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 2016, in Goa there were 16 State Government Companies including two Statutory Corporations. Of these, no company was listed on the stock exchange(s). During the year 2015-16, no PSUs were incorporated or closed down.

The details of the State PSUs in Goa as on 31 March 2016 are given in ***Table 3.1.1***.

Table 3.1.1: Total number of PSUs as on 31 March 2016

Type of PSUs	Working PSUs	Non-working PSUs[1]	Total
Government Companies[2]	13	1	14
Statutory Corporations	1	1	2
Total	**14**	**2**	**16**

(Source: Compiled from Appendix-2 based on entrustment of audit of PSUs)

The working PSUs registered a turnover of ₹ 939.28 crore as per their latest finalised accounts as of September 2016. The turnover was equal to 1.54 *per cent* of State's Gross Domestic Product[3] (GSDP) for 2015-16. The working PSUs earned aggregate profit of ₹ 52.85 crore as per their latest finalised accounts as of September 2016. They had employed 3,042 employees at the end of March 2016.

As on 31 March 2016, there were two non-working PSUs with total investment of ₹ 5.59 crore. This is a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State. The liquidation process on one non-working PSU has been started but no decision in respect of other PSU has been taken.

Accountability framework

3.1.2 Companies Act, 2013 governs the financial attest audit of a Company as on or after 01 April 2014. The audit of a Company in respect of financial years earlier than 01 April 2014 continued to be governed by the Companies Act, 1956.

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

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

[3] The State's Gross Domestic Product for the year 2015-16 was ₹ 60,895 crore (Budget estimates 2015-16 based on 2004-05 series).

According to Section 2 (45) of the Companies Act, 2013 (the Act), a Government Company is one in which not less than 51 *per cent* of the paid-up share capital is held by the Central and/or State Government(s). This includes a subsidiary of a Government Company. The process of audit of Government Companies under the Act is governed by respective provisions of Sections 139 and 143 of the Act.

Statutory Audit

3.1.3 The financial statements of a Government Company (as defined in Section 2 (45) of the Act) are audited by Statutory Auditors. These Statutory Auditors are appointed by the CAG as *per* the provisions of Section 139 (5) or (7) of the Act. The financial statements of the Government Company are subject to supplementary audit to be conducted by CAG. The Supplementary audit is to be conducted within 60 days from the date of receipt of the Audit Report under the provisions of Section 143 (6) of the Act.

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 Companies Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of 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 (September 2016), the investment (capital and long-term loans) in 16 PSUs was ₹ 707.51 crore as *per* details given in ***Table 3.1.2***.

Table 3.1.2: Total investment in PSUs

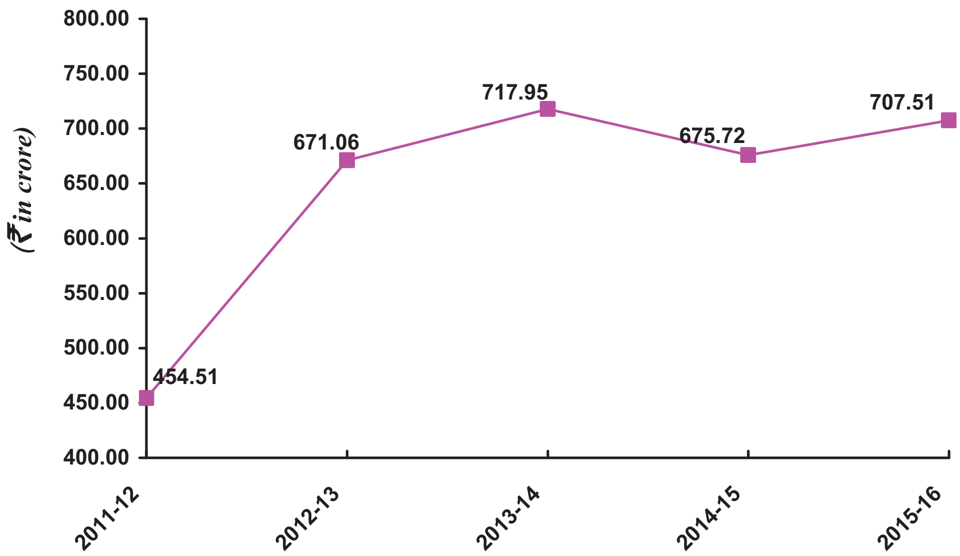
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	307.25	347.50	654.75	47.17	0	47.17	701.92
Non-working PSUs	5.59	0	5.59	0	0	0	5.59
Total	**312.84**	**347.50**	**660.34**	**47.17**	**0**	**47.17**	**707.51**

(Source: Compiled based on information received from PSUs)

Out of total investment of ₹ 707.51 crore in State PSUs, 99.21 *per cent* was in working PSUs. The remaining 0.79 *per cent* was in non-working PSUs. This total investment consisted of 50.88 *per cent* towards capital and 49.12 *per cent* in long-term loans. The investment has grown by 55.66 *per cent* from ₹ 454.51 crore in 2011-12 to ₹ 707.51 crore in 2015-16. This is shown in the ***Chart 3.1.1***.

Chart 3.1.1: Total investment in PSUs



Investment (Capital and long term loans)

3.1.7 The sector wise summary of investments in the State PSUs as on 31 March 2016 is given in ***Table 3.1.3***.

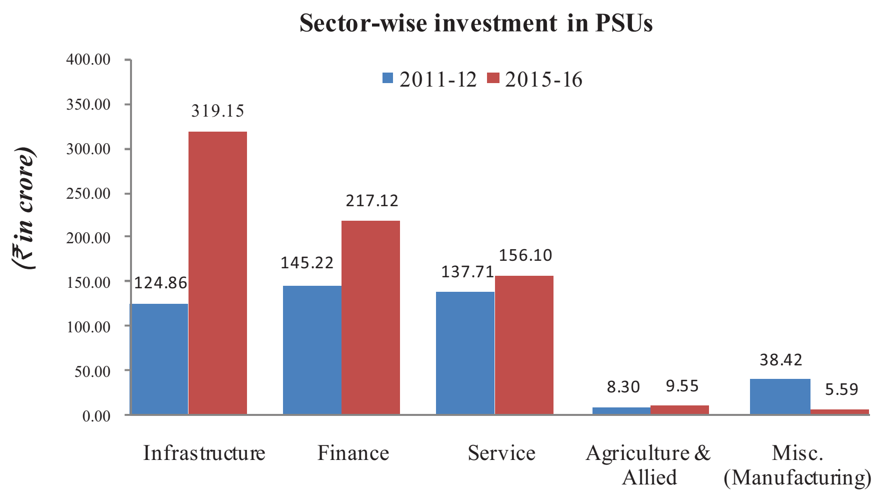
Table 3.1.3: Sector-wise investment in PSUs

Name of Sector	Government/ Other Companies		Statutory Corporations		Total	Investment
	Working	Non-Working	Working	Non-Working		*(₹ in crore)*
Infrastructure	3	-	1	1	5	319.15
Finance	4	-	-	-	4	217.12
Service	3	-	-	-	3	156.10
Agriculture & Allied	3	-	-	-	3	9.55
Misc. (Manufacturing)	-	1	-	-	1	5.59
Total	**13**	**1**	**1**	**1**	**16**	**707.51**

(Source: Compiled based on information received from PSUs)

The investment in above sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 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 in infrastructure sector which increased from 27.47 *per cent* to 45.11 *per cent*. The percentage share of investment in service sector declined from 30.30 *per cent* to 22.06 *per cent* during 2011-12 to 2015-16. The percentage share of miscellaneous sector also declines from 8.45 *per cent* to 0.79 *per cent* during 2011-12 to 2015-16. The percentage share in respect of finance and agriculture and allied sectors in 2011-12 was 31.94 *per cent* and 1.82 *per cent* respectively. These sectors maintained its share at 30.68 *per cent* and 1.34 *per cent* respectively in 2015-16.

Special support and returns during the year

3.1.8 The State Government 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 State PSUs for three years ended are given in ***Table 3.1.4.*** The table also gives the details of waiver of loans and interest, guarantee issued and guarantee commitment outstanding as at the end of respective years.

Table 3.1.4: Details regarding budgetary support to PSUs

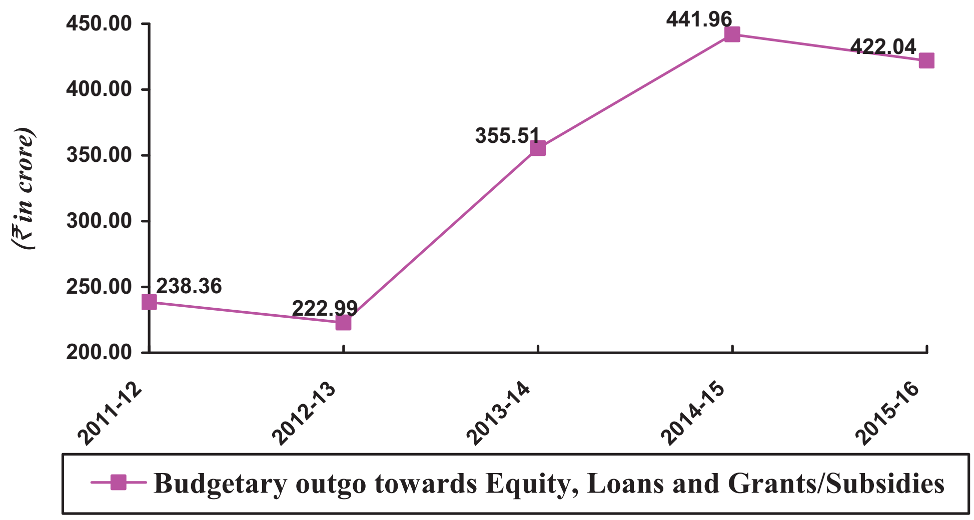
(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity/Capital outgo from budget	0	0	1	0.50	0	0
2.	Loans given from budget	1	2.58	1	1.68	1	1.55
3.	Grants/Subsidy from budget	11	352.93	8	439.78	10	420.49
4.	**Total Outgo (1+2+3)**		**355.51**		**441.96**		**422.04**
5.	Waiver of loans and interest	**0**	**0**	**1**	**0.01**	**0**	**0**
6.	Guarantees issued	1	25.00	1	25.00	2	40.50
7.	Guarantee Commitment	3	85.43	3	131.95	4	365.24

(Source: Compiled based on information received from PSUs)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in ***Chart 3.1.3***.

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



The budgetary outgo of 2011-12 and 2012-13 was almost same, but it has increased by 98.20 *per cent* between 2012-13 and 2014-15 and then decreased by 4.51 *per cent* in 2015-16.

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee. Such guarantees are given subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.25 *per cent* to one *per cent* as decided by the State Government depending upon the loanees. The guarantee commitment increased to ₹ 365.24 crore during 2015-16 from ₹ 85.43 crore in 2013-14 showing a fourfold rise.

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 2016 is given in ***Table 3.1.5***.

