CHAPTER – III

Public Sector Undertakings and Government Commercial & Trading Activities

CHAPTER-III

PUBLIC SECTOR UNDERTAKINGS AND GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

3.1 Overview of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people. They occupy an important place in the State economy. As on 31 March 2017, there were 17 PSUs including 15 State Government Companies and two Statutory Corporations. None of these Government companies was listed on the stock exchange(s). During the year 2016-17, one[1] PSU was incorporated. The details of the State PSUs in Goa as on 31 March 2017 are given in ***Table 3.1.1***.

Table 3.1.1: Total number of PSUs as on 31 March 2017

Type of PSUs	Working PSUs	Non-working PSUs[2]	Total
Government Companies[3]	14	1	15
Statutory Corporations	1	1	2
Total	**15**	**2**	**17**

(Source: Compiled from Appendix 3.2 based on entrustment of audit of PSUs)

The working PSUs registered a turnover of ₹ 912.75 crore as per their latest finalised accounts as of October 2017. This turnover was equal to 1.41 *per cent* of State's Gross Domestic Product[4] (GSDP) for 2016-17. The working PSUs earned aggregate profit of ₹ 49.52 crore as per their latest finalised accounts. As on March 2017, all PSUs together had employed 3,422 employees.

As on 31 March 2017, there were two non-working PSUs of which Goa Auto Accessories Ltd. (GAAL) having total investment of ₹ 5.59 crore was non-working since 2013-14. Major portion of assets of GAAL had been sold (June 2017). The other PSU namely Goa Information Technology Development Corporation (GITDC) was non-functional since inception *i.e.,* 2006-07 and has not furnished its first accounts till date. Efforts for reviving this PSU were initiated in July 2017. This is a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

[1] Imagine Panaji Smart City Development Ltd. (IPSCDL) was incorporated on 16.08.2016

[2] Non-working PSUs are (1) Goa Auto Accessories Ltd (GAAL) and (2) Goa Information Technology Development Corporation (GITDC)

[3] Government Companies include other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013

[4] The State's Gross Domestic Product for the year 2016-17 was ₹ 64,543.58 crore (Quick Estimates 2016-17 with base year 2011-12)

Accountability framework

3.1.2 The process of audit of Government companies is governed by respective provisions of Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government Company.

Further, as per sub-Section 7 of Section 143 of the Act 2013, the Comptroller and Auditor General of India (CAG) may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

3.1.3 The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under Section 143(5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act 2013.

Audit of Statutory Corporations, is governed by their respective legislations. CAG is the sole auditor for the two Statutory Corporations, *viz.,* Goa Industrial Development Corporation and Goa Information Technology Development Corporation.

Role of Government and Legislature

3.1.4 The State Government exercises control over the affairs of these PSUs 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 the CAG, in respect of State Government Companies and Separate Audit Reports in case of Statutory Corporations are to be placed before the Legislature under Section 395 of the

Act 2013 or as stipulated in the respective Acts. The Audit Reports of the 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 Goa

3.1.5 The Government of Goa 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, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when considered necessary.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

3.1.6 As per the latest finalised accounts (October 2017), the investment (capital and long-term loans[5]) in 17 PSUs was ₹ 906.88 crore as per details given in ***Table 3.1.2***.

Table 3.1.2: Total investment[6] in PSUs

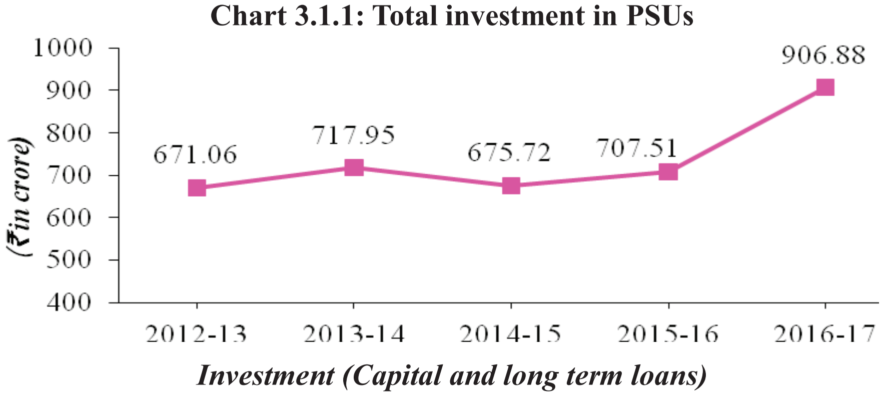
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	307.80	546.32	854.12	47.17	0	47.17	901.29
Non-working PSUs	5.59	0	5.59	0	0	0	5.59
Total	**313.39**	**546.32**	**859.71**	**47.17**	**0**	**47.17**	**906.88**

(Source: Compiled based on information received from PSUs)

Out of total investment of ₹ 906.88 crore in State PSUs, 99.38 *per cent* was in working PSUs and the remaining 0.62 *per cent* was in the non-working PSU. This total investment consisted of 39.76 *per cent* towards capital and 60.24 *per cent* towards long-term loans. The investment has grown by 35.14 *per cent* from ₹ 671.06 crore in 2012-13 to ₹ 906.88 crore in 2016-17 as depicted in the ***Chart 3.1.1***.

Chart 3.1.1: Total investment in PSUs



[5] Loans from Government and Financial Institutions
[6] Investments includes Capital and long term Loans

3.1.7 The sector wise summary of investments in the State PSUs as on 31 March 2017 is given in ***Table 3.1.3***.

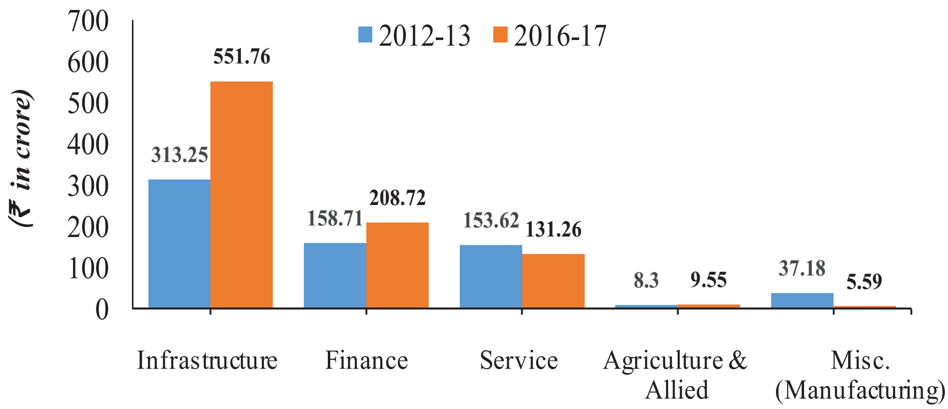
Table 3.1.3: Sector-wise investment in PSUs

Name of Sector	Government Companies		Statutory Corporations		Total	Investment (*₹ in crore*)
	Working	Non-Working	Working	Non-Working		
Infrastructure	4		1	1	6	551.76
Finance	4		-	-	4	208.72
Service	3		-	-	3	131.26
Agriculture & Allied	3		-	-	3	9.55
Miscellaneous (Manufacturing)	-	1	-	-	1	5.59
Total	**14**	**1**	**1**	**1**	**17**	**906.88**

(Source: Compiled based on information received from PSUs)

The investment in above sectors and percentage thereof at the end of 31 March 2013 and 31 March 2017 are indicated below in the ***Chart 3.1.2.***

Chart 3.1.2: Sector wise investment (Capital and Long term loans) in PSUs



The thrust of PSUs' investment was mainly on infrastructure sector, which increased from 46.68 *per cent* in 2012-13 to 60.84 *per cent* in 2016-17. The percentage share of investment in service sector declined from 22.89 *per cent* to 14.47 *per cent* during same period. The percentage share in respect of finance and agriculture and allied sectors in 2012-13 was 23.65 *per cent* and 1.24 *per cent* respectively. These sectors maintained their share at 23.01 *per cent* and 1.05 *per cent* respectively in 2016-17.

