Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective Legislation. As on 31 March 2009, the State of Maharashtra had 61 working PSUs (57 Companies and four Statutory corporations) and 24 non-working PSUs (all Companies), which employed 2.02 lakh employees. The working PSUs registered a turnover of Rs 35,495.23 crore in 2008-09 as per their latest finalised accounts. This turnover was equal to 5.09 *per cent* of the State GDP indicating an important role played by the State PSUs in the economy. The working PSUs earned overall profit of Rs 545.55 crore in 2008-09; however they had accumulated losses of Rs 5,768.17 crore as on 31 March 2009.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 85 PSUs was Rs 47,268.03 crore. It grew by 103.98 *per cent* from Rs 23,172.65 crore in 2003-04 mainly because of increase in investment in power sector. Power Sector accounted for 79.37 *per cent* of the total investment in 2008-09. The Government contributed Rs 3,965.84 crore towards equity, loans and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, out of 61 working PSUs, 34 PSUs earned profit of Rs 1,274.91 crore and 22 PSUs incurred loss of Rs 729.36 crore. Four PSUs prepared their accounts on no profit no loss basis and one PSU was under construction and had not prepared profit and loss account. The major contributors to profit were Maharashtra State Power Generation Company Limited (Rs 479.08 crore), Maharashtra State Electricity Transmission Company Limited (Rs 356.11 crore), Maharashtra State Road Transport Corporation (Rs 159.23 crore), Maharashtra State Electricity Distribution Company Limited (Rs 121.22 crore). The heavy losses were incurred by MSEB Holding Company Limited (Rs 339.88 crore) and Maharashtra State Road Development Corporation Limited (Rs 337.59 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the State PSUs losses of Rs 3,396.06 crore and infructuous investments of Rs 125.25 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 53 accounts of working companies finalised during October 2008 to September 2009, 35 accounts received qualified certificates and 18 accounts received unqualified certificates from Statutory auditors. Additionally, CAG gave adverse certificate for one account. There were 72 instances of non-compliance with Accounting Standards in 17 accounts. Of the four accounts finalised during October 2008 to September 2009 by the Statutory corporations, three accounts received qualified certificates and one account received adverse certificate. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Fifty five working PSUs had arrears of 185 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 24 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 2005-06, 2006-07 and 2007-08 are yet to be fully discussed by Committee on Public Undertaking. The three pending Audit Reports contained 12 reviews and 66 paragraphs of which only one paragraph was discussed.

2. Performance Audit relating to Government Companies

Performance Audit relating to 'Contribution of Four companies in the State for Upliftment of Tribals, Minorities, Handicapped and Women' *viz.* **Shabari Adivasi Vitta Va Vikas Mahamandal Limited, Maulana Azad Alpasankhyank Arthik Vikas Mahamandal Limited, Maharashtra State Handicapped Finance and Development Corporation and Mahila Arthik Vikas Mahamandal** and 'Functioning of the **Maharashtra State Road Transport Corporation'** were conducted. Executive Summary of the main Audit findings is given below**:**

Contribution of Four companies in the State for Upliftment of Tribals, Minorities, Handicapped and Women *viz.* Shabari Adivasi Vitta Va Vikas Mahamandal Limited, Maulana Azad Alpasankhyank Arthik Vikas Mahamandal Limited, Maharashtra State Handicapped Finance and Development Corporation and Mahila Arthik Vikas Mahamandal

Government of Maharashtra (GoM) established four Companies with the objective of economic upliftment, livelihood generation and empowerment of the Scheduled Tribes, Minorities, Handicapped and Women in the State. Three Companies Shabari Adivasi Vitta Va Vikas Mahamandal Limited (SAVVVM), Maulana Azad Alpasankhyank Arthik Vikas Mahamandal Limited (MAAAVM) and Maharashtra State Handicapped Finance and Development Corporation (MSHFDC) are engaged in disbursement of financial assistance to the targeted communities/sections of the State population in the form of term loans from the funds mainly received from National Agencies *viz.* National Scheduled Tribes Finance and Development Corporation, National Minorities Development and Finance Corporation and National Handicapped Development and Finance Corporation under various sanctioned schemes. These Companies also implemented schemes of Direct Loans, Educational Loans and Micro Finance Scheme out of their own funds received from GoM in the form of equity contributions. The fourth Company Mahila Arthik Vikas Mahamandal (MAVIM) is engaged in formation of Self Help Groups (SHGs) on gender basis for vulnerable women. Women belonging to households from BPL and poor families are required to be identified with emphasis on rural areas by conducting village survey.