Table 3.1.5: Equity and guarantees outstanding as per Finance Accounts[4] *vis-a-vis* records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts (2015-16)	Amount as per records of PSUs	Difference
Equity	353.66	306.25	47.41
Guarantees	382.91	365.24	17.67

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

Audit observed that the differences occurred in respect of 11 PSUs and some of the differences were pending reconciliation since 2001-02. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner. The matter was reported to the PSUs during the audit of annual accounts but the figures are yet to be reconciled.

Arrears in finalisation of accounts

3.1.10 The first Annual General Meeting (AGM) shall be held within a period of nine months from the date of closing of the first financial year of the Company. In any other case, the AGM should be held within a period of six months from the date of closing of the financial year in accordance with the provisions of Section 96 (1) of the Act. Also as per Section 129 (2) of the Act, at every AGM of the Company, the Board of Directors of the Company shall lay before such meeting the financial statements for the financial year. Failure to do so may attract penal provisions under Section 99 and Section 129 (7) of the Act. 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 September 2016 are given in ***Table 3.1.6***.

Table 3.1.6: Position relating to finalisation of accounts of PSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of PSUs/other companies	17	17	16	16	16
2.	Number of accounts finalised during the year	13	13	20	15	17
3.	Number of accounts in arrears	40	44	40	41	40
4.	Number of working PSUs with arrears in accounts	14	15	12	14	10
5.	Extent of arrears (number of years)	1 to10	1 to10	1 to10	1 to11	1 to 10

(Source: Compiled based on accounts of working PSUs received during the period October 2015 to September 2016)

It can be observed that the number of accounts in arrears remained in the range of 40 to 44 during 2011-12 to 2015-16. Among the above, one non-working

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

PSU namely Goa Information Technology Development Corporation (GITDC) has not submitted its accounts since inception (2006-07).

The Administrative Departments have the responsibility to oversee the activities of these entities. This ensures that the accounts are finalised and adopted by these PSUs within stipulated period. 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 ₹ 427.33 crore in 12 PSUs {equity: ₹ 4.59 crore (two PSUs), loans: ₹ 10.20 crore (one PSU), grants ₹ 325.03 crore (eight PSUs) and subsidy ₹ 87.51 crore (one PSU) } during the years for which accounts have not been finalised as detailed in ***Appendix*** *3.1*. In the absence of finalisation of accounts their audits could not be conducted. Resultantly, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount invested was achieved or not. In this manner, the Government's investment in such PSUs remained outside the control of State Legislature.

3.1.12 In addition to above, as on September 2016, there were arrears in finalisation of accounts by a non-working PSU namely Goa Information Technology Development Corporation. They had not submitted its accounts since its inception (2006-07) and as such 10 accounts of this Company are in arrears. The data regarding investment by Government in this PSU was also not provided.

Placement of Separate Audit Reports

3.1.13 The ***Table*** *3.1.7* shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2016) on the accounts of Statutory Corporations 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
2	Goa Information Technology Development Corporation (GITDC)	First accounts awaited		

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

Impact of non-finalisation of accounts

3.1.14 As pointed out above (Paragraph 3.1.10 to 3.1.12)**,** the delay in finalisation of accounts violates the provisions of the relevant Statutes. In addition, it contributes to the risk of fraud and leakage of public money. In view of the above state of arrears of accounts, the actual contribution of PSUs to the GSDP for the year 2015-16 could not be ascertained. Also, their performance was not reported to the State Legislature.

It is, therefore, recommended that:

- ***The Government may evolve a suitable mechanism to oversee and monitor the clearance of arrears and set targets for individual Companies.***
- ***The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lack expertise.***

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 PSUs' activities in the State economy. The details of working PSU's turnover *vis-à-vis* GSDP for a period of five years ending 2015-16 are given in ***Table 3.1.8.***

Table 3.1.8: Details of working PSU's turnover vis-a vis State GDP

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover[5]	456.48	569.35	652.18	714.08	939.28
State GDP	43255	42407	48897	52673	60895[6]
Percentage of Turnover to State GDP	1.06	1.34	1.33	1.36	1.54

(Source: As per Appendix 3.2 and Budget Estimate)

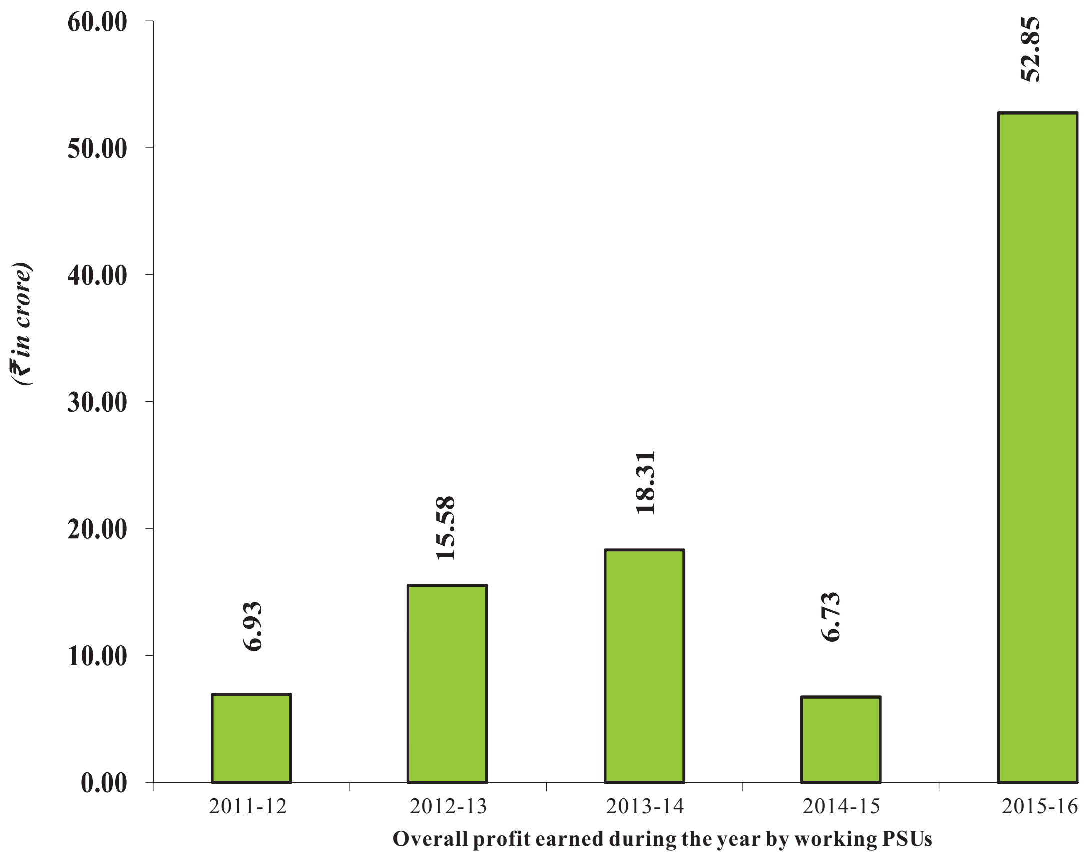
The contribution of PSUs to GSDP has been gradually increasing. Out of the total turnover of ₹ 939.28 crore, ₹ 652.76 crore (69 *per cent*) pertains to two PSUs (Goa State Infrastructure Development Corporation and Kadamba Transport Corporation). Other 12 PSUs together contributed turnover of ₹ 286.52 crore.

3.1.16 Overall profit earned by the working PSUs during 2011-12 to 2015-16 are given in ***Chart 3.1.4***.

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

[6] As per 2004-05 series, GSDP for the year 2015-16 are provisional as per budget estimate.

Chart 3.1.4: Profit/Loss of working PSUs



The profit of working PSUs has increased significantly during 2015-16 compared to previous years. During the year 2015-16, out of 14 working PSUs, 10 PSUs earned profit of ₹ 54.25 crore, four PSUs incurred loss of ₹ 1.40 crore. One non-working Company (GAAL) incurred loss of ₹ 0.78 crore while one non-working PSU (GITDC) has not submitted their accounts since inception. The major contributions to profit was from EDC (₹ 36.11 crore), GSIDCL (₹ 7.13 crore) and KTCL (₹ 5.20 crore). KTCL which incurred a loss of ₹ 18.26 crore during 2014-15 earned a profit of ₹ 5.20 crore during 2015-16 mainly due to more subsidy (₹ 76.08 crore) by Government compared to previous year (₹ 52.97 crore) and reduction in fuel cost.

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	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (*per cent*)	6.68	8.94	9.21	7.49	9.83
Debt	139.27	314.07	367.15	329.45	347.50
Turnover[7]	456.48	569.35	652.18	714.08	940.38
Debt/Turnover Ratio	0.31:1	0.55:1	0.56:1	0.46:1	0.37:1
Interest Payments	27.49	29.13	38.16	34.75	35.52
Accumulated Profits (losses)	(46.15)	(46.22)	(47.24)	(37.99)	(14.38)

(Source: As per Appendix 3.2)

[7] All 16 PSUs as per the latest finalised accounts as of 30 September 2016.

The turnover of PSUs had increased gradually from ₹ 456.48 crore in 2011-12 to ₹ 940.38 crore in 2015-16. Simultaneously, the debts also increased from ₹ 139.27 crore to ₹ 347.50 crore. The debt turnover ratio which increased during 2011-14 has been decreasing during the subsequent period 2014-16 which is a positive trend.

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, 10 PSUs earned an aggregate profit of ₹ 54.25 crore and two PSUs[8] 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.

Winding up of non-working PSUs

3.1.19 There were two non-working PSUs (One Company and one Statutory Corporation) as on 31 March 2016. Of these, the liquidation process of the Company (GAAL) had commenced. Details of non-working Corporation were not made available.

The number of non-working companies at the end of each year during past five years is given in ***Table 3.1.10***.

Table 3.1.10: Non -working PSUs

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
No. of non-working companies	0	0	1	1	1
No. of non-working corporations	1	1	1	1	1
Total	**1**	**1**	**2**	**2**	**2**

(Source: As per Appendix 3.2)

The non-working PSUs are not contributing to the State economy and do not meet the intended objectives.

The State Government may take a decision either to revive the non-working corporation or wind up the PSU.

Accounts Comments

3.1.20 Thirteen PSUs forwarded their 17 audited accounts to Accountant General during the period October 2015 to September 2016. Of these, 14 accounts of 13 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.***

[8] Two PSUs namely EDC and GSIDC declared dividend.

Table 3.1.11: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	4	1.38	1	0.61	2	19.80
2	Increase in loss	3	18.53	2	5.74	5	1.52
3	Non-disclosure of material facts	2	0.64	2	0	2	0.33
4	Errors of classification	0	-	0	0	4	2.82

(Source: Compiled from details received from PSUs)

The aggregate money value of Statutory Auditors' comments and CAG comments during the year 2015-16 was ₹ 24.47 crore.

