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 Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective Legislations. As on 31 March 2013, the State of Maharashtra had 65 working Public Sector Undertakings (PSUs) (61 companies and four Statutory corporations) and 22 non-working PSUs (all Companies), which employed 2.02 lakh employees. The working PSUs registered a turnover of ₹ 67,382.90 crore in 2012-13 as per their latest finalised accounts. This turnover was equal to 4.91 per cent of the State GDP indicating the important role played by the State PSUs in the economy. Though the working PSUs earned an overall profit of ₹ 1,796.38 crore in 2012-13 they had accumulated losses of ₹ 9,880.05 crore as on 31 March 2013.

Stake of Government

As on 31 March 2013, the investment (Capital and long term loans) in 87 PSUs was ₹94,619.69 crore. It grew by 121.91 per cent from ₹ 42,639.48 crore in 2007-08 mainly because of increase in investment in power sector. Power Sector accounted for 87.60 per cent of the total investment in 2012-13. The Government contributed ₹ 9,990.57 crore towards equity, loans and grants/subsidies during 2012-13.

Performance of PSUs

During the year 2012-13, out of 65 working PSUs, 43 PSUs earned profit of ₹2,268.27 crore and 12 PSUs incurred loss of ₹471.89 crore. Four PSUs prepared their accounts on no profit no loss basis and six PSUs were under construction and had not prepared profit and loss account. The major contributors to profit were Maharashtra State Power Generation Company Limited (₹ 927.76 crore) and Maharashtra State Electricity Transmission Company Limited (₹882.58 crore). Heavy losses were incurred by Maharashtra State Road Development Corporation Limited (₹ 257.49 crore) and MSEB Holding Company Limited (₹192.83 crore).

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, the Statutory Auditors had given unqualified certificates for 13 accounts and qualified certificates for 49 accounts, adverse certificates (which means that accounts do not reflect a true and fair view) for seven accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for one account. Of the four accounts finalised during October 2012 to September 2013 by the Statutory corporations, all four accounts received qualified certificates. The Reports of the Statutory auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Fifty two working PSUs had arrears of 129 accounts as of September 2013. The extent of arrears was one to seven years. There were 22 non-working companies including two under liquidation.

2. Performance Audit of Government company

Performance Audit of **Power Purchase Agreements with Independent Power Producers** and **Rajiv Gandhi Grameen Vidyutikaran Yojana implemented by Maharashtra State Electricity Distribution Company Limited** was conducted. Executive Summary of the main Audit findings is given below**:**

Performance Audit of Power Purchase Agreements with Independent Power Producers in Maharashtra State Electricity Distribution Company Limited

Introduction

Maharashtra State Electricity Distribution Company Limited (Company) is the distribution licensee for the State except Mumbai and certain Suburban area. The peak demand of the area served by the Company increased from 13,846 Mega Watts (MW) in 2008-09 to 15,261 MW in 2012-13. However, deficit of power decreased from 2,811 MW in 2008-09 to 1,166 MW in 2012-13.

Considering competitive environment as envisaged in the Electricity Act, 2003 and constraints of the Public Sector in creation of adequate capacity, Ministry of Power (MoP), Government of India issued (January 2005) competitive bidding guidelines allowing Independent Power Producers (IPPs) to participate in capacity building through competitive bidding. The Government of Maharashtra (GoM) also formulated (March 2005) policy to promote investment in power sector by IPPs and offered financial/administrative support. As the purchase of power from IPPs was increasing, the Performance Audit of Power Purchase Agreements (PPAs) with IPPs was considered necessary.

Capacity additions through Government support

The GoM executed Memorandum of Understandings (MoUs) with eight IPPs (12,168 MW) and issued letter of support to 30 IPPs (39,631 MW) out of which six IPPs (4,120 MW) had commissioned their plants by June 2013. All IPPs including those who executed MoUs with the GoM participated in the competitive bidding. If such IPPs get financial support from the GoM, the competitive bidding would not provide level playing field. The GoM had also not ensured whether the benefits (tax exemption), if given, had been passed on to consumers through tariff quoted by them.

Renewable energy

Though, the Company's purchase of power from renewable sources increased during 2008-13, it was still below the target fixed by Maharashtra Electricity Regulatory Commission (MERC). The State Government has also not made efforts to develop solar energy source where 35 MW of power per sq. km. could be generated. GoM developed only 20 MW from this source so far.