A Performance Audit was conducted to assess the achievement of the Companies towards the stated objectives of their establishment.

Coverage of beneficiaries

The coverage of beneficiaries by these four Companies was meagre indicating their poor performance. Out of the total population of 7.53 crore as per Census 2001 of the targeted sections in the State, the Companies had covered only 6.69 lakh (0.89 *per cent*) beneficiaries since inception up to March 2009. In the absence of co-ordination and maintenance of inter-linked database/records between all the Companies in the State dealing with socio-economic empowerment, the possibility of duplication of beneficiaries can not be ruled out.

Planning

The Audit review revealed that in three Companies (SAVVVM, MAAAVM and MSHFDC) involved in implementation of financial assistance schemes, there was no identification of beneficiaries in a focussed manner and no efficient plan for coverage of beneficiaries in a phased manner. None of these Companies had carried out any micro-level research study or survey of Census data for identifying the eligible targeted groups of beneficiaries. Also no skill-set requirement for beneficiaries was prescribed. Absence of a centralised database of total number of eligible beneficiaries covered/yet to be covered was noticed in audit which resulted in lack of proper planning for effective implementation of the schemes.

Implementation of financial assistance scheme

Of the funds of Rs 178.08 crore received by the three Companies (SAVVVM, MAAAVM and MSHFDC) only Rs 80.08 crore (45 *per cent*) was utilised during the period 2004-09. There were deficiencies in selection of beneficiaries and lack of post disbursement monitoring. As a result, the recovery performance of all the Companies was poor.

Training activities

There were irregularities and inadequacies in conduct of training activities by three Companies. While one Company (MSHFDC) did not conduct any training programme during 2004-09, two Companies (SAVVVM and MAAAVM) had not maintained any database regarding feedback on utility of training.

Performance of Self Help Groups formation by MAVIM

MAVIM had been declared by the GoM as a nodal agency for development schemes for women through formation of SHGs. However, the Company did not maintain database regarding the total number of SHGs formed in the State. Performance of the Company with regard to formation and nurturing of SHGs was also not satisfactory. The coverage of villages by MAVIM was only 12,139 out of 41,095 villages in the State. Against the target of 1,05,111 SHGs, MAVIM had formed 34,731 SHGs during 2004-05 to 2008-09 and as on 31 March 2009, only 53,710 SHGs (including 5,211 SHGs formed by NGOs) were in existence under 14 schemes. Further, out of total 6,54,788 members of SHGs as on 31 March 2009, only 2,05,106 members could start the income generating activities.

Corporate Governance

The Corporate Governance was deficient as effective Internal Control system was not in existence in any of the four Companies. In violation of Companies Act provisions, three Companies did not form Audit Committees and one Company (SAVVVM) did not hold the minimum number of Board of Directors meetings and there was lack of monitoring by top management. There was no co-ordination and convergence among different Administrative Departments of GoM for achieving the objectives by the Companies.

Conclusion and Recommendations

To assist the Companies in rectifying the deficiencies noticed during audit review, audit has made eight recommendations. These include to have systematised and focussed targeting of eligible beneficiaries by conducting micro-level surveys, streamlining of disbursement procedures, greater co-ordination and collaboration among the Companies and adequate monitoring of activities by top management through an effective internal control mechanism.

