

Chapter III

Compliance Audit Paragraphs

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Important Audit findings emerging from test check of transactions of the State Government companies and Statutory corporations are included in this Chapter.

Government companies

City and Industrial Development Corporation of Maharashtra Limited

3.1 Appointment of IT Consultant

CIDCO appointed IT Consultant without properly defining scope of work and time line resulting in time overrun and cost escalation.

City and Industrial Development Corporation of Maharashtra Limited (CIDCO) appointed (April 2013) M/s. Accenture Service Private Limited (ASPL) as consultant for 'as is study' of existing processes, departments and IT System. The scope of work included recommending Business Process Re-engineering, Bid process management for design and development of new systems, facilitating adherence to various e-Governance Standards, Training and Capacity building, Project Management & Monitoring of e-Governance implementations including assistance in User Acceptance Testing and Go-live. The appointment was made on the basis of recommendation by a committee¹ based on the presentation by four firms empanelled by Government of Maharashtra (GoM). The appointment (April 2013) was for a period of 12 months (extendable up to three years) with payment on man-month basis for the number of Consultants deployed by ASPL. As per the work order, one full time Principal Consultant (PC), one part time PC *i.e.* at 50 *per cent* rate and two Senior Consultants (SC) were deployed at a monthly payment² of ₹ 2.52 lakh and ₹ 1.99 lakh for each PC and SC respectively.

On completion of initial period of 12 months in April 2014, CIDCO extended (November 2014) the contract on *ex-post facto* basis from May 2014 to May 2015. The monthly payment for the Consultants from October 2014 was increased to ₹ 2.75 lakh and ₹ 2.20 lakh for each PC and SC respectively (as per Resolution of GoM in July 2014) and the number of total consultants deployed was also increased to five (2 PC and 3 SC). In December 2015, the Board approved further extension of the consultancy work for three years from June 2015 to May 2018 for ₹ 5.32 crore and the number of consultants to be provided by ASPL was increased to seven (2 PC and 5 SC).

Audit observed the following:

- At the time of issue of work order in April 2013, CIDCO mentioned the brief scope of work to be undertaken by the consultants. The work order,

1 Purchase Committee and Project Implementation Committee of Directorate of Information Technology (DIT), GoM and attended by Vice Chairman & Managing Director of CIDCO

2 Rates fixed by Government Resolution (GR) of September 2012 for PC and SC

however, did not identify and clearly state the deliverables with definite timelines during the currency of the work order from May 2013 to April 2014.

- GoM through a GR in July 2014, prescribed that for selection of consultant on man-month basis, the consulting firms need to clearly define the milestones in their proposal for the project. While extending the appointment for the period May 2014 to May 2015 in November 2014, CIDCO incorporated a condition that the consultant should submit month-wise deliverables. The consultant however had not submitted the details of month-wise deliverables so far (July 2016). The condition regarding month-wise deliverables was excluded in December 2015 while extending the contract for a further period of three years. In the absence of clearly defined deliverables and time lines, CIDCO could neither measure the performance of the consultants nor could it assess the overall cost of the project being implemented.

- As per status report (May 2016) submitted by the consultants, the work of business process re-engineering was completed by the consultants. The remaining work of bid process management for design and development of new systems, facilitating adherence to various e-Governance standards, training and capacity building, project management & monitoring of e-Governance implementations were in progress. CIDCO had not analysed the progress of work and compared the same with the scope of work allotted to the consultants.

CIDCO stated (September 2016) that based on the widening scope of work, it was decided to extend the engagement with ASPL in the best interest of CIDCO as selection of new consultant would lead to loss of momentum. The reply is not acceptable. As the scope of work had remained same as in the original work orders, CIDCO should have defined the scope and timelines clearly while awarding/extending the work so that the performance could be evaluated and ensured.

- As per the first extension order from October 2014 onwards, the second PC deployed was to possess GIS expertise and the two SCs deployed were to have SAP-FICO and RE Module understanding and exposure respectively. It was however observed that the Consultants appointed by ASPL did not possess the relevant domain expertise. The PC with GIS expertise was deployed only in March 2015 and SCs with domain expertise had not been deployed (March 2016). CIDCO had released ₹ 84.15 lakh³ towards services of one PC and two SCs though the objective of the deploying these consultants had remained unfulfilled.

CIDCO replied (September 2016) that the special criteria for the additional consultants were relaxed considering the representation of ASPL and there was no financial loss to CIDCO. The reply was not acceptable as the consultant had not deployed the relevant domain experts even after requests by CIDCO. The relaxation of the special condition after acceptance by ASPL was not in order and resulted in undue benefit.

³ One PC-October 2014 to February 2015 (five months) at ₹ 2.75 lakh per month and two SCs from October 2014 to January 2016 (16 months) at ₹ 2.20 lakh per month

Thus, the award of consultancy work to ASPL on man-month basis without properly defining the timeline *vis-a-vis* scope of work and expected deliverables, absence of mechanism to monitor the actual work carried out at the time of granting extensions, payment and retention of consultants without domain expertise resulted in time and cost overrun. Further, CIDCO continued the project without any assessment of progress made by the consultants. CIDCO also did not obtain any commitment from the consultants as to the timelines and cost at which the project would be completed.

