing Order (GSO), a final reply to any complainant must be given within one month. We reviewed 117 out of the 618 complaints (January 2011 to December 2013) received at the Corporate Office to assess the timeliness in disposal of the complaints. The time taken for disposal of these complaints ranged from one month to 12 months in 95 cases[65]. Only in 22 cases, disposal was done within one month. The number of complaints, though, has come down in 2013-14 *vis-à-vis* the previous year.

A general review of the system of dealing with complaints revealed that no system existed for monitoring the action taken on complaints to its finality. The complaints received were entered in register and individually disposed of by forwarding it to the concerned divisions. Once a division head stated that action had been taken on a complaint, the case was closed without verifying the actual action taken.

Further, we reviewed 35 cases out of 186 complaints of rude behavior received at the Corporate Office. Five cases were of serious nature like beating up passenger, misbehavior, smoking, etc. by crew. In all the 35 cases, the complaints were settled on the basis of assurance from the division that action would be taken against the driver/conductor by transferring them to another route. No follow-up was done by the Corporate Office to ensure that actual action was taken against the driver/conductor. In one of the above cases, actual action was taken (March 2012) after 23 months from the date of receipt of complaint and that too at the instance of RTI filed (January 2011) by the complainant for knowing the status of action taken. Out of 53 complaints received at the Corporate Office regarding irregular timing/non-stopping of buses, 20 cases were reviewed by us. Out of these, 10 cases were regarding non-stopping of buses at bus stops and other 10 cases were regarding non-observing the time schedules. In all these cases, only instructions were issued by the Corporate Office to take necessary action against the errant staff and follow-up was absent.

We observed that in the 17 depots which were selected for review, only 1,978 out of 2,279 conductors had complaint books, which also violated the requirement prescribed in General Standing Order-107.

64 Provisional figure.
65 1-3 months - 47 cases, 3-6 months - 34 cases and more than 6 months – 14 cases.

Conclusion and Recommendations

The Corporation had a fleet of 7,914 buses as on 31 March 2014 and operated 28 lakh kilometres per day carrying on an average 22 lakh passengers every day during 2013-14. An analysis of the services of the Corporations in terms of coverage, cancellation, delays and provision of passenger amenities revealed the following concerns, which need to be addressed:

- There were more cancellations of local trips than express trips.
  - ***While cancelling the trips, the effect on the larger public needs to be kept in mind.***
- The amenities provided by the Corporation at various depots were in poor condition and were found to be in unhygienic conditions.
  - ***The Corporation needs to be more passenger-centric and pay more attention to various amenities and convenience available, so as to increase passenger satisfaction.***

(Y. N. THAKARE)
Accountant General
Ahmedabad **(Economic & Revenue Sector Audit) Gujarat**
The

Countersigned

(SHASHI KANT SHARMA)
New Delhi **Comptroller and Auditor General of India**
The

Annexure 1

Statement showing investments made by State Government in PSUs whose accounts are in arrears

(*Referred to in paragraph 1.12)*

(Figures in columns 4 & 6 to 8 are ₹ in Crore)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	**Working Government Companies**						
1	Gujarat Agro Industries Corporation Limited	2012-13	8.08	2013-14	0.00	0.00	200.94
2	Gujarat State Land Development Corporation Limited	2011-12	5.89	2013-14	0.00	0.00	456.43
				2012-13	0.00	0.00	256.76
3	Gujarat Sheep and Wool Development Corporation Limited	2011-12	4.31	2013-14	0.00	0.00	6.60
				2012-13	0.00	0.00	9.85
4	Gujarat State Handloom and Handicrafts Development Corporation Limited	2011-12	12.06	2013-14	0.00	0.00	11.00
				2012-13	0.00	0.00	6.31
5	Gujarat Minorities Finance and Development Corporation Limited	2012-13	10.00	2013-14	0.00	0.00	0.35
6	Gujarat Gopalak Development Corporation	2011-12	5.50	2013-14	1.00	0.00	0.43
				2012-13	1.00	0.00	0.73
7	Gujarat Safai Kamdar Vikas Nigam Limited	2012-13	5.00	2013-14	0.10	0.00	12.03
8	Gujarat Thakor and Koli Vikas Nigam Limited	2012-13	5.05	2013-14	0.85	0.60	0.81
9	Gujarat Livelihood Promotion Company Limited	2012-13	0.05	2013-14	0.00	0.00	108.36
10	Gujarat State Rural Development Corporation Limited	2012-13	0.58	2013-14	0.00	0.00	22.21
11	Gujarat State Police Housing Corporation Limited	2012-13	50.00	2013-14	0.00	0.00	240.29
12	Gujarat State Aviation Infrastructure Company Limited	2012-13	0.05	2013-14	0.00	0.00	7.18
13	Gujarat Power Corporation Limited	2012-13	315.08	2013-14	67.00	0.00	35.00
14	Gujarat State Electricity Corporation Limited	2012-13	1891.82	2013-14	134.51	0.00	0.01
15	Gujarat Water Resource Development Corporation Ltd	2012-13	31.49	2013-14	0.00	0.00	51.16
16	Tourism Corporation of Gujarat Limited	2012-13	19.99	2013-14	0.00	0.00	367.50
17	Gujarat State Civil Supplies Corporation Limited	2012-13	10.00	2013-14	0.00	0.00	33.80
18	Gujarat Informatics Limited	2012-13	18.51	2013-14	0.00	0.00	67.71
19	Dahej SEZ Limited	2012-13	46.05	2013-14	0.00	0.00	3.41
20	Gujarat Rural Industries Marketing Corporation Limited	2012-13	9.17	2013-14	0.00	0.00	0.50
21	Sardar Sarovar Narmada Nigam Limited	2012-13	36095.89	2013-14	3,920.94	0.00	0.00
22	Gujarat Water Infrastructure Limited	2012-13	129.99	2013-14	10.00	0.00	316.77
	Total A (Working Government Companies)		**38,674.56**		**4,135.40**	**0.60**	**2,216.14**
B	**Working Statutory corporations**						
1	Gujarat State Road Transport Corporation	2010-11	719.34	2013-14	600.00	250.00	600.00
				2012-13	25.00	590.00	600.00
				2011-12	15.00	425.00	703.70
2	Gujarat State Warehousing Corporation	2011-12	4.00	2013-14	0.00	0.00	0.75
				2012-13	0.00	0.00	0.00
	Total B (Working Statutory Corporations)		**723.34**		**640.00**	**1,265.00**	**1,904.45**
	Grand Total (A + B)		**39,397.90**		**4,775.40**	**1,265.60**	**4,120.59**