Special support and returns during the year

3.1.8 The Government of Goa provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies in respect of PSUs for the last three years ending March 2017 are given in ***Table 3.1.4.*** The table also gives the details of waiver of loans and interest, guarantees issued and guarantee commitment outstanding as at the end of respective years.

Table 3.1.4: Details regarding budgetary support to PSUs during the years

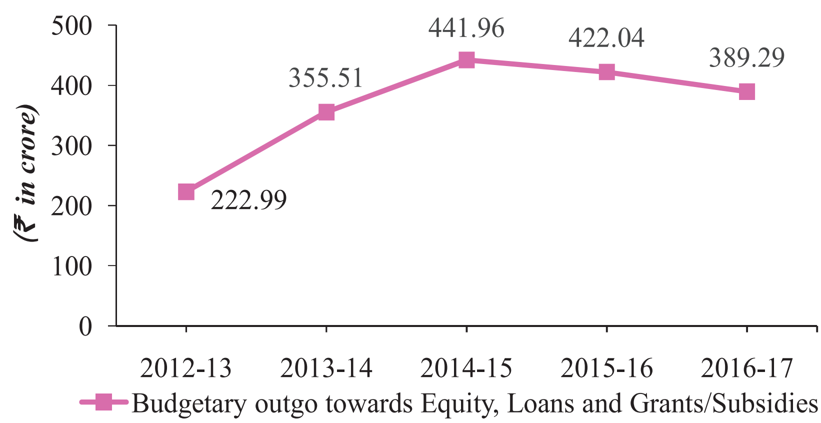
(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity/Capital outgo from budget	1	0.50	0	0	1	1.00
2.	Loans given from budget	1	1.68	1	1.55	1	1.36
3.	Grants/Subsidy from budget	8	439.78	10	420.49	10	386.93
4.	**Total Outgo (1+2+3)**		**441.96**		**422.04**		**389.29**
5.	Waiver of loans and interest	**1**	**0.01**	**0**	**0**	**0**	**0**
6.	Guarantees issued during the year	1	25.00	2	40.50	3	219.50
7.	Guarantee Commitment outstanding at the end of the year	3	131.95	4	365.24	3	534.42

(Source: Compiled based on information received from PSUs)

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the last five years ending March 2017 are given in ***Chart 3.1.3***.

Chart 3.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The budgetary outgo showing an upward trend till 2014-15 declined thereafter. It has declined by 7.76 *per cent* from ₹ 422.04 crore in 2015-16 to ₹ 389.29 crore in 2016-17.

In order to provide financial assistance to PSUs from banks and financial institutions, Government of Goa gives guarantee under Goa State Guarantees Act, 1993. Such guarantees are given subject to the limits fixed by State Legislature from time to time as per provisions of Article 293(1) of the Constitution of India. The Government of Goa has exempted its PSUs from payment of Guarantee Commission. The guarantee commitment increased to ₹ 534.42 crore during 2016-17 from ₹ 131.95 crore in 2014-15.

Reconciliation with Finance Accounts

3.1.9 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures 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 2017 is given in ***Table 3.1.5***.

Table 3.1.5: Equity and guarantees outstanding as per draft Finance Accounts[7] *vis-a-vis* records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts (2016-17)	Amount as per records of PSUs	Difference
Equity	388.18	361.14	27.04
Guarantees	582.27	534.42	47.85

(Source: Compiled based on information received from PSUs and draft Finance Accounts)

Audit observed that the differences occurred in respect of Guarantees given to five PSUs and Equity investment in 16 PSUs. The differences between the figures were persisting since last many years. The issue was taken up with the PSU/Departments from time to time to reconcile the differences. It is, therefore, recommended that the State should reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

3.1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of relevant financial year *i.e.*, by September end in accordance with the provisions of Section 96 (1) and 129(2) of the Companies Act 2013. Failure to do so may attract penal provisions under section 99 and 129(7) of the Companies Act 2013. 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 details of progress made by PSUs in finalisation of accounts as of 31 October 2017 are given in ***Table 3.1.6***.

Table 3.1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Total PSUs	17	16	16	16	17
2.	Number of Working PSUs	17	14	14	14	15
3.	Number of accounts finalised during current year	13	20	15	17	11
4.	Number of working PSUs which finalised accounts for the current year	2	4	1	4	2
5.	Number of previous year's accounts finalised during current year	11	16	15	13	9
6.	Number of Working PSUs with arrears in accounts	15	10	13	10	13
7.	Number of accounts in arrears	44	40	41	40	46[@]
8.	Average arrears per PSU(7/1)	2.6	2.5	2.6	2.5	2.7
9.	Extent of arrears	1 to 10	1 to 11	1 to 11	1 to 10	1 to 11

(Source: [@]Compiled based on accounts of working PSUs received during the period 16 October 2016 to 31 October 2017)

[7] Company wise loans were not separately provided in the Finance Accounts; hence loans were not worked out

Of the total 15 working PSUs, 10 working PSUs had finalised 10 annual accounts, of which two PSUs' annual accounts pertained to 2016-17 and remaining nine annual accounts pertained to previous years. Thirteen working PSUs had 34 accounts in arrears, of which accounts of one[8] PSU was in arrears since 2007-08. Average arrears of annual accounts per PSU had increased from 2.6 in 2012-13 to 2.7 in 2016-17.

It can be observed that the number of accounts in arrears increased from 40 during the year 2015-16 to 46 in 2016-17. Among the above, one non-working PSU *viz.,* Goa Information Technology Development Corporation (GITDC) has not submitted its accounts since inception (2006-07) and first accounts of the newly incorporated company *viz.,* Imagine Panaji Smart City Development Ltd. are awaited.

The Administrative Departments have the responsibility of overseeing the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned departments were informed on a quarterly basis regarding arrears in accounts. In addition to the quarterly intimation to the concerned Ministry/Department, the Deputy Accountant General/Accountant General took up the matter with the State Government/Departments for liquidating the arrears of accounts every six months. However, no significant improvement has been noticed in submission of accounts for audit.

3.1.11 The Government of Goa had invested ₹ 441.90 crore[9] in 15 PSUs during the years for which accounts have not been finalised as detailed in ***Appendix 3.1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount invested was achieved. The investment of GoG in these PSUs, therefore, remained outside the control of State Legislature.

3.1.12 In addition to above, as on 31 October 2017, there were arrears in finalisation of accounts by two non-working PSUs namely GITDC and GAAL. GITDC has not submitted its accounts since inception (2006-07) and as such 11 accounts of this Company are in arrears. The data regarding investment by Government in this PSU was also not provided. In respect of GAAL, the accounts for 2016-17 were pending as on 31 October 2017.

Placement of Separate Audit Reports

3.1.13 Out of two Statutory Corporations, only one is working *i.e.*, GIDC which has not submitted its accounts for the years 2015-16 and 2016-17 as on 31 October 2017.

Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. The ***Table 3.1.7*** shows the status of placement of Separate Audit Reports (SARs) issued by the CAG

[8] Goa State Scheduled Castes and Other Backward Classes Finance and Development Corporation Limited

[9] Equity: ₹ 5.54 crore (three PSUs), loans: ₹ 11.56 crore (one PSU), grants ₹ 322.42 crore (10 PSUs) and subsidy ₹ 102.38 crore (two PSUs)

(up to 30 September 2017) on the accounts of Statutory Corporation in the Legislature.