Purchase of power on long term basis

Purchase of power on long/medium term increased from 81 MUs in 2008-09 to 7,789 MUs in 2012-13. There were instances where the Company purchased costlier power on short/medium term basis from IPPs instead of procuring power on long term basis thereby incurring additional expenditure of ₹57.61 crore. The Company executed PPAs with Adani Power Maharashtra Limited (APML) and JSW Energy (Ratnagiri) Limited (JSWERL) for gross capacity instead of net capacity of power generating units as indicated in tender resulting in avoidable payment of capacity charges of ₹ 31.12 crore to JSWERL. Further, the Company paid incentive of ₹ 22.48 crore to JSWERL considering Scheduled Commercial Operation Date (SCOD) as per bid documents instead of negotiated SCOD agreed by supplier and approved by MERC.

Inadequate performance guarantee

Performance guarantees obtained from IPPs as per terms of tender were of lower value than liquidated damages to be recovered in the event of default. There was a shortfall of ₹260 crore in four PPAs.

Power purchase on medium term basis

The Company accepted request of IPP for reduction in availability of capacity at delivery point without approval of MERC. As a result, the requirement of power was met through short term purchase during December 2011 to August 2012 at extra cost of ₹33.88 crore. Similarly, there was a shortfall in purchase of power on medium term basis from APML and Company resorted to short term purchase at additional cost of ₹ 90.85 crore during November 2011 to November 2012.

Purchase of power on short term basis

The purchase of power on short term basis increased from 1,257 MUs in 2008-09 to 6,312 MUs in 2012-13. The Company executed PPA with Wardha Power Company Limited, Hyderabad for purchase of power on short term basis but purchased infirm power generated before commercial operation at rate agreed for firm power. As per MERC/MoP guidelines, no capacity charges were payable for infirm power. However, the Company paid capacity charges of ₹21.16 crore to IPP.

Recommendations

The Audit has made five recommendations which include ensuring of financial benefits provided to IPPs, if any, by the GoM being passed on to consumers, development of solar energy source, payment of energy charges as per terms of tender, review of performance guarantee and purchase of costly power at minimum level etc.

Performance Audit of Rajiv Gandhi Grameen Vidyutikaran Yojana implemented by Maharashtra State Electricity Distribution Company Limited

Introduction

The Government of India (GoI) notified (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), a scheme for Rural Electricity Infrastructure Development and Household Electrification in the country. The scheme envisaged overall rural electrification by creating distribution network in each village which would be adequate to provide access to electricity to all Rural Households (RHHs) and cater to requirement of other sectors of village. The scheme also stipulated that Below Poverty Line (BPL) RHHs should be provided free of cost connections. The GoI provided financial assistance at 90 per cent of the project cost as capital subsidy and 10 per cent as loan from Rural Electrification Corporation Limited (REC). The Government of Maharashtra (GoM) appointed (August 2005) Maharashtra State Electricity Distribution Company Limited (hereinafter referred to as Company) as Implementing Agency for the scheme.

Planning

There were 113.42 lakh RHHs in 41,095 villages in the State, out of which 55.26 lakh RHHs (including 18.73 lakh BPL RHHs) were un-electrified as of March 2006. As the scheme envisaged overall rural electrification, it was necessary to conduct comprehensive village-wise survey to assess the requirement of distribution network (Sub-Stations, HT/LT lines, DTCs etc.). However, no such village-wise survey was conducted. The Company had proposed electrification of all BPL RHHs but the electrification of 29.19 lakh other than BPL RHHs and other sectors like public places, small scale industries etc. were not proposed under the scheme. Considering financial assistance of ₹ 4 lakh available per village located on normal terrain, total available financial assistance worked out to ₹1,450.14 crore as against ₹729.64 crore actually projected and sanctioned by REC for 30 projects undertaken during XI FYP. Thus, the opportunity of availing remaining financial assistance of ₹ 720.50 crore remained unexplored.

The GoM also did not plan rural electrification of 183 villages from Ahmednagar district served by Mula Parvara Electric Co-operative Society Limited and 168 villages from Bhiwandi Taluka in Thane district being served by Torrent Power Limited. Thus 351 villages were deprived of the benefits of ₹ 14.04 crore under the scheme.