Information was not furnished by two working Companies Gujarat Women Economic Development Corporation Limited and Gujarat Foundation for Mental Health and Allied Sciences which have arrears of accounts in 2013-14

Annexure 2

Working results of Tourism Corporation of Gujarat Limited during 2009-2014

(Referred to in Para 2.1.15)
(₹ in crore)

Sl. No	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1	Sale of Services	5.08	6.94	9.33	11.35	6.65
2	A share of grants received for meeting administrative expenses	7.48	13.20	24.01	30.39	26.25
3	Tourist Information Bureau Grant	2.07	2.17	2.08	2.07	2.95
4	Misc. Operational income	0.44	0.45	0.58	5.28	4.08
5	Interest Income	10.98	11.71	16.63	23.10	33.29
6	Other income	0.94	1.01	1.00	1.12	1.89
7	**Total Revenue**	**26.99**	**35.48**	**53.63**	**73.31**	**75.11**
8	Employee benefit expenses	12.03	11.98	13.66	12.99	16.30
9	Depreciation and amortisation expenses	0.89	0.91	0.95	1.02	0.87
10	Other Expenses	9.22	5.05	4.31	6.82	7.11
11	**Total Expenses**	**22.14**	**17.94**	**18.92**	**20.83**	**24.28**
12	Profit Before Adjustment	4.85	17.54	34.71	52.48	50.83
13	Prior period adjustment	0.03	0.00	0.00	0.00	0.00
14	Profit Before Tax	4.82	17.54	34.71	52.48	50.83
15	Tax	2.50	4.50	12.57	16.71	18.25
16	Profit After Tax	2.32	13.04	22.14	35.77	32.58

(**Source**: Annual Accounts of the Company)

Annexure 3

Project undertaken by GSRDC under Public Private Partnership

(Referred to in paragraph 3.3.1)

Sl. No	Name of project	Cost (₹ in crore)	Length of the Road (in Km)	Configuration	Concession Period	Premium quoted on COD (in percentage)	Achieving Appointed Date (Construction start date)	Stipulated/ Actual Completion of Construction	Status as on 31 March 2014
1	Chhayapuri Railway Over-bridge	27.06	1.032	Four lane	181 Months	0		March 2003	Under commercial operation
2	Himatnagar Bypass	7	8.7	Two lane plus	15 Years	0		April 2006	Under commercial operation
3	Bhuj Nakhatrana	35.04	45	Two lane Plus	13 Years 2 Months 2 days	0		February 2008	Under commercial operation
4	Kim-Mandvi	21.1	45	Two lane Plus	20 Years	0		August 2010	Under commercial operation
5	Deesa-Panthawada-Gundari	47	44.12	Two lance Plus	28 Years	0	30 March 2010	April 2011	Under commercial operation
6	Rajkot-Jamnagar-Vadinar	774.8	131.65	Four lane	20 years	12.95	12 September 2009	February 2012	Under commercial operation
7	Halol -Godhra-Shamlaji	808.65	173.03	Four lane	20 Years	10.21	12 September 2009	April 2012	Under commercial operation
8	Ahmedabad-Viramgam-Maliya	1,015.36	180.05	Four lane	22 Years	12.13	12 October 2009	April 2012 to November 2012 [1]	Under commercial operation
9	Bagodara-Wataman-Tarapur-Vasad	883.9	101.76	Six lane	27 years	15.03	18 November 2011	May-2014	Work in progress
10	Bhachau- Bhuj (Kutch)	256.94	77	29 km 4 lane 55 km 2 lane plus	20 Years	7.42	13 December 2011	June-2013	Work in progress
Total		**3,876.85**	**807.34**						

[1] September 2012 (Section-I), November 2012 (Section-II), April 2012 (Section-III) and May 2012 (Section-IV)