The Statutory Auditors of Info Tech Corporation of Goa Limited (ITCGL) has commented on the accounts of the year 2008-09, that the Company has not provided ₹ 16.12 crore for interest on refund due on abolition of Rajiv Gandhi IT Habitat. Comments on accounts of errors in classification totalled ₹ 2.82 crore, involving four accounts, for the year 2015-16 as against nil accounts for the year 2014-15.

During the year, the Statutory Auditors had given unqualified certificates for five accounts and qualified certificates for six accounts. In respect of three accounts they gave adverse certificates which mean that accounts do not reflect a true and fair position. In respect of another two accounts the Statutory Auditors have given disclaimers that the auditors are unable to form an opinion on accounts. The compliance of companies with the Accounting Standards remained poor as there were 13 instances of non-compliance in nine accounts during the year.

Response of the Government to Audit

Performance Audits and Paragraphs

3.1.21 One performance Audit Report and one paragraph are included in this Report of the CAG of India for the year ended 31 March 2016. These 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 (November 2016).

Follow up action on Audit Reports

3.1.22 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 nine Performance Audits (PAs), and 64 Paragraphs the explanatory notes to six PAs and 32 paragraphs incorporated in the Audit Reports for the period from 2004-05 to 2014-15 have not been received as indicated in ***Table 3.1.12***.

Table 3.1.12: Explanatory notes not received (as on 30 September 2016)

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	1	3
Total		**9**	**64**	**6**	**32**

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

Discussion of Audit Reports by COPU

3.1.23 The status as on 30 September 2016 of PAs and 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 Paragraphs appeared in Audit Reports *vis-a-vis* discussed as on 30 September 2016

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	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	0	0
Total	**9**	**64**	**0**	**7**

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

Compliance to Reports of COPU

3.1.24 Action Taken Notes (ATNs) to four paragraphs pertaining to a Report of the COPU had not been received (November 2016). These Reports of COPU were 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
2003-04	**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.

It is recommended that the State Government may ensure: (a) sending of replies to Paragraphs/Performance Audits and ATNs on the recommendations of COPU as per the prescribed time schedule, and (b) recover losses/outstanding advances/ overpayments within the prescribed period.

Coverage of this Audit Report

3.1.25 This Report contains one Performance Audit (KTCL) and one Paragraph involving total financial effect of ₹ 8.69 crore.

TRANSPORT DEPARTMENT

3.2 Performance audit on Fleet Management of Kadamba Transport Corporation Limited, Goa

Executive Summary

Kadamba Transport Corporation Limited is mandated to provide efficient, adequate, economical and properly coordinated public road transport in the State and specified routes outside the State. Certain routes in the State are nationalised and reserved for the Company. As on March 2016, the Company had a fleet strength of 580 buses with total manpower of 2003. The Company carried on an average 0.89 lakh passengers per day during 2011-16. A performance audit of fleet management of the Company covering the period 2011-16 was conducted. Following are the highlights of the audit findings.

- **The Company could not recover the cost of operations in any of the five years under review. This was mainly due to cancellation of schedules, keeping the buses off road, high manpower cost and inadequate /ineffective monitoring by top Management.**

(Paragraphs 3.2.6.3(ii), 3.2.7.2(ii), 3.2.7.2(v), 3.2.7.2(vi), 3.2.8.3 (ii) and 3.2.9.1)

- **The operational parameters like fleet utilisation, load factor, vehicle reliability were below all India average.**

(Paragraphs 3.2.7.1(i), 3.2.7.2(i) and 3.2.7.1(ii)

- **The Company incurred an additional expenditure of ₹ 49.80 lakh due to procurement from third lowest bidder.**

(Paragraph 3.2.8.1(i))

- **The Company did not monitor loss of bus days and warranty period claims due to delay in commencement of operations.**

(Paragraphs 3.2.8.1(ii) and 3.2.8.1(iv))

- **Absence of procurement policy and ineffective inventory management resulted in avoidable expenditure of ₹ 64.48 lakh in tyre procurement and loss of contribution of ₹ 1.50 crore.**

(Paragraphs 3.2.8.1(v), 3.2.8.2(ii) and 3.2.8.2(iii)

- **Due to cancellation of planned schedules and crew kept idling, the Manpower cost was higher than the all India average.**

(Paragraphs 3.2.8.3(ii), 3.2.8.3(iii) and 3.2.8.3(iv)

- **Inadequate Management Information System hampered the overall monitoring of operational parameters.**

(Paragraphs 3.2.9.1 and 3.2.9.3)

- **The Company failed to claim subsidy of ₹ 7.68 crore on increase in concessional fare. The subsidy received on social obligatory services was not based on the actual cost incurred.**

(Paragraphs 3.2.10.3(i) and 3.2.10.3(ii)

3.2.1 Introduction

Kadamba Transport Corporation Limited (Company) was incorporated in October 1980 under the Companies Act, 1956. It was incorporated as a wholly owned Company of the erstwhile Union Territory of Goa, Daman and Diu. The Company became a State Government Company when Goa attained statehood in 1987.

The Company is mandated to provide efficient, adequate, economical and properly coordinated public road transport in the State. The State also allows private operators to provide public transport. The State has reserved certain routes exclusively for the Company while allowing both the Company and private operators, in other routes. The fare structure is controlled and decided by the Government. This structure is same for the Company and the private operators.

As of March 2016, the Company had a fleet strength of 580 buses with manpower of 2,003. The Company carried on an average 0.89 lakh passengers per day during 2011-16. The turnover of the Company was ₹ 87.33 crore in 2015-16.

The last Performance Audit of the Company was incorporated in the Report of the Comptroller and Auditor General of India, Government of Goa for the year ended 31 March 2009. The Report is yet to be discussed by the Committee on Public Undertakings (COPU) (November 2016).

3.2.2 Organisational set up

The Company is under the administrative control of the Transport Department, Government of Goa. The Management of the Company is vested with the Board of Directors which comprised of Chairman and nine Directors including Managing Director.

The Managing Director (MD) is the Chief Executive of the Company. He is assisted by General Manager, Deputy General Manager, Works Manager and four Depot Managers. The organisation Chart is given in ***Appendix 3.3.***

3.2.3 Audit Objectives

The audit objectives of the performance audit were to assess as to whether;

- available resources were utilised optimally to ensure efficient fleet management;
- procurement of buses, inventory and augmentation of manpower were undertaken economically and efficiently;
- adequate Internal Control existed to exercise effective management control; and
- recommendations made in the Audit Report (2009) were implemented.

3.2.4 Audit Criteria

- Provisions of the Motor Vehicles Act, Companies Act and Cost Audit Rules.
- Physical targets/norms fixed by the Management and also the norms and performance standards prescribed by the Association of State Road Transport Undertakings (ASRTU).
- Agenda and minutes of meetings of Board of Directors, Tender and Purchase Committee and Audit Committee.
- Performance Standards prescribed by the original equipment manufacturers.
- Purchase procedure adopted by the Company and guidelines issued by the State Government from time to time.
- Workshop/Depot operating manuals/circulars, route survey documents and performance reports of new routes.
- Recruitment Rules/Manuals, Memorandum of Understanding with the Government, Annual Budget Estimates and Targets fixed.
- Provisions of internal control circulars, Internal Audit Reports.

3.2.5 Scope and Methodology of audit

The present Performance Audit was conducted during the period April to August 2016. It covers fleet management of the Company for the five year period ending March 2016. The Audit covered operational efficiency, material management, manpower management and management information system. Records maintained in Head office, Central Workshop and all four Depots were reviewed during the course of audit. Overall performance of the Company in comparison with other STUs of India for the year 2013-14 was also included in the report.

An 'entry conference' was held on 13 May 2016 with the Chief Secretary cum Principal Secretary (Transport) and the MD of the Company. Audit findings were reported to the Company and the Government and discussed in an 'exit conference' held with the Chief Secretary on 07 December 2016. The exit conference was also attended by Director of Transport, Government of Goa and the MD of the Company. The views expressed by them in the exit conference have been considered while finalising the performance audit. The Government reply is awaited (November 2016).

AUDIT FINDINGS

3.2.6 Financial Position and Working Results

3.2.6.1 Financial position

The financial position of the Company during the five years ending 31 March 2016 is given in ***Table 3.2.1.***

Table 3.2.1: Financial position

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
A. Liabilities					
Capital (equity capital including share application money)	59.64	89.64	89.64	94.64	94.64
Funds/Reserves and surplus	-139.30	-150.14	-143.28	-147.76	-134.07
Long term Borrowings	29.08	-	33.16	31.76	34.41
Long term Provisions	-	-	57.74	61.42	60.95
Current liabilities (including provisions)[9]	104.77	121.50	37.69	40.76	47.86
Total	**54.19**	**61.00**	**74.95**	**80.82**	**103.79**
B. Assets					
Non-Current assets:-	**25.79**	**42.70**	**58.72**	**56.82**	**61.93**
Net fixed assets (Including buses)	25.04	41.55	58.53	56.63	61.65
Non-current investments	0.75	1.15	0.19	0.19	0.28
Current assets:-	**28.40**	**18.30**	**16.23**	**24.00**	**41.86**
Investments	15.35	10.55	1.80	1.08	0.35
Inventories	1.86	1.91	1.67	1.80	2.10
Others	11.19	5.84	12.76	21.12	39.41
Total	**54.19**	**61.00**	**74.95**	**80.82**	**103.79**
C. Capital employed[10]	-24.12	-28.93	40.40	43.91	60.37

(Source- Annual Accounts of the Company)

It was noticed that Funds/Reserves and Surplus of ₹ -134.07 crore included accumulated deficit of ₹ 198.23 crore. It also included accumulated balances of Government grant/funds ₹ 64.16 crore. This indicated that the accumulated deficit wiped out its Capital by more than two times. The sharp increase in other current assets in 2015-16 was mainly due to receipt of subsidy of ₹ 15.02 crore in March 2016. The Finance Accounts of Government of Goa showed that the investment in the Company as on 31 March 2016 was ₹ 103.24 crore. On the other hand, the books of Company showed the Government's investment at ₹ 94.64 crore. The difference of ₹ 8.60 crore existed from 2012-13. The same has been commented in the supplementary report on the annual accounts of the Company every year since then. The Company despite assurances has not reconciled the same (November 2016).

[9] The long term provisions were bifurcated from current liabilities from 2013-14 onwards.

[10] Capital employed represents net fixed assets (including works-in-progress) *plus* working capital excluding gratuity provision (₹ 4.72 crore, ₹ 4.04 crore for 2015-16 and 2014-15 respectively)

3.2.6.2 Non-maintenance of Cost Records as required by Cost Records and Audit Rules 2014

Cost Records and Audit (CRA) Rules[11] require the Companies having turnover above ₹ 35 crore to maintain cost records and get cost audit done. The turnover[12] of the Company during 2013-14 and 2014-15 was ₹ 124.64 crore and ₹ 142.75 crore respectively. The Company had not maintained the cost records, nor appointed Cost Auditors and filed the Cost Audit Report with the Union Government.