Table 3.1.7: 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	Goa Industrial Development Corporation	2010-11	2011-12	10.04.2014
			2012-13	01.05.2015
			2013-14	18.01.2016
			2014-15	14.02.2017
2	Goa Information Technology Development Corporation	First accounts awaited since 2006-07		

(Source: Compiled based on information received from Statutory Corporation)

Impact of non-finalisation of accounts

3.1.14 As pointed in Paragraph 3.1.10 to 3.1.12**,** the 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 Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the GSDP for the year 2016-17 could not be ascertained and their performance was also not reported to the State Legislature.

It is therefore, recommended that:

- ***The Government may closely monitor the clearance of arrears and set targets for individual Companies.***

Performance of PSUs as per their latest finalised accounts

3.1.15 The financial position and working results of working PSUs are detailed in ***Appendix 3.2***. A ratio of PSUs' turnover to GSDP shows the extent of activities of PSUs in the State economy. The ***Table 3.1.8*** below provides the turnover of working PSUs and State GDP for a period of five years ending 31 March 2017:

Table 3.1.8: Details of working PSUs' turnover *vis-a-vis* State GDP

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover[10]	569.35	652.18	714.08	939.28	912.75[11]
State GDP	42407	48897	52673	60895	64544[12]
Percentage of Turnover to State GDP	1.34	1.33	1.36	1.54	1.41

(Source: As per Appendix 3.2 and Budget Estimate)

While the contribution of PSUs to GSDP had been gradually increasing from 2013-14 to 2015-16, it has decreased to 1.41 *per cent* in 2016-17. Out of the total turnover of ₹ 912.75 crore, ₹ 646.95 crore (71 *per cent*) pertains to two

[10] Turnover of 15 working PSUs as per the latest finalised accounts as of 30 September or 31 October of respective years

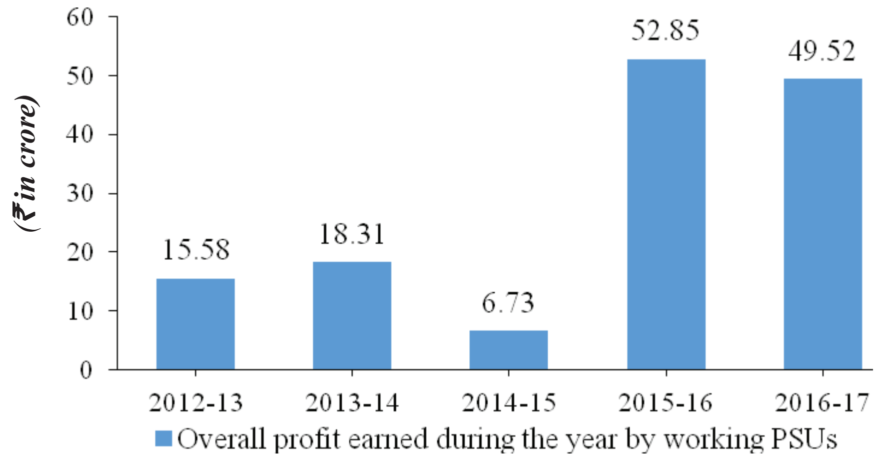
[11] Excluding turnover of one PSU *i.e*, Imagine Panaji Smart City Development Limited which has not furnished its first accounts

[12] State GDP for the year 2016-17 taken as per Quick Estimates 2016-17 with base year 2011-12

PSUs (Goa State Infrastructure Development Corporation and Kadamba Transport Corporation Limited). Other 13 PSUs together contributed turnover of ₹ 265.80 crore.

3.1.16 The overall position of profit earned by the working PSUs during 2012-13 to 2016-17 is depicted in ***Chart 3.1.4***.

Chart 3.1.4: Profit/Loss of working PSUs



The profit of working PSUs decreased by 6.30 *per cent* to ₹ 49.52 crore, from ₹ 52.85 crore, during the year 2016-17. During the year 2016-17, out of 15 working PSUs, 11 PSUs earned profit of ₹ 53.93 crore and three PSUs incurred loss of ₹ 4.41 crore and one newly incorporated PSU (IPSCDL) has not submitted its first account. During the year 2016-17, out of two non-working PSUs, one non-working Company (GAAL) incurred loss of ₹ 1.12 crore while one non-working PSU (GITDC) has not submitted its first account. The major contribution to profit was from EDC (₹ 42.42 crore), GSIDCL (₹ 5.19 crore) whereas KTCL and GAAL were the major loss making PSUs with loss of ₹ 3.53 crore and ₹ 1.12 crore respectively.

3.1.17 Some other key parameters of PSUs are given in ***Table 3.1.9.***

Table 3.1.9: Key Parameters of State PSUs

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Return on Capital Employed (*per cent*)	8.94	9.21	7.49	9.83	10.09
Debt	314.07	367.15	329.45	347.50	546.32
Turnover	569.35	652.18	714.08	940.38	914.74[13]
Debt/Turnover Ratio	0.55:1	0.56:1	0.46:1	0.37:1	0.60:1
Interest Payments	29.13	38.16	34.75	35.52	66.71
Accumulated Profits/(losses)	(46.22)	(47.24)	(37.99)	(13.38)	26.86
Return on Equity *(per cent)*	5.84	1.31	1.69	12.50	10.50

(Source: As per Appendix 3.2 and relevant finalised financial statements of PSUs indicated in Appendix 3.2)

The turnover of PSUs had increased gradually from ₹ 569.35 crore in 2012-13 to ₹ 914.74 crore in 2016-17. However, the debt of the PSUs increased from

[13] All 17 PSUs as per the latest finalised accounts as of 31 October 2017 except for IPSCDL and GITDC who are yet to finalise their first accounts

₹ 347.50 crore in 2015-16 to ₹ 546.32 crore in 2016-17. Hence, the debt turnover ratio increased from 0.37 to 0.60 during the same period. Even though the percentage of return on equity in 2016-17 had declined to 10.50 from 12.50 in 2015-16, it was better compared to the period 2012-13 to 2014-15.

3.1.18 The State Government had not formulated any dividend policy under which all PSUs are required to pay a minimum return on the paid-up share capital contributed by the Goa Government. As per their latest finalised accounts, 11 PSUs earned aggregate profit of ₹ 53.93 crore and two PSUs[14] declared dividend of ₹ 1.38 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.

Erosion of capital due to losses

3.1.19 The capital investment and accumulated profits of the State PSUs as per their latest finalised accounts were ₹ 360.56 crore and ₹ 26.86 crore respectively as detailed in ***Appendix 3.2***. However, in respect of three working PSUs and one non-working PSU, a higher quantum of accumulated losses than the capital investment showed that the overall capital of four[15] State PSUs had entirely eroded resulting in negative net worth of ₹ 141.35 crore.

Winding up of non-working PSUs

3.1.20 There were two non-working PSUs (One Company and one Statutory Corporation) as on 31 March 2017. The liquidation process for GAAL has been initiated (March 2014) and assets have been sold (June 2017). The efforts for reviving GITDC have been initiated (July 2017).

Accounts comments

3.1.21 Eleven PSUs forwarded their 11 audited accounts to Accountant General during the period 16 October 2016 to 31 October 2017. Of these, eight accounts of eight Companies were selected for supplementary audit. The comments in the Audit Reports of the Statutory Auditors appointed by CAG and the supplementary audit of CAG mention significant observations on the financial statements. These indicate the quality of financial statements and highlight the areas which need improvement. The details of aggregate money value of comments of Statutory Auditors and CAG are given in ***Table 3.1.11.***

[14] Two PSUs namely EDC and GSIDC declared dividend

[15] Goa Handicrafts, Rural and Small Scale Industries Development Corporation, Kadamba Transport Corporation Limited, Goa Electronics Limited (subsidiary of EDC Limited) and Goa Auto Accessories Limited (non-working subsidiary of EDC Limited)

Table 3.1.11: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	1	0.61	2	19.80	5	66.93
2	Increase in loss	2	5.74	5	1.52	3	8.67
3	Non-disclosure of material facts	2	0	2	0.33	3	8.81
4	Errors of classification	0	-	4	2.82	2	79.49

(Source: Compiled from details received from PSUs)

The aggregate money value of Statutory Auditors' comments and CAG's comments during the year 2016-17 was ₹ 163.90 crore.