3. Performance Audit relating to Statutory Corporation

Performance Audit on the 'Functioning of the Maharashtra State Road Transport Corporation'

The Maharashtra State Road Transport Corporation (Corporation) provides public transport in the State through its 247 depots. The Corporation had fleet strength of 16,357 buses (including 24 hired buses) as on 31 March 2009 and carried an average of 60.62 lakh passengers per day during the period from 2004-05 to 2008-09. It had a monopoly in stage carriage in mofussil areas. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finance and Performance

The Corporation started earning profit from 2006-07 during the review period and earned profit of Rs 118.09 crore in 2008-09 without considering prior period adjustments. Its accumulated losses and borrowings stood at Rs 457.13 crore and Rs 58.78 crore respectively as at 31 March 2009. The Corporation was not able to achieve the All India Average (AIA) for cost per KM (Rs 19.94) during 2006-07 to 2008-09. Audit noticed that more effective monitoring of key parameters coupled with certain policy measures could see further improvement in performance and increase in revenue.

Declining Share

The per capita kilometres operated by the Corporation decreased from 17.44 in 2004-05 to 16.32 in 2008-09. The vehicle density per one lakh population decreased from 15.63 in 2004-05 to 14.70 in 2008-09. However, no scientific survey was conducted to assess the demand for public transport. Further, no Integrated Transport Policy had been formulated for the State.

Vehicle profile and utilisation

The Corporation's buses consisted of own fleet of 16,333 buses and 24 hired AC buses as on 31 March 2009. Of its own fleet, 689 (4.22 *per cent*) buses were overage, *i.e.*, more than ten years old. The percentage of overage buses declined from 10 *per cent* in 2004-05 to 4.22 *per cent* in 2008-09 due to acquisition of 8,076 new buses during 2004-09 at a cost of Rs 907.54 crore. The acquisition was funded through capital contribution (Rs 734.41 crore) and internal resources (Rs 173.13 crore). The Corporation's fleet utilisation at 94.28 *per cent* in 2008-09 was above AIA of 92 *per cent*. Its vehicle productivity at 316 KM per day per bus during 2008-09 was above the AIA of 313 KM. Similarly, its load factor at 71.20 *per cent* remained above the AIA of 63 *per cent*. However, the Corporation had not fixed targets for vehicle productivity. The percentage of cancellation of Scheduled KMs remained higher than the All India best performers. The Corporation had assessed trip-wise profitability without reckoning the amount of concessions in fare reimbursed by the State Government. The Corporation's performance on preventive maintenance was unsatisfactory as the maintenance schedules in respect of docking and reconditioning of buses were not adhered to.

Economy in operations

The operational performance of the Corporation in the areas of manpower deployment and fuel efficiency was below AIA. Manpower and fuel constituted 69.67 *per cent* of total cost. Interest, depreciation and taxes accounted for 21.10 *per cent* and are not controllable in short time. Thus, the controllable expenditure has to come from manpower and fuel. The expenditure on repairs and maintenance was Rs 413.23 crore (Rs 2.53 lakh per bus) in 2008-09, of which nearly 50 *per cent* was on manpower. The fuel consumption as compared to AIA was in excess to the

extent of Rs 39.19 crore during 2004-05 to 2008-09.

The Corporation started hiring AC buses from 2006-07 onwards where the Corporation provides conductors, makes payment of fuel charges at agreed rates and makes payment as per KM operated. The Corporation earned a net profit of Rs 4.11 crore from hired buses during 2006-09. Audit observed that there was further scope to go for more hired buses considering its lower cost.

Revenue maximisation

The State Government directed that the amount of concessions in fare reimbursable by it may be adjusted against the passenger tax (PT) payable to the Government. However, the PT was not sufficient to adjust the full amount of concession and the unrealised claims due from the Government stood at Rs 359.44 crore as of March 2009. Besides, the State Government has not paid its share of Rs 352 crore in wage settlement of employees agreed in August 2004. Further, the Corporation has about 136.53 lakh square metres of land. As it utilises ground floor/land for its operations, the space above can be developed on public private partnership (PPP) basis to earn steady income which can be used to cross-subsidise its operations. However, the Corporation had not framed any policy in this regard.