3.2.6.3 Working results

The details of working results are given in ***Table 3.2.2.***

Table 3.2.2: Working results of the Company for 2011-16

(Sl No1 to 8 in ₹ in crore, and Sl No 10 to 19 in ₹)

Sl. No	Description	2011-12	2012-13	2013-14	2014-15	2015-16
1	**Total Revenue**	**93.48**	**94.77**	**124.64**	**142.75**	**168.54**
2	Operating/Traffic Revenue [13]	61.04	58.69	75.41	84.48	87.33
	Non traffic revenue subsidy included in P&L	28.05	30.33	44.19	52.97	76.08
	Other revenue	4.39	5.75	5.04	5.30	5.13
3	**Total Expenditure** [14]	**112.05**	**108.01**	**148.69**	**161.01**	**163.35**
4	Operating Expenditure	111.45	115.75	148.54	159.01	162.64
5	Operating profit/ loss (2-4)	**-50.41**	**-57.06**	**-73.13**	**-74.53**	**-75.31**
6	Profit/ loss for year (1-3)	**-18.57**	**-13.24**	**-24.05**	**-18.26**	**5.19**
7	**Fixed Cost :-**	**78.40**	**82.04**	**104.40**	**109.31**	**120.13**
	Personnel Cost	62.02	63.50	80.52	87.91	97.23
	Depreciation	4.49	5.10	10.29	7.90	9.25
	Interest	6.18	6.90	5.74	5.37	4.71
	Other Fixed Cost	5.71	6.54	7.85	8.13	8.94
8	**Variable Cost :-**	**33.48**	**34.23**	**44.75**	**50.34**	**43.26**
	Fuel & Lubricants	27.76	28.80	39.57	43.63	36.50
	Tyres, Tubes & Retreading	2.47	2.21	2.36	3.12	2.92
	Other materials/spares	1.60	1.64	1.08	1.23	1.51
	Taxes (Passenger tax *etc*)	1.65	1.58	1.74	2.36	2.33
9	**Effective kms operated (in lakh)**	**271.96**	**255.64**	**286.04**	**309.97**	**309.37**
10	Earning per km 1/9)	34.37	37.07	43.57	46.05	54.48
11	Fixed cost per km (7/9)	28.83	32.09	36.50	35.26	38.83
12	Variable cost per km (8/9)	12.31	13.39	15.64	16.24	13.98
13	Cost per km (3/9)	41.20	42.25	51.98	51.94	52.80
14	Net earnings per km (10-13)	-6.83	-5.18	-8.41	-5.89	1.68
15	Traffic revenue per km (2/9)	22.44	22.96	26.36	27.25	28.23
16	Non traffic subsidy per km (2/9)	10.31	11.86	15.45	17.09	24.59
17	Operating cost per km (4/9)	40.98	45.28	51.93	51.30	52.57
18	Operating loss per km (5/9)	-18.54	-22.32	-25.57	-24.04	-24.34
19	Contribution per km (15-12)	10.13	9.57	10.72	11.01	14.25

(Source: Annual Accounts and information provided by the Company)

[11] Notified by the Union Government (July 2014) under Section 148 of the Companies Act, 2013
[12] Excluding other income and subsidies unrelated to operations
[13] Including reimbursement received for school bus operations.
[14] Including exceptional and extraordinary items.

The trends of operational parameters are as summarised below.

i) Operating Revenue and Cost

The operating revenue contributed 65 *per cent* of the total revenue in 2011-12 which decreased to 52 *per cent* in 2015-16. While the operating revenue increased by 43 *per cent* during last five years, the subsidy increased by 171.23 *per cent*.

It can be noticed that manpower cost was about 59.51 *per cent* followed by fuel cost of 22.34 *per cent* to the total cost during 2015-16. During the same period the traffic revenue was 52 *per cent* and non-traffic related subsidies were 44.23 *per cent* of the total revenue.

ii) Recovery of cost of operations

The Company was not able to recover its cost of operations. During the last five years ending 2015-16, the Company was under operating loss. The loss per km increased for the first three years and then tapered marginally owing to decrease in market rate of fuel. In the last year there was profit of ₹ 5.19 crore due to increase of non-traffic revenue subsidy received from the Government compared to previous year.

iii) Performance per kilometre

The Earning Per Kilometre (EPKM) increased from ₹ 34.37 in 2011-12 to ₹ 54.48 in 2015-16. The traffic revenue per km ranged between ₹ 22.44 to ₹ 28.23 during the same period. The traffic revenue per km of the Company was less than the all India average[15] during the respective years upto 2013-14. On the other hand the Cost Per Kilometre (CPKM) of the Company was higher as compared to the all India average during the respective years. The deficiencies in optimising its traffic revenue and controlling operating expenditure resulted in mounting of operating losses. It also resulted in erosion of capital as stated in paragraph ***3.2.6.1***.

iv) State assistance for expenditure

It was noticed from the all India data[16] that, only 16 out of 39 STUs had received State assistance for meeting their expenditures[17] during 2013-14. The State assistance received by Company for meeting its expenditure for 2013-14 was ₹ 44.19 crore. The subsidy[18] per km increased from ₹ 10.31 in 2011 to ₹ 24.59 in 2016. This indicated that the Company is dependent on State assistance for its operations. High dependence on State assistance could be a factor for inefficient operational performance as discussed in the paragraphs ***3.2.7.1(i)*** and ***3.2.7.2(ii)***.

3.2.7 Utilisation of resources and Fleet Management

3.2.7.1 Operational Performance

The operational performance of the Company for five years 2011-12 to 2015-16 is presented in ***Appendix 3.4***. The salient points are described below.

[15] The information in respect of 2014-15 and 2015-16 have not yet been compiled by ASRTU.
[16] From the data compiled by All India State Transportation Undertaking Journal
[17] Made for payment of pay arrears, repayment of loans, retirement benefits *etc*.
[18] This is other than for concessional passes and school bus operations.

i) Percentage fleet utilisation

The percentage fleet utilisation ranged from 57.22 *per cent* to 65.09 *per cent* during 2011-16 against the all India average of 90 *per cent*. During 2013-14 TNSTC[19] recorded 99.9 *per cent* fleet utilisation. The KTCL ranked 40th out of 42 STUs with fleet utilisation of 57.22 *per cent* in 2013-14. This indicated that 34.91 *per cent* to 42.78 *per cent* of the buses available were not been utilised during 2011-16. This resulted in operation of only 1,432.98 lakh km (78.14 *per cent*) against scheduled 1,833.96 lakh km during the review period. This in turn adversely affected the earnings and profitability of the Company as discussed in paragraph *3.2.7.2(ii)*. It was also noticed that the average kilometre covered per bus per day decreased from 269.96 km in 2011-12 to 234.79 km in 2015-16.

ii) Reliability of services operated

The average breakdowns per ten thousand km (0.31) and average accidents per lakh km (0.26) during 2011-16 were higher than all India average (0.24 and 0.14). These indicated that the services of the Company had lower reliability as compared to other STUs.

3.2.7.2 Fleet Utilisation

i) High expected load factor to meet fixed cost

Capacity utilisation of a transport undertaking is measured in terms of load factor, which represents the percentage of passengers carried to total carrying capacity. The Company maintained a load factor of 51.56 *per cent* which was below all India average (67.73 *per cent*) during the review period. Out of 40 STUs compared, the load factor was highest for KMTU[20] (129.27 *per cent*). The KTCL ranked 39 during that year with load factor of 51.00 *per cent.*

The details of Break-Even Load Factor (BELF) at the given level of vehicle productivity and total cost *per* km worked out by audit are given in ***Table 3.2.3.***

[19] Tamil Nadu State Transport Corporation. Ltd.
[20] Kolhapur Municipal Transport Undertaking

Table 3.2.3: Details of utilisation of fleet and load factor

Sl. No	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Load factor (percentage)	44.84	52.89	51.00	53.59	55.50
2	Operating cost per km (₹)	40.98	45.28	51.93	51.30	52.57
3	Traffic revenue (₹) per km	22.44	22.96	26.36	27.25	28.23
4	Traffic revenue(₹) at 100 *per cent* load factor (Traffic revenue x100/ load factor)	50.04	43.41	51.69	50.85	50.86
5	Breakeven load factor considering only traffic revenue (percentage) (Operating cost x100/TR at 100 *per cent* load factor)	81.89	104.31	100.46	100.88	103.36

(Source: Sl 1 Data provided by the Company and computation in audit.)

The BELF is quite high compared to that of all India average (67.73 *per cent*) throughout the review period. This was due to higher operational cost and lower load factor. Thus, the Company should reduce the operational cost and increase the load factor to achieve a manageable BELF.

ii) Cancellation of scheduled kilometre

The details of cause wise cancellations of scheduled kilometres for 2011-16 are furnished in the ***Table 3.2.4.***

Table 3.2.4: Statement showing loss due to avoidable cancellation of schedules

(Figures in lakh km except Sl no 4, 8 and 10)

Sl. No	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Scheduled kilometres	362.17	351.43	367.72	386.34	366.30
2	Effective kilometres [21]	271.96	255.64	286.04	309.97	309.37
3	Kilometres cancelled (as per information furnished by the Company)	93.98	97.19	89.00	91.24	78.20
4	Percentage of cancellations with respect to scheduled km	25.95	27.66	24.20	23.62	21.35
	Cause wise analysis					
5	Want of buses	31.69	32.53	5.39	21.38	29.60
6	Want of crew	23.00	26.99	33.39	17.13	18.76
7	Others	39.29	37.67	50.22	52.73	29.84
8	Contribution per km (₹)	10.13	9.57	10.72	11.01	14.25
9	Avoidable cancellations (5+6)	54.69	59.52	38.78	38.51	48.36
10	Loss of contribution (₹ in crore) 8 x 9	5.54	5.70	4.16	4.24	6.89
11	Average number of vehicles held during the year	442	440	547	559	565
12	Average number of schedules operated at the end of the year	256	253	277	302	296

(Source: Data provided by the Company)

[21] Actual km+ Casual contract+School km

It can be seen from the above table that average cancellation was 24.56 *per cent* of scheduled km. This was the second highest among 32 STUs. The cancellation was least in SETC[22], Tamil Nadu (0.16 *per cent*) during 2013-14. The majority of cancellations were for want of crew and buses. It is pertinent to note that the Company purchased 345 buses during 2011-16. Analysis of average number of buses held *vis-a-vis* number of schedules operated during the last five years as indicated in the table above revealed that cancellation due to want of buses was avoidable. The Company maintained a crew ratio[23] which was above all India average as discussed in paragraph 3.2.8.3 (iii). Hence the cancellation for want of crew was also avoidable. Thus such cancellations indicate lack of management control in operationalising the resources.