Comments of Statutory Auditors and the Comptroller and Auditor General of India resulting in decrease in profit totalled to ₹ 66.93 crore involving five accounts as compared to ₹ 19.80 crore involving two accounts in 2015-16. Similarly, comments on non-disclosure of material fact in accounts totalled ₹ 8.81 crore, involving three accounts, for the year 2016-17 as against of ₹ 0.33 crore, involving two accounts for the year 2015-16.

During the year, the Statutory Auditors had given seven unqualified certificates to seven PSUs' accounts and qualified certificates to five PSUs' accounts. In respect of one account they gave adverse and qualified certificate which mean that accounts do not reflect a true and fair position. In respect of one account the Statutory Auditors have given disclaimer and qualified certificate that the auditors were unable to form an opinion on the accounts. The compliance of Companies with the Accounting Standards remained poor as there were 14 instances of non-compliance in nine accounts during the year.

Response of the Government to Audit

Performance Audits and Paragraphs

3.1.22 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2017, four audit paragraphs were issued to the Management and Principal Secretaries of the respective Departments with request to furnish replies within six weeks. The replies were awaited from the State Government (December 2017).

Follow-up action on Audit Reports

3.1.23 The Report of the CAG of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. All the Administrative Departments of PSUs need to submit the explanatory notes indicating the corrective/remedial action taken or proposed to be taken on paragraphs and performance audits included in the Audit Reports. The Finance Department, Government of Goa issued every year, instructions to all Administrative Departments to submit replies/explanatory notes within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the COPU. Despite these instructions, out of 10 Performance Audits (PAs) and 65 audit paragraphs, the explanatory notes to six PAs and 33 audit paragraphs incorporated in the Audit Reports for the period from 2004-05 to 2015-16 have not been received as indicated in ***Table 3.1.12***.

Table 3.1.12: Explanatory notes not received (as on 30 September 2017)

Year of the Audit Report (Commercial/ PSU)	Date of placement of Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2004-05	12 July 2006	2	2	1	0
2005-06	30 July 2007	1	7	1	2
2006-07	19 August 2008	1	8	0	4
2007-08	24 March 2009	1	10	0	7
2008-09	25 March 2010	1	8	1	3
2009-10	17 March. 2011	1	5	1	1
2010-11	20 March 2012	0	8	0	2
2011-12	10 October 2013	0	5	0	3
2012-13	23 July 2014	1	5	1	4
2013-14	14 August 2015	0	3	0	3
2014-15	11 August 2016	1	3	0	3
2015-16	07 August 2017	1	1	1	1
Total		**10**	**65**	**6**	**33**

(Source: Compiled based on explanatory notes received from respective Departments)

Discussion of Audit Reports by COPU

3.1.24 The status as on 30 September 2017 of PAs and audit paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) is as given in ***Table 3.1.13***.

Table 3.1.13: PAs and audit paragraphs appeared in Audit Reports *vis-a-vis* discussed

Period of Audit Report	Number of PAs / audit paragraphs			
	Appeared in Audit Report		Discussed by COPU	
	PAs	Paragraphs	PAs	Paragraphs
2004-05	2	2	0	0
2005-06	1	7	0	2
2006-07	1	8	0	0
2007-08	1	10	0	0
2008-09	1	8	0	0
2009-10	1	5	0	5
2010-11	0	8	0	0
2011-12	0	5	0	0
2012-13	1	5	0	0
2013-14	0	3	0	0
2014-15	1	3	1	0
2015-16	1	1	0	0
Total	**10**	**65**	**1**	**7**

(Source: Compiled based on the discussions of COPU on the Audit Reports)

Compliance to Reports of COPU

3.1.25 Action Taken Notes (ATNs) to four paragraphs pertaining to a Report of the COPU had not been received (November 2017). This Report of COPU was presented in the State Legislature on 04 February 2011. The details are provided in ***Table 3.1.14***.

Table 3.1.14: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total number of recommendations in COPU Report	Number of recommendations where ATNs not received
2009-11	**1**	**4**	**4**

(Source: Compiled based on recommendations of COPU)

This Report of COPU contained recommendations in respect of paragraphs pertaining to three departments/PSUs, which appeared in the Report of the CAG of India for the year 2003-04.

The State Government may ensure that replies to Paragraphs/Performance Audits and ATNs on the recommendations of COPU are furnished as per the prescribed time schedule.

Disinvestment, Restructuring and privatisation of PSUs

3.1.26 No disinvestment, restructuring and privatisation of the State working PSUs took place during the year ended 2016-17. However, major portion of assets of one non-working PSU (GAAL) has been sold (June 2017).

Coverage of this Chapter

3.1.27 This chapter contains four audit paragraphs involving financial effect of ₹ 112.61 crore.

PUBLIC WORKS DEPARTMENT

3.2 Execution of sewage works by Sewage and Infrastructural Development Corporation Limited

3.2.1 Introduction

The Public Works Department (PWD) is the nodal department for implementation of all infrastructural development works in the State. The Sewage and Infrastructural Development Corporation Limited (Company) is also a designated agency entrusted with developmental works and in particular, treatment and disposal of sewage and setting up of underground drainage systems in the State. The Company was incorporated (February 2001) by Government of Goa and commenced its operation from January 2008[16].

The Company is chaired by the PWD Minister. The Managing Director of the

[16] The Company remained largely dormant since its incorporation and was revived in 2008 with financial support of State Government

Company is assisted by a Chief General Manager, two General Managers and four Deputy General Managers.

The Company received ₹ 371.57 crore from the State Government and ₹ 59.48 crore from NABARD[17] as loan during 2008-17. At the end of March 2017, the Company had an outstanding committed liability of ₹ 183 crore towards payments to contractors.

The Company awarded 131 works valuing ₹ 1,340.39 crore to contractors for implementation of eight[18] major sewage projects between 2008 and 2017. Of the 131 works, Audit selected 41 works valuing ₹ 621.85 crore, based on stratified random sampling[19], to obtain an assurance that the Company had exercised due diligence in planning, tendering and execution of sewage projects.

The Audit findings are reported to the Company in July 2017 and management furnished its reply in July and September 2017 which has been incorporated at appropriate places.

Audit findings

3.2.2 Execution of sewage works

An overview of physical and financial progress of 41 selected sewage works as of March 2017 is shown in ***Table 3.1***.