Financial management

Funds released by REC for projects were to be retained in a separate Bank Account for each project and interest earned was to be taken as project income. The Company had received funds of ₹ 595.46 crore which were not immediately utilised and excess funds ranging from ₹ 9.82 crore to ₹ 180.63 crore during 2006-14 (up to September 2013) were utilised by the Company as working capital for other activities. As per the tripartite agreement, the State Government had not reimbursed ₹ 26.54 crore towards repayment of loan with interest and agency charges paid by the Company to REC. Further, the Company paid ₹ 37.45 crore towards taxes for which necessary claims for reimbursement as loan/subsidy were not preferred with REC after concurrence of the State Government as per terms of tripartite agreement.

Project and contract management

The four projects taken during X FYP were completed by 31 March 2010 after delay ranging from seven to 12 months and 30 projects taken during XI FYP were completed with delay ranging from six to 44 months. There was also non recovery of labour cess of ₹ 5.55 crore from the contractors and loss of revenue of ₹ 0.74 crore to the State Exchequer due to execution of contract agreements on stamp paper of lower value.

Revenue sustainability

The Company was facing problems in recovery of electricity charges from BPL RHHs. The arrears of ₹ 19.88 crore were recoverable from 2.89 lakh BPL RHHs from 17 projects against security deposit of ₹ 0.43 crore available with the Company. If the disconnections were resorted to, the purpose of the scheme gets defeated. The State Government did not fulfill its commitment for payment of subsidy to make the scheme financially viable and ensure revenue sustainability as per commitment given in tripartite agreement.

Monitoring

The State and District level Co-ordination Committees were set up by the State Government for reviewing rural electrification. No meeting was held by District Level Committees in 17 Districts while only one meeting was held at State level. The village wise electrification records were also not maintained by Gram Panchayats/Councils to assess the status of rural electrification on annual basis.

Impact assessment

The beneficiary survey conducted by Audit indicated lack of awareness of the scheme, collection of illegitimate money from beneficiaries, poor quality of CFL bulbs etc.

Recommendations

The Company has been facing problem in recovery of energy bills from BPL households. The State Government may therefore fulfil its commitment for payment of subsidy to ensure revenue sustainability. Further, the State Government may reimburse loans along with interest thereon and reimbursement of taxes as per the commitment given in tripartite agreement.

3. Performance Audit of Statutory corporation

Performance Audit of Maharashtra Industrial Development Corporation was conducted. Executive Summary of the main Audit findings is given below:

Introduction

Maharashtra Industrial Development Corporation (Corporation) was established in 1962 under the Maharashtra Industrial Development Act, 1961 (MID Act) with the main objective of securing and assisting in the rapid and orderly establishment and organisation of industries in industrial areas in the State. The main function of the Corporation is development of industrial areas by creating infrastructure and allotment of plots/sheds and providing water supply and other facilities to industrial units. Performance Audit of the Corporation was conducted by covering period of five years ended 31 March 2013.

As on 31 March 2013, there were 282 industrial areas/estates located in developed and developing parts of the State. The Corporation allotted 31,235 Hectare (Ha) of land (58,660 plots) to industrial units by March 2013. The area remained to be acquired was 52,428 Ha at the end of 2012-13 of which 20,589 Ha was pending for more than five years. The Corporation paid compensation to Special Land Acquisition Officer (SLAOs)/Sub-Divisional Officer (SDO) for the land which was not completely handed over to the Corporation. The Corporation had however, not reconciled accounts with SLAOs/SDO. As a result, sizeable amount remained with SLAOs.

Imbalanced development

The objective of State Industrial Policy emphasising balanced development was not yet achieved. The investment by entrepreneurs in Western Maharashtra Region was 70 per cent of total investment of ₹ 1,90,971 crore up to 2012-13 followed by 13 per cent in Konkan Region. The lowest investment was in Marathwada Region at two per cent followed by six and nine per cent in Vidharbha and Khandesh Regions respectively. The Konkan Region had not generated any additional employment during the period under review.

Allotment of land

The Corporation revised lease premium from time to time. Allotments of land in 47 cases (Mahape, Nasik and Pune) were however, made after revision of rates by recovering premium at pre-revised rates. As a result, there was short recovery of lease premium by ₹ 16.66 crore. The Corporation allotted two plots in Pimpri-Chinchwad Industrial area for the purpose of automobile repair and servicing at industrial rate though the activity was of commercial nature which resulted in short recovery of lease premium of ₹ 13.02 crore.