If the schedules are cancelled, Company has to pay idle wages. It has also to incur all other related expenditure except the expenditure on fuel and spares. Thus cancellation becomes a burden on the Company. By keeping the buses idle the Company lost a contribution of ₹ 26.53 crore during 2011-16.

iii) Non-achievement of the targeted KMPL[24] set by the Company

Cost of High Speed Diesel (HSD) is the second highest component of total cost of operation. The cost of diesel is a variable cost and so the economy in fuel consumption affects operational efficiency. The Company maintained a Kilometre per litre (KMPL) of 4.43 km in 2011-12 which reduced to 4.24 km by 2015-16. During 2013-14, TNSTC[25], Kumbakonam achieved the highest KMPL of 5.59 km among the 34 STUs wherein the Company was on 19th position with KMPL 4.34 km.

The Company entered into a Memorandum of Understanding (MoU) with the Government (May 2012) for receiving financial support. One of the targets set for the Company under this MoU was improving the KMPL to five km. Subsequently, an Office Memorandum (OM) was issued by the Managing Director (May 2012), fixing the target of five KMPL for all depots. The depots were to take appropriate action for improving the mileage by identifying the buses and drivers with poor mileage. It also required providing counseling to drivers and encouraging them through acknowledgement of best performance. In February 2015, the Company revised the targets downward to 4.85 KMPL. The KMPL targets fixed by the Company for consumption of HSD, actual consumption, KMPL obtained and the estimated extra expenditure based on average cost of fuel is given in ***Table 3.2.5.***

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[22] State Express Transport Corpn. Ltd.
[23] Ratio of conductors and drives per schedule operated
[24] Kilometre per litre
[25] Tamilnadu State Road Transport Corporation.

Table 3.2.5: Statement showing calculation of KMPL

Sl. No	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	Gross kilometre (in lakh km)	274.47	258.78	292.27	313.46	312.75	**1451.73**
2	KMPL target fixed by the Company	4.50[26]	5.00	5.00	5.00	4.85	
3	KMPL obtained per litre	4.43	4.48	4.34	4.35	4.24	
4	Difference (2-3)	0.07	0.52	0.66	0.65	0.61	
5	Consumption of HSD as per target (lakh litre) (1/2)	61.00	51.76	58.45	62.69	64.48	**298.38**
6	Actual HSD Consumed (lakh litre) (1/3)	61.96	57.76	67.34	72.06	73.76	**332.88**
7	Excess consumption of HSD (lakh litre) (6 – 5)	0.96	6.00	8.89	9.37	9.28	**34.50**
8	Average cost of per litre* (₹)	45.60	50.97	59.10	61.19	55.46	
9	**Total extra expenditure (₹ lakh) (7x8)**	**43.78**	**305.82**	**525.40**	**573.35**	**514.67**	**1963.02**

(Source: Data provided by the Company) **Obtained from Indian Oil Corporation Limited*

The Company could not achieve targets fixed during the period 2011-12 to 2015-16. In fact, the KMPL decreased during the review period except in 2012-13. There was no evidence on record of action taken to implement the circular such as training to drivers, identifying buses, incentive schemes *etc*. Had the targeted KMPL been achieved it could have saved up to ₹ 19.63 crore in fuel cost during 2011-16.

iv) Under-utilisation of Volvo buses due to non-operation (630 bus-days)

The Board of Directors of the Company accorded (December 2014) its approval to purchase four Volvo buses on inter-state routes[27]. This was done to augment the existing fleet of two Volvo buses (*used on Goa-Bangalore route*). The Company procured (March 2015) four Volvo buses for ₹ 3.56 crore *(*₹ 89 lakh per bus*)*.

We observed that four, out of six Volvo buses were used for the two routes (Goa-Hyderabad and Goa-Bangalore). Two buses were kept as spare without operationalising the Goa-Pune-Nasik route. This resulted in idling of Volvo fleet by 630 bus-days of which 534 bus-days was avoidable[28]. The reason for such loss of bus days were mainly due to delay in registration/route-permits (134 bus days) and non-operation of schedules (400 bus days).

Company replied (August 2016) that four new Volvo buses were operationalised late due to delay in obtaining waiver of Entry Tax from the State Government. The reply was not tenable because the Company should have coordinated with the Government in advance for waiver. It also stated (August 2016) that the Goa-Pune-Nasik route could not be operationalised because colour scheme of the bus purchased was different from the colour scheme required for all India permit. The reply is not tenable as the Company

[26] This is the KMPL achievement during 2010-11.
[27] Two buses each for Goa-Hyderabad and Goa-Pune-Nashik routes.
[28] Considering repairs and maintenance for two days per month per bus (24 days x 2 buses) and one day per month for new bus (12 days x four buses).

being in transport business, should know the colour scheme and plan the requirement accordingly while procuring.

Thus, due to non-operationalisation of Volvo buses for 534 bus days the Company lost a potential contribution of ₹ 42.72 lakh [29].

v) Buses off road due to non availability of tyres

We observed that during 2011-16, due to non-availability of tyres 420 buses were off road for the periods ranging from one day to 200 days. This worked out to a total loss of 5,664 bus days resulting in loss of contribution of ₹ 1.57 crore.

Company stated that tyres were not purchased/retreaded due to bad financial position and the schedules have been cancelled on uneconomical routes. The reply is not tenable as the cost of tyres is only about seven *per cent* of variable cost during audit period. The Company did not provide any documents to prove that the schedules cancelled were of the uneconomical routes.

vi) Buses off road in depots with loss of contribution ₹1.94 crore

The number of days a bus remains off road indicates the efficiency in attending to breakdowns, handling warranty claims and managing the inventory of spares. The position of off road buses for one year (2015-16) were analysed in Audit. It was noticed that 77 out of 565 buses[30] were off road during 2015-16 continuously for more than one month. This translated into loss of 5,810 bus days [31]for various reasons as detailed in ***Table 3.2.6.***

Table 3.2.6: Details of cause wise cancellations

Reasons	Non-availability of Spare	Non-availability of float[32] at CWS	Delayed warrantee claim settlement	Total
Total No. of buses	36	17	24	77
No. of days it remained off road	2974	724	2112	5810

(Source: Data provided by the Company)

The vehicle kept off road due to shortage of spare parts/equipment indicates inadequate material management practices to maintain adequate inventory of vital spares. Buses being off road due to delayed warranty claims indicate tardy communication with the dealers. The loss of 5,810 bus days resulted in avoidable loss of contribution of ₹ 1.94 crore [33].

vii) Non-renewal of PUC Certificate on half yearly basis

Rule 116 (7) of the Central Motor Vehicle Rules, 1989 requires every vehicle to carry a valid "Pollution Under Control (PUC)" certificate issued by an authorised agency. Plying without PUC certificate attract a penalty[34] under Section 190 (2) of the Motor Vehicles Act. The validity of such certificate is

[29] Estimated at a contribution per km of ₹ 20 and daily operation of 400 km.
[30] Average buses held during the year
[31] Assuming average 10 days required for repairs/warranty claims.
[32] Collection of fuel injection pump/steering box/gear box *etc*., kept as spare in central workshop.
[33] At 234.15 km per day at contribution of ₹ 14.25 (for 2015-16).
[34] Penalty of ₹ 1,000 for first offence and ₹ 2,000 thereafter.

six months from the date of issue. For new buses, the PUC certificate is mandatory after one year from purchase.

The Company had 522 buses with age of over one year those required 1,044 number of PUC certificates annually. We observed that the Company obtained PUC certificates for buses operating on inter-state routes once in six months. For buses operating on other routes, it obtained the certificates, once in a year. Thus some of the buses operated by the Company did not carry a valid PUC certificate during 2011-16. This was in violation of the provisions of the Motor Vehicle Act.

The Company accepted the facts (July 2016) and stated that a testing agency would be nominated for each of the four depots for timely renewal of PUC certificates.

We recommend that the Management should devise and strengthen systems and procedures to utilise the resources optimally.

3.2.8 Procurement of buses, inventory and augmentation of manpower

3.2.8.1 Procurement of buses

The Company procured 345 buses during the review period at a total cost of ₹ 75.94 crore. Of the above, 213 buses were purchased in 2013-14 and 132 buses were purchased in other years. Audit observations on the procurement of buses during 2011 to 2016 are detailed below.

i) Non-procurement from lowest bidder

The Board of Directors of the Company accorded (June 2012) its approval to purchase 100 mini bus chassis and thereafter to undertake body-building. Accordingly tenders were called (July 2012) for chassis supply in which four[35] participants submitted their bids for six chassis variants. The Technical Committee[36] evaluated the bids and disqualified three[37] chassis variants belonging to two manufacturers. This was due to non-conformity with prescribed[38] specifications. Three bids were declared technically qualified. Thereafter the financial bids were opened and these are given in ***Table 3.2.7.***

Table 3.2.7: Details of financial bids

Sl. No.	Name of Bidder	Amount (in ₹)	Chassis Variant	Status
1.	M/s ND Naik	944233	TATA LPO 912/52	L1
2.	M/s Chowgule Inds. Ltd.	945000	SML (Swaraj Mazda) SAMRAT	L2
3.	M/s Dempo Marketing Ltd. (Dempo)	1019669	Eicher 11.12K	L3

(Source: Data provided by the Company)

While considering financial bids, the committee did not clear the lowest technically qualified offer for TATA chassis. It was rejected on the ground of

[35] M/s Dempo Marketing Ltd. for Eicher 11.12K model; M/s Ashok Leyland for ALPSV 3/73 stag and 3/47 Lynx models; M/s ND Naik for TATA LPO 912/49 and 912/52 models; M/s Chowgule Inds. Ltd. for SML SAMRAT model.

[36] A sub-committee of the Board

[37] ALPSV 3/73 stag, 3/47 Lynx and TATA LPO 912/49 models

[38] Relating to rear and front overhang

unsatisfactory past performance. The next lower offer of SML model was not considered due to technical fault in the chassis. The purchase order was placed (February 2013) on the third lowest bidder[39] for 99 Eicher bus chassis at a negotiated rate of ₹ 9,94,537 per chassis. The chassis were delivered and payment of ₹ 9.82 crore was made in April 2013.

According to the CVC guidelines "Once it has been established that the offers meet the laid down specifications, the question of grading as well as any pick and choose should not arise. The contract needs to be awarded to the lowest bidder meeting the laid down specifications". TATA make offered by its authorised dealer M/s N D Naik has already been qualified in the technical evaluation. Its subsequent rejection after opening financial bid on technical grounds was non-transparent and vitiated the procurement procedures and CVC guidelines.

We observed that the TATA buses purchased before this tender were still in operation (October 2016). Their operational performance was considered normal by the Company and it had not penalised/blacklisted M/s TATA for any deficiency so far. The Company had also placed a purchase order (November 2013) of 20 TATA buses of LPO 712/42 model based on a tender called in April 2013.