Table 3.1: Physical and financial progress of 41 selected works as of March 2017

Status of works		Number of selected works	Tendered cost (*₹ in crore*)	Expend-iture incurred (*₹ in crore*)	Compl-eted in time	Delay in completion		Comple-tion date after March 2017	Physical progress of incomplete works
						More than one year	Less than one year		
Completed works	Above ₹ 25 crore	2	68.04	92.09	Nil	Nil	2	Nil	Not applicable
	Below ₹ 25 crore	15	57.00	48.60	2	11	2	Nil	Not applicable
Incomplete works	Above ₹ 25 crore	13	407.05	130	Nil	1	7	5	Two works less than 50 % and six works more than 50 %
	Below ₹ 25 crore	11	89.76	16.54	Nil	3	4	4	Three works less than 50 % and four works more than 50 %
Total		**41**	**621.85**	**287.23**	**2**	**15**	**15**	**9**	

(Source: Information furnished by the Company)

[17] National Bank for Agriculture and Rural Development

[18] Porvorim, Margao, Navelim, Vasco, Ponda, Colva, Fatorda and Durbhat

[19] Out of two completed works valuing above ₹ 25 crore, Audit selected two works (100 *per cent* coverage); out of 60 completed works valuing below ₹ 25 crore, Audit selected 15 works (25 *per cent* coverage); out of 25 incomplete works valuing above ₹ 25 crore, Audit covered 13 works (50 *per cent* coverage); and out of 44 incomplete works valuing below ₹ 25 crore, Audit covered 11 works (25 *per cent* coverage)

The table above indicates that only two of 41 sewage works had been completed on time while 30 works were delayed. The key reasons for delay were change in scope of work after award, incorrect estimation of items, change in site of Sewage Treatment Plants (STPs), change in designed capacities of STPs *etc*. Of the 24 incomplete works, 10 works attained physical progress of more than 50 *per cent* while five works achieved physical progress of less than 50 *per cent*. The tendered cost of 41 selected works was ₹ 621.85 crore of which, an expenditure of only ₹ 287.23 crore had been incurred as of March 2017. The reasons for low spending were slow progress of works and poor budgetary support from State Government.

Audit findings on scrutiny of three[20] of eight major sewage projects involving 41 selected works are discussed in the succeeding paragraphs.

3.2.2.1 Change in scope of work

As per Manual (November 2013) of Central Public Health and Environmental Engineering Organisation (CPHEEO), by convention sewage schemes are designed to serve the ultimate population that will be reached some 30 years from the date of inception. The sewage volumes that can use the designed sewer capacities thus, become available late in the design period resulting in idle capacity and idle investment on underground sewers and non-productive expenditure. In case the STP of the centralised[21] system is grossly underutilised, effectiveness of sewage treatment suffers due to prolonged hydraulic retention. By contrast, use of a decentralised[21] sewer system resolves this problem and at the same time lowers the cost.

Porvorim sewage project

The Detailed Project Report (DPR) of Porvorim sewage project envisaged (April 2010) laying of sewer network of 171.49 km and construction of three STPs (one in each phase) with total capacity of 15.30 Million Litre per Day (MLD) at an estimated cost of ₹ 210 crore, which was revised to ₹ 283.50 crore in April 2014. As per DPR, the projected capacity of 15.30 MLD was to cater to an estimated population of 1.35 lakh up to the year 2041, and 10.84 MLD for the population of 0.96 lakh up to the year 2026. The project was to be completed by March 2017.

The Company placed (April 2015) work orders for sewer network of 27 km in three parts ('A', 'B' and 'C') under phase I of the project at a total cost of ₹ 95.79 crore for completion by October 2017. While part 'B' of sewer network was completed in June 2016, the other two parts ('A' and 'C') were completed to the extent of 70 and 75 *per cent* till March 2017. The Company incurred an expenditure of ₹ 60.16 crore up to March 2017. This sewer network of 27 km upon completion was planned to be connected with STP of four MLD. The land identified for construction of STP belonged to Kadamba Transport Corporation Limited (KTCL), a State Government Company.

[20] Porvorim, Margao and Navelim sewage projects

[21] A single centralised STP with larger capacity caters to large area and population. While the decentralised system with multiple STPs can also cater to the same area and population

Since there was considerable delay in handing over the site by the KTCL, the Company took a decision (May 2016) to construct a single centralised STP of 20 MLD capacity at Mapusa. In this connection, Audit observed the following:

- The Company did not ensure availability of land for STP before placing work orders for sewer network under phase I. The action for obtaining no-objection certificate (NOC) from KTCL was initiated by the Company only in June 2015 while the work orders were placed in April 2015.

- Since the 20 MLD STP site at Mapusa was 5.5 km away from Porvorim, this necessitated laying of trunk mains at a total cost of ₹ 60.46 crore (works awarded in October 2016) for carrying sewage from Porvorim to Mapusa. The works were scheduled to be completed by December 2018. Additionally, the sewer network being created under phase I on which the Company had already spent ₹ 60.16 crore up to March 2017 would have to be connected with trunk mains.

- The Company awarded (December 2016) the work of design, construction, supply, installation, testing and commissioning of 20 MLD STP at a total cost of ₹ 52.54 crore for completion by April 2018. This implied that phase I of the project, which is already on the verge of completion, cannot be integrated with the trunk mains until its completion in December 2018. Therefore, the benefits envisaged from phase I would not be realised, as the Company would be able to release sewer connection to the public only at the end of 2018, assuming there are no further slippages.

- Considering that the work of laying sewer network under phase I of the project would consume 30 months[22], similar works under phase II and III would not be completed before June 2020, assuming that phase II and III works are tendered in January 2018 and there are no slippages. Also, the cost dynamics of the project has changed from ₹ 283.50 crore (DPR cost) to ₹ 373.55 crore[23], due to inclusion of trunk mains and centralised STP of enhanced capacity.
- As per DPR, 10.84 MLD STP was sufficient to cater to the population of 0.96 lakh up to the year 2026 and 15.30 MLD up to year 2041 for the population of 1.35 lakh. Thus, the 20 MLD STP would work only at 54[24] *per cent* of its capacity up to year 2026 and 77[25] *per cent* up to 2041. Further, considering the capacity utilisation of 54 *per cent* till 2026, the 20 MLD STP now under construction would get only 2.16[26] MLD sewage under phase I of the project. This would lead to under-utilisation of STP and affect the quality of treatment due to higher hydraulic retention time.

The management stated (July and September 2017) that the STP of 20 MLD capacity was decided to cater to the sewage flows expected from the balance areas of Mapusa municipality and other surrounding areas including villages

[22] From date of work order (April 2015) to stipulated date of completion (October 2017)

[23] ₹ 283.50 crore (DPR cost) + ₹ 60.46 crore (cost of trunk mains) + ₹ 29.59 crore (being the difference between cost of 20 MLD STP ₹ 52.54 crore and cost of three STPs already included in DPR ₹ 22.95 crore)

[24] 10.84 MLD ÷ 20 MLD * 100

[25] 15.30 MLD ÷ 20 MLD * 100

[26] 54 % of 4 MLD envisaged for phase I

along the trunk mains. Regarding change of site, the management stated that local residents had raised objections and it was difficult to acquire land in Porvorim due to high cost.

The reply is not acceptable because, the original project comprising three STPs of 15.30 MLD was designed to cater to the projected population up to the year 2041. Another STP of 5.40 MLD capacity being constructed at a cost of ₹ 18.27 crore by the PWD with financial assistance from JICA[27] is also likely to be commissioned by May 2018 to cater to the population of Mapusa municipal area (approximately 0.90 lakh). Therefore, construction of 20 MLD STP lacked rationale. Further, the issue relating to objections raised by local residents and other difficulties attached with acquisition of land in Porvorim could have been easily tackled by the Company in the intervening period of five years *i.e.,* between date of preparation of DPR (April 2010) and award of work of phase I (April 2015).

Thus, the Company failed to execute the Porvorim sewage project in a planned manner, deviating from the DPR and disregarding the provisions of CPHEEO manual as well as the principles of economy in execution of the project.

Navelim sewage project

In Navelim sewage project, the designed capacity of STP as per DPR (April 2010) was 11.50 MLD (estimated cost ₹ 16.98 crore) to meet the projected population of 0.94 lakh up to the year 2041. The Company, however, awarded (January 2014) construction of 20 MLD STP (tendered cost ₹ 37.89 crore), instead of 11.50 MLD STP. The work was in progress and an expenditure of ₹ 25.32 crore had been incurred up to March 2017. Audit could not trace any justification in the records for enhancing the capacity of STP by 8.50 MLD nor was there any study report to support the enhanced capacity.