Need for a regulator

The fare revision was governed by an automatic formula approved by the State Government for certain elements of cost. However, the increase in input cost was not correctly fed in the formula resulting in higher fare revision. The Corporation had also not formulated norms for providing services on uneconomical routes. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective Management Information System for obtaining feed back on achievement thereof are essential for monitoring by the top management. However, Audit observed that norms/benchmarks for bus staff *ratio* and vehicle productivity had not been fixed.

Conclusion and Recommendations

Though the Corporation has been earning profit from 2006-07 onwards, it can control cost of operations by reducing manpower and fuel costs through effective monitoring. The Corporation can increase profit by resorting to hiring of buses and tapping non-conventional sources of revenue. This review contains eight recommendations to improve the Corporation's performance. Hiring of buses, creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.

4. Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. The irregularities pointed out are broadly of the following nature:

There were nine cases of avoidable/wasteful/extra expenditure amounting to Rs 21.19 crore on account of:

- delay in finalisation of tender;
- decision to set up captive power plant in prohibited area;

- procurement of meters at higher rates;
- acceptance of unreasonable condition;
- non execution of formal agreement;
- award of contract without ensuring possession of land;
- non recovery of project cost;
- construction of resort without ascertaining the title of land.

(Paragraphs 4.3, 4.6, 4.8, 4.9, 4.11, 4.13, 4.14, 4.16 and 4.18)

There were five cases of loss of revenue of Rs 15.14 crore on account of:

- irregular allotment of plots to ineligible parties;
- incorrect calculation of lease premium;
- incorrect categorisation of consumers;
- delay in restoration of damaged studio;
- non finalisation of contract within validity period.

(Paragraphs 4.1, 4.4, 4.7, 4.10 and 4.15)

There were four cases of undue benefit to contractors/parties to the tune of Rs 27.19 crore on account of:

- non/short recovery of compensation;
- sale of land at lower rates;
- incorrect categorisation of plot;
- non charging of additional land premium.

(Paragraphs 4.2, 4.5, 4.17 and 4.19)

There was one case of unfruitful investment amounting to Rs 5.80 crore on account of:

- defective/unplanned construction of food mall.

(Paragraph 4.12)

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

City and Industrial Development Corporation of Maharashtra Limited suffered revenue loss of Rs 4.46 crore due to allotment of residential-cum-commercial plot for residential purpose and allotment of school plots to an ineligible party.

(Paragraph 4.1)

Maharashtra Airport Development Company Limited extended undue benefit of Rs 20.21 crore to Satyam Computer Services Limited by sale of land at lower rates in MIHAN Project at Nagpur.

(Paragraph 4.5)

Maharashtra State Electricity Distribution Company Limited short recovered electricity charges of Rs 7.59 crore due to incorrect categorisation of seven commercial consumers as industrial consumers and incurred extra expenditure of Rs 1.74 crore due to its failure in accepting the rate received in the tender and subsequent purchase at a higher rate.

(Paragraphs 4.7 and 4.8)

Maharashtra Film, Stage and Cultural Development Corporation Limited suffered revenue loss of Rs 1.65 crore due to delay in restoration of studio damaged by fire.

(Paragraph 4.10)

Maharashtra State Road Development Corporation Limited constructed a Food mall without conducting a feasibility study resulting in unfruitful investment of Rs 5.80 crore with consequential loss of interest of Rs 1.50 crore. The Company also incurred avoidable expenditure of Rs 1.89 crore due to award of contract without ensuring possession of land for work.

(Paragraphs 4.12 and 4.13)

The **Maharashtra Industrial Development Corporation** extended undue benefit of Rs 5.44 crore due to allotment of a commercial plot of land at industrial rate. The Corporation further incurred avoidable expenditure of Rs 4.71 crore in three cases due to non-finalisation of tenders within the validity period.

(Paragraphs 4.17 and 4.18)