Thus, procurement of 99 chassis from (L3) at a price higher than the lowest bidder had resulted in an avoidable expenditure of ₹ 49.80 lakh[40].

ii) Non-monitoring of warranty period defects and inadequate warranty clause in tenders resulted in loss of 3,388 bus days

The new buses procured are covered under warranty by the chassis manufacturer, body-builder and authorised dealer (vendor) for free repairs during warranty period. The tender conditions of body-building require defect rectification during warranty period within two to three days for normal repairs. It provides seven days time for structural repairs. It also prescribed a penalty of one *per cent* of contract value for every week's delay in defect rectification. On the other hand, the tender conditions of chassis supply did not contain similar specific timeline for defect rectification. Consequentially, it did not prescribe any penalty for delayed rectification. The Company also did not monitor the timely defect rectification and imposed penalty for delayed rectification.

We observed that out of 345 buses purchased during 2011-16, there were 251 instances involving 96 buses where the vendor delayed[41] rectification. Out of these 96 buses defects occurred for more than five times in respect of 10 buses during warranty period. For ensuring timely preventive and corrective action, there was a need to incorporate specific time bound defect rectification clause in chassis purchase tenders. The performance of vendors in respect of defect rectification should also be evaluated. Over all 3,388 bus days were lost due to

[39] M/s Dempo Marketing Ltd.

[40] Loss = {(₹ 9,94,537- ₹ 9,44,233)= ₹ 50,304x99 bus =₹ 49.80 lakh}.

[41] Delay up to 299 days involving four instances of body building defects and 247 instances of defect in chassis.

delayed rectification of defects during 2011-16 which resulted in loss of contribution of ₹ 93.70 lakh[42].

iii) Lack of quality checks of materials in body building contracts

The fabrication and mounting of bus bodies was to be carried out as per the drawings and specifications of materials prescribed by the Company. Laboratory testing of the materials is essential to ensure that items used in the bus body fabrication were as prescribed. It was observed that State Road Transport Undertakings (SRTUs) of Gujarat and Uttar Pradesh insisted material sample testing in the contracts awarded by them to outside agencies. During 2011-16, the Company inducted 258 buses through body-building contracts at a cost of ₹ 26.39 crore for which it did not insist/obtain on record the test report of the materials used.

The Company replied (November 2006) that material sample testing facility is not available in Goa. It also replied that the body building Contractor (ACGL[43]) is a reputed ISO certified company. In respect of other two body building contractors[44], it was stated that they are supplying materials as per specifications. The reply is not tenable as no sample testing reports were available on record. Hence, the quality of materials used in these contracts could not be vouchsafed in audit.

iv) Delay in commencement of bus operations resulting in loss of 6,426 bus days

The induction of new buses in the fleet involves various stages like receipt of chassis, dispatch for body-building, receipt of fully built bus, registration with Transport Department, dispatch of bus to depots, *etc*. All these activities form key milestones in the process of timely induction of new buses. The Company has not set any milestones for completion of each stage/process.

Scrutiny of data relating to 251 buses[45] (out of 345 buses inducted between 2011 and 2016) revealed the following observations:-

- The registration of 113 buses (45 *per cent*) was made within two working days excluding the day of receipt of the bus. However, the registration of remaining 138 buses were delayed (upto 19 days) resulting in loss of 855 bus-days.
- The dispatch of 31 buses (12 *per cent*) to various depots after completion of registration formalities was made within a day excluding the day of registration of the buses. The dispatch of remaining 220 buses were delayed[46] (upto 177 days) resulting in loss of 4,955 bus days.
- The commencement of operations of 126 buses (50 *per cent*) on various schedules was made within a day excluding the day of registration of the

[42] 3,388 bus days x 248.49 x11.13
[43] Automobiles Corporation of Goa Limited (Private Company).
[44] Ultratech and Aerocoach
[45] The exclusions pertained to buses commented separately (four Volvo buses) or buses not involved in routine operations (*e.g* 83 school buses, seven luxury buses exclusively for casual contracts *etc*.)
[46] Delay calculated beyond one day after the day of registration

bus. The commencement of operations of remaining 125 buses were delayed[47] (upto 32 days) resulting in loss of 616 bus days.

In all Company lost 6,426 bus days due to delay in the above three stages resulting in loss of contribution of ₹ 1.78 crore[48] which was avoidable.

The Company accepted (August 2016) the facts and assured to take necessary action.

v) Loss due to non-procurement of tyres based on CPKM

In procurement of tyres the standard criteria adopted by other STUs were the cost per kilometre (CPKM). It was noticed that the Company did not obtain guaranteed mileage from the new tyre suppliers but it insisted such warranty from the retreaded[49] tyres.

We observed that the CPKM of CEAT brand of tyres was lowest based on 2011-12 and 2012-13 performance. Citing reasons of flexible payment terms, Company purchased (656 number) JK brand of tyres (₹ 75.74 lakh[50]) in the year 2013-14 which had higher CPKM. The procurement of CEAT tyres which had less CPKM could have reduced the cost of tyres by ₹ 36.58 lakh as detailed in ***Table 3.2.8.***

Table 3.2.8: Calculation of deferential cost on CPKM

Tyre size	No. of tyres purchased from JK	Average kms per tyre (in lakh km) (as per CPKM report 2015-16)	Total tyre kms (in lakh)	CPKM[51] (in ₹)		Difference	Differential cost *(₹ in lakh)*
				CEAT	JK tyre		
1	2	3	4	5	6	7 (Col No 6 -5)	8 (Col No 4 x 7)
9.00x20	307	1.25	383.75	0.11	0.17	0.06	23.03
7.50x16	230	0.98	225.40	0.07	0.12	0.05	11.27
10.00x20	119	0.96	114.24	0.19	0.21	0.02	2.28
						Total	**36.58**

(Source: Data provided by the Company)

3.2.8.2 Inventory Management

The Company procures various items of inventory on the basis of requests made by the depots and workshops. The high value items like Fuel, Tyre, Tube and Flaps (TTF), batteries *etc.*, were purchased through annual rate contract. Other materials like spares, body parts, parts of engine/fuel injection pumps and other consumables were procured based on requirement.

[47] Delay calculated beyond one day after day of receipt of new bus
[48] Average km operated 248.49 km with average contribution per km ₹ 11.13 for 6,426 bus days.
[49] Treads will be reconstructed on the tyre casing.
[50] Including tubes and flaps.
[51] Computed by the Company for CEAT (2011-13) and for JK (2014-16)

The material cost for five years in respect of fuel and lubricants was ₹ 176.26 crore, TTF was ₹ 13.08 crore and other materials was ₹ 7.06 crore.

Analysis of the inventory management revealed that computerised inventory management was not maintained as committed in the MoU[52]. We observed a few cases of improper monitoring of inventory items as detailed below.

i) Accumulation of obsolete spares

The Company had automotive spare parts valuing ₹ 16.41 lakh in stock as on 31 March 2009. These parts were not useful in the models of buses subsequently purchased by the Company. The Company did not take any steps to dispose these obsolete spare parts up to January 2016. In January 2016 these items received a quote (January 2016) of ₹ 0.28 Lakh. The Company did not sell on the ground that the quote received was less. This led to accumulation of obsolete items valued at ₹ 16.13 lakh.

ii) Use of cross-ply/other tyres instead of radial tyres resulted in loss of ₹ 27.90 lakh

As on February 2013, the Company was operating 27 buses which were initially fitted with radial tyres of size 10.00 x 20.00 by the manufacturer. These tyres recorded a CPKM of ₹ 0.16. With the efflux of time, as and when these tyres worn out, the Company replaced (2014-16) them with cross-ply tyres which gave a CPKM of ₹ 0.20[53]. Replacement of radial tyres by cross ply tyres resulted in excess expenditure as tabulated in ***Table 3.2.9.***

Table No 3.2.9: Excess expenditure in using cross ply tyre

Depot	Number of buses	Average Kms run per month (in lakh)	No. of tyre in each buses	Total tyre kms per bus per month (in lakh) (3 x4)	Total kms in three years (in lakh)	Difference (CPKM 0.20-0.16) (in ₹)	Excess expenditure *(₹ in lakh)* (6 x 7)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Margao	13	1.35	6	8.10	291.6	0.04	11.66
Porvorim	5	1.11	6	6.66	239.76	0.04	9.59
Vasco	9	0.77	6	4.62	166.32	0.04	6.65
						Total	**27.90**

(Source: Data provided by Company)

It is pertinent to note that ASRTU (June 2012) and tyre manufacturers (January 2013) advised the Company that radial tyres reduce the CPKM. It also added that it increase the fuel efficiency due to lower rolling resistance. But the Company has not tried to use these tyres so far to capitalise its economies. It was also noticed that in the performance review committee meeting, the performance of the radial tyres *vis-à-vis* cross ply tyres were never discussed.

[52] MoU with Government of Goa in February 2011.
[53] This is the average CPKM for the last five years of tyre size 10.00x20.00

Thus, by not using the radial tyres, the Company incurred avoidable expenditure of ₹ 27.90 lakh in addition to the higher fuel cost.

iii) Low initial tyre mileage leading to avoidable expenditure of ₹1.50 crore

We observed that the Company achieved an average Initial Tyre Mileage (ITM) of 35,367 km during 2011-16. The all India ITM in the same period was 57,648 km. The neighbouring states of Karnataka and Maharashtra achieved an average ITM of 68,005 km and 45,277 km respectively during this period. Out of 26 STUs compared for 2013-14 the ITM was highest for BMTC[54] (87,000 km). The Company ranked 24 with ITM of 33,724 km in that year.

The low tyre mileage is a matter of concern. Had they reached at least national average of 57,648 km, the Company could have saved expenditure to the extent of ₹ 1.50 crore.

It also did not create modern wheel alignment facilities in their depots and did not investigate the cause of low tyre performance. The Company stated (July 2016) that due to shortage of manpower it did not watch the tyre inflation, wheel alignment *etc.*

iv) Improper storage of diesel – loss of ₹ 6.79 lakh

The Company purchased High Speed Diesel (HSD) in bulk from oil marketing companies (Indian Oil and Bharat Petroleum). With effect from 21 January 2013 the rate of bulk supplies were made more than retail supplies. Hence the Company decided to purchase HSD from the retail outlets. In January 2013, it had a balance of 18,445 litre HSD in two pumps (15,786 litre in Panaji pump and 2,659 litre in Vasco pump). During February 2013 to April 2013, it dispensed 6,571 litre HSD from Panaji pump without recording the details of vehicles to whom dispensed. The balance 9,215 litre HSD in that pump got contaminated (due to moisture) and was discarded subsequently (June 2014). From 2,659 litre of HSD that remained in the Vasco pump in January 2013, 2,026 litre HSD went missing during February to April 2013. Thus, non-utilisation of 11,241 litre of diesel available in stock, before starting the procurement from private pumps resulted in a loss of ₹ 6.79 lakh (rate considering ₹ 60.39 per litre).

The Company stated (November 2016) that it maintained its tank as reserve stock and the entry of moisture was beyond its control. The reply was not tenable as the fuel if kept as reserve should have been used and replenished. It should not have been allowed to deteriorate due to efflux of time. It was also stated that the diesel in Vasco depot was already used up on 21 January 2013 but it was not true as per the daily stock register.