The management stated (July 2017) that though the DPR envisaged STP of 11.50 MLD to meet the population of Navelim, the Company decided to construct STP of 20 MLD to meet the combined requirement of Navelim and part of Margao.

The reply is not acceptable because, the Company has planned the construction of 20 MLD STP at the same site where a 7.5 MLD STP already exists since 1989, and an additional[28] 6.7 MLD STP, to cater to future needs of Margao town, is also nearing completion. Thus, the 20 MLD STP would remain under-utilised at least up to 2041.

3.2.2.2 Change in work site after award of work

The work of laying sewer network (5.8 km of 27 km) in part 'B' under Phase I of Porvorim sewage project was awarded (April 2015) to a contractor at a cost of ₹ 21.65 crore for completion by October 2017. The work was completed ahead of the time schedule in June 2016 at a total cost of ₹ 25.64 crore.

[27] Japan International Cooperation Agency
[28] Being constructed by PWD with financial assistance from JICA

Audit observed that tender item No. 9 valuing ₹ 12.85 crore, constituting 59 *per cent* of the tendered cost of ₹ 21.65 crore, included installation of HDPE[29] pipes of various diametre in different soil strata. However, during actual execution, there were abnormal variations between the tendered quantities and the quantities actually executed by the contractor under item No. 9 due to change of site, leading to extra expenditure of ₹ 7.69 crore over the estimated cost.

Audit further observed that two contractors had submitted bids for this contract. The analysis of rates offered by the two participating contractors shows that the amount quoted by the successful contractor on the sub-item No. 9(iii) installation of 250 mm diametre HDPE pipes (₹ 45,000 *per metre*) alone was higher than the amount quoted by the other contractor (₹ 34,000 *per metre*). This item was actually executed for 1,853 metre which was more than six times the estimated quantity of 292 metre. There were similar variations in other items also. A comparison of the two offers based on actual work done and rates offered by both the bidders shows the cost of award to the unsuccessful bidder would have been ₹ 23.47 crore in the final site whereas the successful bidder (declared L1) was paid ₹ 25.64 crore. Thus changes in the quantities executed and estimated led to an excess payment of ₹ 2.17 crore, due to change of site and failure to retender.

The management stated (July 2017) that the soil strata were considered for estimation and tendering purpose, keeping in view the original site (PDA colony and surrounding areas). However, during execution, the work site was changed from PDA colony and surrounding areas to other neighbouring areas such as, Vidya Nagar, Sanjay Nagar, Annapurna Nagar, Sai Nagar *etc*., as per the directives of local MLA of Porvorim and public demand.

Change of work site at the instance of local MLA/public demand (after award of work) involving huge variations in work executed, should therefore, have been treated as a fresh work and re-tendered. Failure to do so, led to the acceptance of a costlier offer, leading to an excess expenditure of ₹ 2.17 crore.

3.2.2.3 Preparation of incorrect estimates leading to extra expenditure

As per Section 2 of the CPWD Manual, 2012, before starting a work, preliminary estimates should be prepared, which should form the basis for administrative approval. Once administratively approved, the department should prepare detailed plans, designs and estimates, including detailed specifications for each item of work. The estimates should be prepared diligently after detailed study and investigations such as, site survey, soil investigations *etc*.

Margao sewage project

The work of south trunk mains under Margao sewage project with 6.7 MLD STP (being executed by PWD with financial assistance from JICA) was handed over to the Company in February 2011 for speedy execution of the project. The Company awarded (February 2013) the work of south trunk

[29] High Density Poly Ethylene

mains (2.5 km) to a contractor at a tendered cost of ₹ 38.52 crore, which was 37.65 *per cent* below the estimated cost of ₹ 61.79 crore. The work was completed in May 2015 at a total cost of ₹ 58.61 crore. Audit observed the following inadequacies in execution of the work:

- The work of south trunk mains included laying of 1,000 mm sewer pipes by micro-tunneling[30] across the railway tracks of the Konkan Railway and South Western Railway in three locations. The Research Designs and Standards Organisation (RDSO) guidelines (October 2009) of Ministry of Railways prescribes casing of pipelines that cross railway tracks.

  However, the Company did not incorporate the item of casing pipes in the estimates put to tender, which necessitated supply and installation of 1,430 mm casing pipes during execution as an extra item, for which the contractor was paid ₹ 28.76 crore. Had the Company incorporated the casing item in the estimates put to tender, the Company could have saved at least ₹ 10.83 crore[31].

  The management stated (September 2017) that the work was tendered as per the DPR/estimates prepared by JICA.

  The reply is not acceptable, as the initial estimates prepared by JICA included a provisional sum for casing pipes, on the assumption that the work would be carried out by the Konkan Railway department. Consequently, when the work was handed over to the Company, the Company applied (June 2011) for NOC from Konkan Railway Corporation Limited (KRCL) for laying pipelines across railway tracks. The request for NOC from KRCL itself was an indication that the work of laying pipelines across railway tracks was to be carried out by the Company and therefore, provision for casing pipes should have been incorporated in the estimates put to tender.

- The KRCL granted NOC (July 2012) to the Company for laying pipelines across the railway tracks. Subsequently, an agreement was signed (April 2013) between the Company and KRCL that stipulated laying of 1,000 mm pipelines to be secured in 1,200 mm casing pipes in two locations[32] and laying of 700 mm pipelines duly secured by 900 mm casing pipes in the third location[33]. The Company instead of using 1,200 mm and 900 mm casing pipes laid 1,430 mm casing pipes in all the three locations. The laying of larger size pipes than required as per the agreement signed in April 2013 resulted in avoidable extra expenditure, which was difficult to quantify in the absence of rates of procurement and installation of 1,200 mm and 900 mm casing pipes.

  The management stated (September 2017) that the casing pipes of higher diametre were laid as they provide space for 24 mm thickness of carrier pipe, 150 mm for fixed roller guider for pushing the pipe, and 225 mm for

[30] To lay underground pipe(s) by horizontal boring from one location to another without open trenches
[31] 37.65 *per cent* of ₹ 28.76 crore
[32] Railway crossings at km 441/884 and km 443/150
[33] Railway crossing at km 444/060

clearance from the casing pipe. Further, casing pipes of 1,430 mm was laid in the third railway crossing, considering the future sewage load and the requirement of different set up for laying 900 mm casing pipes.

The reply is not acceptable because, use of 1,430 mm casing pipes clearly violated the agreement signed with KRCL in April 2013. Also, laying of 1,430 mm casing pipes for the carrier pipe of 700 mm in the third railway crossing was uncalled for, as the DPR of Margao sewage project was prepared by JICA considering the future demand up to year 2025 and therefore, there is no possibility of increase in sewage load in the near future.

- Use of casing pipes for laying sewer pipelines passing through road crossings is not prescribed anywhere. The contractor, however, laid casing pipes of 1,430 mm totaling 220 metre in two road crossings[34] for installing sewer pipelines of 1,000 mm, which was unnecessary and resulted in avoidable extra expenditure of ₹ 3.87 crore[35].

  The management stated (July 2017) that the casing pipes in two road crossings were used as per the site conditions, considering the heavy traffic and adjacent structures to the road.

  The reply is not acceptable, as use of casing pipes for road crossings is not prescribed anywhere, and the sewer pipes used in road crossings are made of mild steel which can withstand/absorb the loads of traffic and adjacent structures.

- In another location[36], the contractor used 1,430 mm sewer pipes for a length of 240 metre instead of 1,000 mm pipes, in violation of tender specifications, leading to avoidable extra expenditure of ₹ 0.73 crore[37].