Subletting of plots

The Corporation recovered subletting charges at the rate for industrial use though the plots were sublet for commercial activity resulting in short recovery of subletting charges by ₹ 2.47 crore. The Corporation waived yearly subletting charges of ₹ 7.69 crore exclusively for Reliance Corporate Information Technology Park Limited, Navi Mumbai.

Allotment of land for residential use

The Corporation allotted 56 Ha of land to SPV for development of Integrated Township at Hinjewadi, Pune. The condition for sale of flats exclusively to persons working in IT/Bio Tech parks was waived and SPV was allowed to sell flats in the open market. The differential lease premium of ₹ 27.72 crore for use of land for commercial purpose was recoverable. However, the Corporation had not recovered any such differential lease premium so far.

Utilisation of land

Section 42A of MID Act, contemplated that the State Government may obtain report on utilisation of plots and if satisfied that plot holders had not utilised the Floor Space Index (FSI) available and unutilised portion was capable of sub-division, may accommodate other industries. However,

such exercise was not taken at any point of time so far. Test check of 88 lessees (above 10,000 square metre) from seven industrial area indicated that utilisation of FSI was 10.07 per cent of total permissible FSI.

Recovery of service charges

The data in Water Billing System (WBS) did not match with data of Land Management System (LMS) and Service Charges (SC) of ₹4.96 crore remained un-recovered. The Corporation had not ensured as to whether post tender Central subsidy of ₹ 74.92 crore for Common Hazardous Waste Treatment Storage and Disposal Facilities at Ranjangaon, Pune and Butibori, Nagpur was passed on to the end users by way of reduction in processing charge.

Internal control and Monitoring system

The Corporation had not prescribed periodical returns to be submitted by ROs regarding total number of plots allotted, number of Building Completion Certificates (BCCs) due, and number of BCCs actually issued. The data base in LMS and WBS was incomplete, inaccurate and not matching with each other.

Recommendations

Audit has made seven recommendations which included minimising imbalance in industrial development, reconciling accounts with SLAOs, avoiding delay in issue of offer letters for allotment of land and finalisation of tenders, improving the surveillance on utilisation of plots to ensure recovery of subletting charges and transfer fee, recovery of differential lease premium for commercial use and submitting periodical return by ROs on important developmental activities.

4. Compliance Audit Paragraphs

Compliance Audit Paragraphs 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:

Loss of ₹ 304.94 crore in Six cases due to non-compliance with rules, directives, procedures, terms and conditions of contract.

(Paragraphs 4.2 to 4.7)

Loss of ₹ 157.45 crore in Five cases due to non-safeguarding of financial interests of the organisations.

(Paragraphs 4.1, 4.11 to 4.14)

Loss of ₹ 7.39 crore in three cases due to inadequate/deficient monitoring.

(Paragraphs 4.8, 4.9 and 4.10)

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

Maharashtra Airport Development Company Limited extended various undue benefits to Developer resulting in non recovery of ₹ 149.35 crore in three contracts

(Paragraph 4.1)

The **Maharashtra State Electricity Distribution Company Limited** wrongly computed depreciation while assessing its IT liability resulting in avoidable payment of interest of ₹ 33.58 crore on Income Tax. The Company permitted change of category from continuous to non-continuous supply though applications for change were not submitted within the time prescribed by MERC thereby benefiting HT consumers by ₹ 10.57 crore. Non-metering for external consumption by malls/multiplexes resulted in loss of potential revenue of ₹ 3.29 crore to the Company during June 2008 to February 2013.

(Paragraphs 4.4, 4.5 and 4.6)

The **Maharashtra State Power Generation Company Limited** incurred infructuous expenditure of ₹ 4.01 crore on procurement of fly ash pumps. The Company did not assess the requirement of water correctly and paid water charges of ₹ 2.06 crore for undrawn quantity.

(Paragraphs 4.11 and 4.12)

The **Maharashtra State Road Development Corporation Limited** granted extension to existing party at lower rates resulting in loss of revenue of ₹ 46.14 lakh during March 2009 to July 2010.

(Paragraph 4.14)