[54] Bangalore Metropolitan Transport Corporation

3.2.8.3 Manpower

i) Manpower position at the beginning and end of 2011 -16

The position of different categories of employees during 2011-16 in the Company is detailed in ***Table 3.2.10.***

Table 3.2.10: Position of employees as on 2011 and 2016

Sl. No.	Category	Position as on April 2011	Position as on March 2016
1	Officers	23	25
2	Administrative staff	233	219
3	Drivers	703	870
4	Conductors	596	619
5	Technical	308	270
	Total	**1863**	**2003**

(Source: Data provided by the Company)

It can be noticed that during 2011-16 there was increase in number of drivers and conductors, while the number of administrative and technical staff decreased. The decrease in technical staff from 308 to 270 is not favorable as it would hamper the maintenance activities. The Company also stated that due to shortage of technical staff, preventive maintenance of engine and tyre maintenance in depots could not be done. This might result in idling of buses, cancellation of schedules, off road buses *etc.*

ii) Manpower cost and productivity

The details of average manpower, its cost and productivity are given in ***Table 3.2.11.***

Table 3.2.11: Analysis of manpower cost

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Average manpower during the year (in number)	1873	1868	1949[55]	2056	2046
2	Manpower cost *(₹ in crore)*	62.02	63.50	80.52	87.91	97.23
3	Effective kms *(in lakh)*	271.96	255.64	286.04	309.97	309.37
4	Manpower cost per effective km (₹) (Sl. No. 2 x 100/ Sl. No 3.)	22.80	24.84	28.15	28.36	31.43
5	Productivity *per* day *per* person (in kms)[56]	39.78	37.49	40.21	41.31	41.43
6	Total buses on road (in number)	276	276	313	361	361
7	Manpower *per* bus (in number) (Sl. No.1 / Sl. No. 6)	6.79	6.77	6.23	5.70	5.67

(Source: Data provided by the Company)

Manpower cost per effective km (average ₹ 27.12) was higher than the all India average (₹ 14.97) during the review period. There was reduction in the manpower per bus and increase in productivity per day per person. This was

[55] 196 drivers, 50 conductors and 61 drivers, one conductor were recruited during 2013-14 and 2014-15 respectively.

[56] (Effective km x one lakh) /(Total Manpower x 365)

due to inclusion of school buses[57] and shuttle[58] services which required only drivers. OSRTC[59] had overall 2.37 men per bus and KMTU[60] had 17.55 which are having the best and worst ratios out of 38 STUs. Company faired 17 in the ranking with a ratio of 6.23 (average over 2011-16). By achieving the all India average manpower cost per effective km of 14.97 the Company could have reduced its expenditure to the extent of ₹ 173.86 crore[61]. This was possible by optimising the schedules to get maximum utilisation of the crew members, control of absenteeism and increasing productivity per person. Considering the fact that Company ranked 23 among the 34 STUs in manpower cost the management may consider reducing the manpower cost.

iii) Excess crew per schedule operated

The Company maintains its crew based on the schedules planned. It was noticed that average number of schedules planned in a year during 2011-16 was 343.4 against which the average schedules actually operated in a year was 276.8. The ratio of conductors and drivers per schedule operated were 2.66 and 2.23 which were above the all India ratio *i.e.* 1.85 and 2.14 for conductors and drivers respectively. Considering the fact that the Company operated 87 shuttle buses and 83 school buses the ratio of crew should have been much less than existing. OSRTC had 0.60 and 0.28 drivers and conductors per bus which was the best ratios in 2013-14. On the other hand KMTU had 4.49 driver per bus while PMPL had 4.44 conductors per bus, which were the worst ratios in 2013-14. Company faired 17 and 15 in the ranking with a ratio of 2.35 driver per bus and 1.86 conductors per bus in the same period.

The rate of absenteeism[62] was found to be 15.07 *per cent*[63] which is more than the rate of 10 *per cent* adopted by the management for crew assessment.

iv) Recruitment of crew in excess of requirement

The Company recruits drivers and conductors based on the number of new schedules introduced and number of retirement vacancies. During the review period 34 new operational schedules were introduced[64] and 83 new school schedules were started. Requirement of additional drivers was assessed[65] at 182 and conductors[66] at 104. Against this the Company recruited 285 drivers and 122 conductors during 2011-16. The reasons for excess recruitment of 103

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[57] The buses are operated to ply the students of Government High Schools which does not require conductors.

[58] Shuttle buses ply from point to point like from Panaji to Margao, Margao to Vasco *etc*., and tickets are issued at the point of boarding.

[59] OSRTC-Orissa State Road Transport Corporation, MZST- Mizoram State Transport,

[60] KMTU- Kolhapur Municipal Transport undertaking

[61] Difference between all India average of manpower cost per km and company average x total effective km {(₹ 27.12 - ₹ 14.97) x 1430. 98 lakh km} = ₹ 173.86 crore.

[62] including unauthorised absence and leave

[63] Analysed all drivers and conductors for 30 days in all depots

[64] Four double schedule and 30 single schedules

[65] Retirement vacancy 40, 92 drivers required for 83 school buses, 50 drivers for 34 new schedules

[66] 54 towards retirement and 50 for 34 new schedules

drivers and 18 conductors (with a recurring annual expenditure[67] of about ₹ 2.18 crore) were not furnished.

v) Poor manpower management resulted in delay in utilisation of new buses

The Company purchased 213 buses between March and September 2013 which included 100 mini buses and 83 school buses. The Company initiated recruitment of 101 drivers in February 2013 and recruitment process was completed in June 2013. The drivers were eventually appointed in August/September 2013 due to delay in obtaining the Government approval. Our scrutiny observed that 32 buses procured at a cost of ₹ 6.52 crore (April/June 2013) could not be inducted in the fleet till September 2013 due to non-availability of drivers in the depots. Due to bulk procurement of buses before recruitment of crew, sufficient manpower was not available to man the new buses resulting in loss of bus days. The Company should have planned its recruitment in synchronisation with the arrival of the buses or *vice versa*. Thus poor manpower management resulted in loss of 3,201 bus days.

Company accepted (August 2016) the facts and stated that the drivers will be recruited before arrival of buses in future.

vi) Under utilisation of manpower

Under Section 91 of the Motor Vehicles Act 1988, the steering hours[68] to be allotted to drivers are restricted to maximum of eight hours per day.

It was noticed that the Company operated 218 double schedule[69] routes. We observed that the actual steering hours allotted to drivers for 36 of these double schedule routes were between 7.3 hours and 10.5 hours against maximum permissible 16 hours in two days. Thus in 36 instances, the drivers and conductors were utilised for less than two third of their intended utilisation in a day. Considering four crew members required for one double schedule in a day, the total crew required for 36 schedules was 144. As one third of the same was not utilised, it transforms to 48 numbers of crew members being not put to use every year.

3.2.9 Monitoring by top management

For an organisation like a Road Transport Corporation to succeed in operating economically, efficiently and effectively, there has to be written norms of operations, service standards and targets. There is also a need to have a Management Information System (MIS) to report on achievement against targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. In the light of this, Audit reviewed the system operating in the Company and observations are as detailed under.

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[67] 121 x ₹ 15,000x12months (Wage of ₹ 15,000 per month for casual employees)

[68] The time actually driven by a driver in a day

[69] In this kind of schedules every day two pair of crew operates the bus. One alight in the afternoon, night halt and back on the next day.

3.2.9.1 Performance review by the Management

The depots forward the daily reports of vehicle, crew and operational parameters to the head office. It also forwards periodical performance reports of fuel, tyre, break down, cancellation *etc*., to the head office. These are hand written or are typed copies. These reports are consolidated in head office along with previous reports and presented to the management for monitoring purposes. The data transfer from depot is in hard copy and further typed in head office for consolidating the report. In this duplication of work data entry errors cannot be ruled out. Audit is of the opinion that this can be improved through electronic transfer.

Performance Review Committee is responsible for review of operational performance. The last meeting of the Committee was held in July 2012. The Board of Directors was reconstituted thereafter but the Performance Review Committee was not constituted based on the Board of Directors reconstitution. The performance was thereafter reviewed twice or thrice in a year either by the Chairman/MD/GM or DGM. There was no control mechanism in place to monitor number of meetings and proceedings of the meetings. Hence Audit could check only the minutes of the meetings provided by the Company. The system of monitoring the compliance to the recommendations made by the Performance Review Committee was absent.

The review of performance parameters are also not in the scope of internal audit. Had the performance monitoring by top management been adequate, the losses/deficiencies brought out in the above paragraphs could have been reduced to a considerable extent. Hence there is a need of strengthening the review of operational performance by the Management.

3.2.9.2 Internal Audit

The internal audit was outsourced to Chartered Accountants firms during 2011-16. The internal audit was conducted based on the scope of the audit assigned to Internal Auditor (IA). This included major accounting functions of the Company and some operational functions. Quarterly reports of findings of internal auditing were submitted to the Company. These were replied and discussed in the audit committee meeting in presence of the IA. We observed that operational performance parameters were not in the scope of the internal audit. The Internal Audit Report did not bring out the improper storage of diesel (para 3.2.8.2.(iv)) which was in its scope. Non-disposal of obsolete spares (para 3.2.8.2.(i)) were reported in September 2012 in the Internal Audit Report but the Company did not take action to dispose the same till November 2016.

3.2.9.3 Scrapping of unserviceable buses and inventory

A committee of the Company is responsible for scrapping of buses, unserviceable inventory, failed parts, used TTF *etc*. The upset value for the scrapped items was determined based on the data on replacement value, actual/estimated weights of bus body, proportion of aluminum and mild steel in body *etc*. The materials are sold under tender cum auction.

The Company tendered (April 2015) 27 scrap buses with an upset price of ₹ 49.13 lakh. It received (April 2015) the highest bid of ₹ 48.20 lakh from M/s Packlo Traders (Packlo). The Tender Purchase Committee[70] (TPC) decided (June 2015) to call all the bidders for negotiation. It obtained an enhanced bid of ₹ 48.45 lakh from second highest bidder (M/s Shaik Polymers) and recommended his offer to the Board of Directors (Board). The Board disapproved (June 2015) this recommendation on account of procedural lapses and decided to retender. Upon retendering (June 2015), the highest bid received was only ₹ 30 lakh from M/s Fatroda scrap traders. The TPC retendered (January 2016) again after reducing the upset price to ₹ 34.50 lakh. This was 30 *per cent* less than original upset price. This time highest bid received (₹ 26.85 lakh) was from M/s Packlo traders. It was negotiated to ₹ 27.89 lakh and was recommended by TPC. The Board of Directors accepted this offer. Thus, the Company sold the 27 buses to the same bidder after a delay of over a year at a loss[71] of ₹ 20.31 lakh.