  The management stated (July 2017) that it was not possible to have micro-tunneling with 1,000 mm pipes for a stretch of 240 metre without intermediate shaft in between. As the roads were very narrow with high rise structures, an intermediate shaft would have endangered the existing structures. Therefore, 1,430 mm pipes were laid by using high capacity machine as an extra item to avoid intermediate shaft.

  The reply is not acceptable, as micro-tunneling by trenchless method safeguards the high rise structures and the existing utilities and thus, eliminates the risks associated with open trench method. Further, as per tender specifications, the contractor was bound to lay 1,000 mm pipes by micro-tunneling with intermediate shafts, wherever necessary.

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[34] Road L1-R9 near ESI hospital for 110 metre and Highway crossing R-R4 for 110 metre

[35] Original tender rates for supply and installation of 1,000 mm pipes by trenchless method was ₹ 2,44,000 per metre. The extra item rate for supply and installation of 1,430 mm casing pipes by trenchless method was ₹ 4,19,811.20 per metre. Therefore, avoidable extra expenditure was ₹ 3,86,78,464 (₹ 4,19,811.20 – ₹ 2,44,000 * 220 metre)

[36] Road carriage way at R9-R3

[37] Amount paid for 1,430 mm pipes ₹ 1.55 crore – amount payable for 1,000 mm pipes ₹ 0.82 crore

3.2.3 Internal controls and monitoring

Internal control and monitoring is one of the important tools to ensure due accountability and transparency in any organisation. The Company's core business is infrastructure development works implemented through managing several contracts and monitoring commensurate progress in works. The Company hired consultants to manage pre and post contract activities. Documentation pertaining to the project management and financial management are also expected to be maintained with good internal control mechanism providing reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data are reliable and the applicable laws and regulations are complied with.

Audit observed that the Company's internal control mechanism was weak as there were cases of delay in renewal of bank guarantees, non-recovery of statutory deductions, delay in appointment of project management consultants and awarding works without tendering. A few illustrative cases are detailed in the succeeding paragraphs.

3.2.3.1 Delay in renewal of bank guarantees

In one[38] of the 41 selected works awarded in March 2011, the Company paid (August 2011) mobilisation and machinery advances totaling ₹ 1.24 crore to a Contractor against bank guarantee (BG) of equal amount, and also made a payment (November 2011) of ₹ 0.74 crore against the third running account bill. Due to undue delay in execution of work, the Company terminated (November 2012) the contract under clause 3[39] of the agreement.

The Company filed (October 2013) a court case before the Civil Judge Senior Division at Panaji for recovery of outstanding dues of ₹ 2.84 crore from the defaulting contractor. The dues have not been recovered as of November 2017. Audit observed that though the BG of ₹ 1.24 crore expired in September 2011, the Company failed to get it renewed. Had the BG been renewed timely and invoked, the Company could have recovered at least ₹ 1.24 crore of the total claim of ₹ 2.84 crore and safeguarded its financial interest.

The management accepted (July 2017) the facts and attributed the failure to lack of experienced staff in its accounts department.

3.2.3.2 Non-recovery of labour welfare cess

As per the Goa Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Rules, 2008, all public and private construction projects that employ labourers were to pay one *per cent* labour cess to the Goa Building and Other Construction Workers' Welfare Board. Accordingly, labour welfare cess (LWC) at one *per cent* was to be levied on the amount of each bill so passed and paid to the contractors. The Order regarding levy of LWC was communicated by the State Government to all the departments, including the Public Sector Undertakings on 29 December 2008.

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[38] Providing, laying, testing and commissioning of sewer network in trenchless method in Margao constituency Zone III-A under Margao sewage project

[39] At risk and cost of defaulting contractor

Audit observed that the Company did not deduct LWC from the contractors' bills passed up to January 2015. This resulted in non-recovery of LWC totaling ₹ 92.46 lakh in five of 41 selected works.

The management stated (July 2017) that the Government Order regarding levy of labour cess was received by Company on 20 February 2015. However, LWC was being recovered thereafter on a regular basis.

3.2.3.3 Delay in appointment of project management consultants

The Company appoints project management consultants (consultants) for conducting surveys, preparation of drawings, designs and estimates, floating of tenders, technical evaluation of tenders and short-listing of contractors at the pre-tender stage. The consultants are also responsible for supervision of the works at various stages of execution till the works are completed.

Audit analysis of 33 consultancy works revealed that in 25 cases awarded between November 2011 and November 2016, the consultants were appointed after one to nine months from the date of commencement of works. The Company, therefore, could not utilise the services of the consultants during execution of works in the initial stages.

The management attributed (July 2017) the delay in appointment of consultants to shortage of staff and administrative procedure involved in hiring of consultants.

The reply is not convincing because, the consultants were appointed for their technical expertise in project management and due to shortage of technical staff in the Company. Therefore, involvement of consultants was paramount right from the initial stages.

3.2.3.4 Allotment of works without tendering

As per paragraph 14.1 of CPWD Manual 2012, normally, unless situation warrants otherwise, work orders are to be placed only after competitive call of quotations with publicity through web and notice board. The Central Vigilance Commission also issued instructions in July 2007 that Government contracts be awarded through public-auction/public tender to ensure transparency, economy and efficiency in public procurement.

Audit observed that the Company awarded (between January 2013 and December 2016) five works valuing ₹ 17.32 crore to the contractors, who were executing the original works in the nearby areas, without tendering. The details are shown in ***Appendix 3.3.***

The management stated (July and September 2017) that the works were carried out on public demand/on request of MLAs and *Sarpanch* and these were approved by the Board of Directors. The Chief Engineer/Superintending Engineer has powers to accord sanction for extra/excess items up to 30 *per cent* of contract amount. Tendering of additional works would have increased the costs, as the quoted rates by new contractors would have been based on current schedule of rates. Hence, allotment of additional works benefited the State exchequer, as the contractors were ready to execute the additional works on the old quoted rates.

The reply is not acceptable, as the additional works were separate works that were executed at different locations and these works were also beyond the scope of the original contracts. Further, the estimated costs of the additional works were substantial and ranged up to 54 *per cent* of the value of original works and therefore, beyond the delegated powers of the Chief Engineer/Superintending Engineer.

Thus, award of works without tendering not only violated the codal provisions but also vitiated transparency in public procurement.

3.2.4 Conclusion and recommendations

Audit of planning, tendering and execution of sewage projects by Sewage and Infrastructural Development Corporation Limited (Company) revealed certain deficiencies. The Company deviated from the scope of work envisaged in the detailed project reports while executing sewage projects in Porvorim and Navelim. Sewage treatment plants of higher capacity were constructed resulting in additional financial liability of ₹ 90.05 crore, creation of idle capacity and delay in completion of projects. In Margao sewage project, non-inclusion of casing pipe items in the estimates resulted in additional expenditure of ₹ 10.83 crore on extra items. The Company also installed higher-sized casing pipes than that specified for railway crossing works, used casing pipes on road crossings which was unnecessary and laid higher-sized sewer pipes than that specified in the tender specifications, resulting in avoidable extra expenditure aggregating ₹ 4.60 crore. Change in site after award of work led to abnormal variation between the tendered and executed quantities, leading to excess expenditure of ₹ 2.17 crore. The internal controls and monitoring mechanism in the Company were weak.

The Company may ensure that sewage projects are executed as per the scope of work defined in the detailed project reports so as to avoid time and cost overruns and idle investment. The estimates for sewage works may be prepared meticulously after detailed site survey and investigations.

GOA INDUSTRIAL DEVELOPMENT CORPORATION

3.3 Wasteful expenditure of ₹ 19.84 lakh on mementoes distributed to staff

Distribution of gold coins worth ₹ 19.84 lakh to the staff of GIDC without adhering to the standards of financial propriety.