In the tender floated in January 2016, an additional 25 buses were also included. The upset price for these 25 buses was considered as ₹ 36.13 lakh. After negotiation with the bidders, the buses were sold at ₹ 29.21 lakh resulting in a loss of ₹ 6.92 lakh. Thus, due to unprofessional and irregular decision to negotiate with second highest bidder the Company lost ₹ 27.23 lakh in sale of scrapped buses.

3.2.9.4 Control of pilferage and revenue losses

Ticketless travellers and luggage are to be checked to control pilferage of revenue. The Company had five line checking squads which check about 2.5 *per cent* of the trips operated. The squad booked 5,917 ticketless travellers during 2011-16. The reports of Jackpot checking program[72] were not available with the Company. As such the standards for the quantum of line checking that should be done by the line checking squads could not be set. This indicated weak management control over prevention of revenue loss due to pilferage.

We analysed 280 cases of penalty imposed by line checking squad. It was found that in respect of 163 cases penalty imposed was less than ₹ 80 which is the minimum penalty as per Motor Vehicles Act. The penalty receipts did not mention the bus numbers, signature of the traveller, *etc*., which restricted the scope for counter checking by the management. Imposition of low penalty against the stipulated penalty would incentivise ticketless travelling and causes loss to the Company due to pilferage.

The Company stated (August 2016) that necessary instructions will be given to line checking staff.

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[70] Tender Purchase Committee comprising of three members with voting rights (MD and two Directors) and two officials without voting rights

[71] Original bid ₹ 48.20 lakh – final bid ₹ 27.89 lakh

[72] Jackpot checking is a special program in which the Officers of the Company accompany the line checking squads to set standards.

We recommend that the monitoring system should be strengthened and make use of the MIS system in place to exercise effective control over operational areas.

3.2.10 Follow up audit on recommendation of Audit Report 2008-09

We conducted Performance Audit of the Company covering the five year period 2004-09 which was incorporated in the Audit Report 2008-09. Four recommendations were made in that Performance Audit. The follow up action taken on these recommendations is discussed in succeeding paragraphs.

3.2.10.1 Increase fleet utilisation and improve load factor by planning the routes keeping into consideration the number of buses held

The schedules operated during the current review period (2011-16) were less as compared to the average buses held. This resulted in operation of 1,432.98 lakh km (78.14 *per cent*) against scheduled 1,833.96 km during the review period as discussed in ***Paragraph 3.2.7***. Thus, the fleet utilisation has not improved since the previous report. On the contrary, it recorded a reduction from the 80 *per cent* registered during the previous review period. As far as load factor is concerned the Company maintained a load factor of only 51.56 *per cent* which was below all India average (67.73 *per cent*) in the review period as discussed in ***Paragraph 3.2.7.2(i).*** The load factor has deteriorated from that recorded during the previous review period (54.34 *per cent*). Thus, the fleet utilisation and load factor have not improved over the period.

3.2.10.2 Consider devising a policy for tapping non-conventional sources of revenue by undertaking Public Private Partnership Project (PPP)

The Company has neither devised a policy nor undertaken any projects under PPP during the current review period. The Government of Goa gets bus stands constructed in the cities and towns of Goa and hands it over to the Company. Since inception (1980) of the Company, the Government handed over land admeasuring 3.82 lakh square metre to it with 16 bus stands at 20 locations. Out of the above, bus stands in six locations[73] are located in major cities/towns and connected by major roads with maximum traffic flow. We observed that five[74] out of these six bus stands were constructed 20 years ago. There were several reports in the media that Margao, Panaji and Mapusa bus stands were lacking adequate facilities like clean toilets, drinking water and crew rest rooms. The Company has to take up the issues raised above with the Government to improve the existing facilities or explore the possibility of modernising the bus stands with PPP mode. This is required for better passenger amenities along with increase in revenue.

[73] Panaji, Margao, Mapusa, Ponda, Canacona and Vasco
[74] Excluding Canacona constructed 10 years ago

3.2.10.3 Maintain proper records of cost of free and concessional travel facility/social obligatory trips provided and lodge a claim with the Government with supporting document.

We observed that the subsidy was released on the basis of Company's financial needs without any correlation to the fulfillment of social obligation. The Company also did not maintain an account of losses incurred in operating uneconomical trips as a part of social obligation. Accordingly in the previous review, we recommended maintenance of proper records of cost of free and concessional travels. It was also recommended that the subsidy claim should be lodged with Government along with supporting documents. During current review we observed that these recommendations are not implemented by the Company as detailed in the following paragraphs.

i) Short claiming of subsidy (₹ 7.68 crore)

The Government notified (January 2009) a subsidy scheme to compensate the Company towards revenue foregone. The Scheme provided that senior citizens would pay concessional fair at the rate of 50 *per cent* of the normal fare. It also provided that disabled persons would not be charged any fare. The concession would be available to the senior citizens or disabled persons to whom the identity cards were issued by the Social Welfare Department. The subsidy was to be worked out on the assumption that 10 *per cent* of the identity card holders would undertake travel every day. The subsidy would be paid at the rate of ₹ five per day for senior citizens and ₹ 17 per day for the disabled passengers. As on March 2016 there were 80,393 identity cards issued to senior citizens and 11,894 identity cards issued to disabled persons.

We observed that the subsidy has not been revised with the revision in fare during the review period. The expected subsidy based on fare revision is detailed in ***Table 3.2.12.***

Table 3.2.12: Details of short claim of subsidy relating to concessional travel

(₹ in crore)

Sl. No.	Year	2008 (*year of notification*)	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	Number of beneficiaries at the end of the year		54066	65933	74500	82615	92287	
2	Minimum fare (₹ per km)	1.0	1.66	1.66	2.0	2.0	2.0	
3	Percentage increase in fare *(per cent)*		66	66	100	100	100	
4	Subsidy received		1.36	1.57	1.77	1.93	2.06	8.69
5	Expected subsidy as per fare hikes (Sl. No. 4 x 2)		2.26	2.61	3.54	3.86	4.12	16.39
6	Under recovery of Subsidy (Sl.No.5-4)		0.90	1.04	1.77	1.93	2.06	7.70

(Source: data provided by the Company)

The Company did not monitor the actual subsidy receivable based on the fare revision. As a result it did not claim subsidy totalling to ₹ 7.70 crore.

The Government introduced free travel facility to freedom fighters from January 2014 onwards. The Company did not maintain the details of beneficiaries who availed this facility and thus loss of revenue on this account could not be quantified in Audit.

The Company replied (August 2016) that it will enumerate the number of passengers availing subsidy and take up the matter.

ii) Non-measurement of losses incurred in operating uneconomical trips (social obligation) for claiming subsidy from Government

The Company received subsidy of ₹ 161.35 crore from the Government during 2011-16. The reimbursements for operating uneconomical trips were made through direct budgetary provisions till 2015. The Government notified (July 2015) the "subsidy scheme for social obligatory services" to compensate the Company. This was meant for taking up operation of uneconomical routes, early morning/late night trips, providing basic amenities in bus stands to passengers, disaster management operations *etc*. A sum of ₹ 65 crore was provided in the budget for the year 2015-16 under the scheme.

Audit recommended in 2009 to measure, assess and claim the subsidy accurately by measuring the cost incurred in operating social obligatory trips. In current Audit, we noticed that the Company did not devise a strategy/action-plan to work out the subsidy claims. In the absence of monitoring mechanism by the Company, adequacy or otherwise of subsidy realisation to safeguard the interests of the Company could not be vouchsafed in Audit.

iii) Monitor the important operational parameters to take remedial measures for improvements at top management level

The Company has partially implemented recommendations on monitoring the operational parameters in the form of statistical reports. Systematic implementation of monitoring operational performance is yet to be established as discussed under ***paragraph 3.2.9.1 to 3.2.9.3.***

3.2.11 Conclusion

The operational parameters like fleet utilisation and vehicle productivity was below all India average. The fleet utilisation was hampered due to cancellation of planned schedules for avoidable reasons. The Company under-utilised the buses resulting in loss of 12,104 bus days and consequent loss of contribution totalling ₹ 3.94 crore. The Company could not recover the cost of operations in any of the five years under review which resulted in erosion of its capital by over two times. The Company continued to rely on the Government subsidy.

Procurement of buses, inventory and augmentation of manpower were not undertaken economically and efficiently leading to cancellation of schedules, keeping the buses off road and under utilisation of manpower. This resulted in loss of 9,814 bus days and consequent contribution loss of ₹ 2.72 crore.

The monitoring by top management was inadequate. The management information system in place was not utilised sufficiently in taking management decisions. These along with poor internal control mechanism resulted in avoidable expenditure of ₹ 1.64 crore.

The Company did not implement the recommendations of the previous review (2004-09). It did not take measures to tap non-conventional sources of revenue and subsidy claims were not preferred on the basis of actual measurements.

SEWAGE AND INFRASTRUCTURAL DEVELOPMENT CORPORATION

3.3 Avoidable payment of penalty for delay in filing income tax returns

The Sewage and Infrastructural Development Corporation Ltd., did not file income tax returns on due dates resulting in avoidable payment ₹ 0.66 crore.

The Sewage and Infrastructural Development Corporation Ltd. (Corporation), was incorporated in February 2001 under the Companies Act 1956. Its main objective was developing sewerage facilities in the State. The Corporation is managed by a Board of Directors which was responsible for preparation of budget, annual financial statement and overall management of the Corporation.

The income of the Corporation is taxable under the Income Tax Act, 1961 and it has to file Income Tax Return (ITR) on due dates. The ITRs have to be filed after carrying out the Tax Audit[75] required under Section 44AB of the Income Tax Act, 1961 (Act)[76]. Under Section 234A of the Act if the return of income for any Assessment Year (AY) is furnished after the due date, simple interest at the rate of one *per cent* per month is chargeable on the outstanding tax liability from the due date of filing return.

We observed that the Corporation delayed filing of ITRs during the AY from 2010-11 to 2014-15. It also paid interest of ₹ 0.66 crore under Section 234A of the Act. The ITR for the AY 2015-16 is yet to be filed (November 2016).

[75] If total sales/gross turnover exceeds ₹one crore in any previous year

[76] According to Section 44AB of the Income Tax Act, audit of accounts was compulsory if the total sales/gross turnover of a business exceeds the threshold limit.

The Corporation stated that their Tax Auditor was not ready to prepare and certify the Tax Audit Report without Statutory Audit Report. It was also stated that the Statutory Audit Report was delayed by the Statutory Auditors.

The reply is not acceptable as the Statutory Audit Report was not mandatory for filing ITRs. The Corporation also delayed the filing of ITRs for the AY 2010-11 and 2011-12 when the Tax Audit Report was not mandatory. The failure of the management to file ITRs on due dates during the consecutive five AY (2010-15) resulted in avoidable payment of interest of ₹ 0.66 crore.

The matter was reported to Government in July 2016 and their reply is awaited (November 2016).

Panaji **(ASHUTOSH JOSHI)**

The 15 March 2017 **Accountant General, Goa**

Countersigned

New Delhi **(SHASHI KANT SHARMA)**

The 24 March 2017 **Comptroller and Auditor General of India**