The General Financial Rules 2005 (GFR) stipulates that every officer incurring or authorising expenditure from public money should be guided by high standard of financial propriety and enforce financial order and strict economy. The standards of financial propriety require every officer to exercise same vigilance in respect of expenditure from public money as a person of ordinary prudence would do with their own; nor spend more than what the occasion prima facie demands and not incur expenditure for the benefit of a particular person or class of persons.

Goa Industrial Development Corporation (GIDC) is a Government Company entrusted with the responsibility of facilitating industrial development in the State. For this purpose, the State Government acquires land and transfer to GIDC for its further development and allotment to industrialists for establishment of industries.

The Managing Director (MD) of GIDC approved (August 2016), an expenditure of ₹ 20.75 lakh for award of mementoes to the staff (both regular and contractual staff) in the form of gold medallion of two grams worth ₹ 7,035 each to honour the sincere efforts of the staff commemorating the Golden Jubilee year of GIDC. Though MD had no power to authorise such nature of expenditure as per delegation of powers (February 1999) of GIDC, the expenditure was approved by the MD with a remark that the proposal may be placed before the Board for its approval and ratification. However, the gold coins were procured and distributed. The proposal was placed before the Board after over a year in its 352nd meeting held on 17 October 2017 and an expenditure of ₹ 19.84 lakh (₹ 20.40[40] lakh - 0.56[41] lakh) was ratified ex-post facto.

Distribution of gold coins to celebrate golden jubilee of GIDC was in violation of the letter and spirit of financial propriety as envisaged under the GFR for spending public monies.

The management stated (May 2017) that the Corporation had a net surplus of ₹ 56.12 crore upto the year 2014-15 which was the reason for distribution of the mementoes to the employees.

The reply is not convincing since while approving the proposal it was stated that on the occasion of Golden Jubilee celebration, the gold coins were given to honour the sincere efforts of the staff. Audit observed that the accumulated surplus was not because of the operational efficiency of the GIDC but mainly on account of interest received from banks. Between 2007-08 and 2014-15, the Corporation received interest of ₹ 131.38 crore from bank deposits, which constituted more than 55 *per cent* of its total annual income and which mainly contributed to the accumulated surplus of ₹ 56.12 crore. Further, as per the last finalised account of the Corporation (2015-16), it has a deficit of ₹ 2.31 crore and its accumulated surplus has also declined from ₹ 56.12 crore to ₹ 53.80 crore. It is also pertinent to mention that during 2006-07 to 2015-16, only around 13 *per cent* of the expenditure of the Corporation was on infrastructure development. The accounts for the year 2016-17 are yet to be finalised. There were delays of 9 to 13 months in finalisation of accounts pertaining to period 2010-11 to 2015-16.

Thus, awarding gold coins on grounds of efficiency goes against the principles of financial propriety and is diversion of resources better employed for development of infrastructure.

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[40] Cost of purchase of 297 coins from MMTC after discount was ₹ 20.40 lakh

[41] Eight numbers of gold medallions remained with GIDC as some of the Board of Directors refused to accept the same. GIDC sold these to the staff and recovered ₹ 0.56 lakh

The matter was referred to the Government in June 2017; their reply was awaited as of December 2017.

3.4 Non-recovery of labour welfare cess

Negligence in compliance of Government orders resulted in non-recovery of mandatory cess amounting to ₹ 75.56 lakh.

The Building and Other Construction Workers' (Regulation of Employment and Conditions of service) Act, 1996 and the Building and Other Construction workers Welfare Cess Act, 1996 were enacted by the Government of India to regulate the employment and conditions of service and to provide safety, health and welfare measures for the building and other construction workers' and collection of cess from the employers for running the welfare schemes for the said workers.

The Government of Goa decided (08 January 2009) to levy and collect cess with effect from 01 January 2009 at the rate of one *per cent* of the cost of construction and issued requisite instructions to all the Government Departments, Local Bodies, Public Sector Undertakings and other Government Bodies carrying out any building or other construction works for the same. The cess so collected was to be remitted to the Goa Building and other Construction Workers Welfare Board within 30 days of making such payments.

Goa Industrial Development Corporation (GIDC) incurred an expenditure of ₹ 75.56 crore on construction work during the period from April 2009 to January 2012. However, the labour welfare cess at the rate of one *per cent* was not collected from the contractors[42].

The Corporation replied (May 2017) that non-recovery of the labour welfare cess was due to non-receipt of Notification from the Government of Goa and recovery at this stage was not possible as the whereabouts of the contractors were not known.

The reply of the management is not acceptable as the non-receipt of Notification cannot be a reason since the notification was printed in the official gazette of Government of Goa (08 January 2009). Further, the contention that the whereabouts of the contractors are not known is not factual as test check by Audit shows that some of the contractors from whom labour cess is due are still working in the State.

Thus, negligence in compliance of the Government orders resulted in non-recovery of mandatory cess amounting to ₹ 75.56 lakh from the contractors and consequent non-availability of the funds for labour welfare.

[42] In case the work is carried out through a contractor, the cess was to be collected from the bills of the contractor at the time of making payment

The matter was referred to the Government in June 2017; their reply was awaited as of December 2017.

3.5 Unauthorised retention of contributions towards NPS by the Corporation

Unauthorised retention of pension contributions of ₹ 1.84 crore in violation of Government directives resulted in lower gains accruing to employees.

Government of Goa (GoG) adopted (05 August 2005) the Government of India new restructured defined contribution pension system, introduced for employees appointed on and after 05 August 2005. The New Pension Scheme (NPS) was to work on defined contribution basis and was mandatory for all Government servants for which Government also has to make matching contribution [43]. GoG issued instructions (26 November 2009) to all concerned for carrying out the procedure for transfer of corpus lying in the account of each employee to the National Securities Depository Ltd. (NSDL), Mumbai by 31 December 2009.

The GIDC maintains a Pension Fund and a General Provident Fund (GPF) for its employees. In the case of employees who joined prior to 05 August 2005, the GIDC contributes to the Pension Fund from which the pension is paid to the employee and the employees contribute to the GPF.

In case of employees who have joined after 05 August 2005 both the employer's contribution and employees' contribution for the new pension scheme is credited to the GPF account of employees. These GPF accounts are credited with interest as per provident fund interest rates declared by the State Government.

As the GIDC has not entered in to an agreement with the NSDL till date (December 2017) it continued to credit the contributions to GPF accounts even though, the GIDC in its Board of Directors meeting (11 April 2012) resolved to adopt the new defined contributory pension system in line with the GoG for 35 employees recruited since August 2005.

Under the NPS scheme, the returns since inception of the Scheme were not less than 10.14 *per cent* as on 31 March 2017, whereas the employees of GIDC received interest rates ranging from 8 to 8.7 *per cent*. As on 31 March 2017, an amount of ₹ 1.84 crore was held by GIDC in respect of 35 employees.

Holding of ₹ 1.84 crore worth NPS contributions with GIDC was not only violation of the GoG instructions but was also disadvantageous to the employees of GIDC as the interest credited to their accounts was lower as compared to returns received in NPS.

[43] Employer has to make matching contribution subject to 10 *per cent* of basic pay + Dearness pay + Dearness allowance of employee

The Management accepted (May 2017) the facts and assured the implementation of the Scheme.

The matter was referred to the Government in June 2017; their reply was awaited as of December 2017.

Panaji **(ASHUTOSH JOSHI)**

The 19 February 2018 **Accountant General, Goa**

Countersigned

New Delhi **(RAJIV MEHRISHI)**

The 23 February 2018 **Comptroller and Auditor General of India**