The matter was reported to the Government (September 2016); their reply was awaited (December 2016).

3.2 Construction of Exhibition Centre at Vashi, Navi Mumbai

CIDCO executed the construction of Exhibition Centre without proper conceptualisation and planning which resulted in frequent changes in the scope of the project. CIDCO appointed a consultant on nomination basis and deficiencies in their performance also contributed to the time and cost overrun.

City and Industrial Development Corporation of Maharashtra Limited (CIDCO) decided (December 2007) to construct a permanent Exhibition Centre (EC) at Vashi, Navi Mumbai to cater to the diverse needs of the city. CIDCO appointed (January 2008) M/s. Ratan J. Batliboi Architects Private Limited (RJBAPL) as consultants for comprehensive planning and designing at a fee of ₹ 4.77 crore. The major project works (Roofing & sky light, Electrical works, Civil & Structural works and Heating, Ventilating and Air Conditioning) at an estimated cost of ₹ 113.89 crore were scheduled for completion by April 2010. The details of various works awarded under the EC project with the scheduled and actual dates of completion and cost are as given below:

Sl. No.	Contractor	Nature of work	Date of issue of work order	Due date of completion	Actual date of completion	Estimated cost	Awarded cost	Actual cost including escalation (percentage increase over awarded cost)
1.	M/s. Vijaynath Interiors and Exteriors Private Limited	Roofing & Sky Light	27/01/2009	26/10/2009	31/12/2012	17.69	21.06	28.90 (37.23)
2.	M/s. Leena Powertech Engineers Private Limited	Electrical Works	02/01/2009	01/04/2010	31/05/2014	16.93	20.93	38.79 (85.33)
3.	M/s. IVRCL Infrastructure and Projects Limited (IVRCL)	Civil & Structural works	15/01/2009	04/04/2010	31/05/2014	71.54	114.35	164.03 (43.45)
4.	M/s. Blue Star Limited	Heating, Ventilating and Air Conditioning	16/01/2009	15/04/2010	31/05/2014	7.73	8.73	15.13 (73.31)
5.	M/s. Sanjiv Yajnik and Associates	Interior work of auditorium	20/03/2012	19/09/2012	18/02/2014	2.69	2.79	3.31 (18.64)
6.	M/s. Sakura Signages	Providing and fixing signages	02/05/2014	01/10/2014	07/11/2014	1.53	1.50	1.58 (5.33)
7.	M/s. Sanjiv Yajnik and Associates	Providing and assembling loose furniture	12/09/2014	08/11/2014	07/11/2014	0.89	0.78	0.78 (-)
8.	M/s. Mahendra Realtors and Infrastructure Private Limited	Carrying out interior fit out	11/07/2014	10/12/2014	09/01/2015	3.33	2.99	3.13 (4.68)
					Total	122.33	173.13	255.65 (47.66)

As seen from above, the major works were completed by May 2014. The interior works of auditorium, signages and furnishing were also completed in February and November 2014 respectively and the interior fit out works were completed in January 2015. The project was completed in May 2014 over a six year period at a cost of ₹ 255.65 crore with an increase in cost of 48 *per cent* when compared with the awarded cost (₹ 173.13 crore). In this connection, audit observed the following:

Appointment of Consultant without inviting tenders

3.2.1 Audit observed that the appointment of consultant for the projects was without competitive bidding process as detailed below:

- CIDCO appointed (January 2008) M/s. RJBAPL as consultants for comprehensive planning and designing at a fee of ₹ 4.77 crore without inviting tenders. It was observed that no justification was on record for not tendering for selection of the Consultant for such an important project.
- CIDCO had not planned this project as a Green Building initiative *ab-initio*. Subsequently, based on the recommendation by RJBAPL (May 2008), CIDCO awarded the work of obtaining Green Building-LEED (Leadership in Energy & Environment Design) certification to RJBAPL without inviting tenders for a consultancy fee of ₹ 33.25 lakh.

CIDCO justified (August 2016) the Architect's appointment stating that RJBAPL was appointed as they had been associated with CIDCO for more than a decade in various projects. The reply is not acceptable. CIDCO had executed various projects in the past and a number of consultants were associated with them. Therefore, the nomination of a consultant without competitive bidding was not justified.

Absence of Proper Planning and monitoring

3.2.2 As per Chapter III of the Maharashtra Public Works Manual adopted by CIDCO, estimates for projects should be prepared in sufficient detail to ensure that proper consideration to the requirements of the work are given. Audit however observed that the Management did not have a clear vision on the concept, scale and size of the project. Audit scrutiny revealed that CIDCO had not prepared a Detailed Project Report which was a basic requirement to assess the viability of the project and a tool for planning and monitoring of such a gigantic work. The tenders were invited only on the basis of conceptual drawings. As a result, wide variations were noticed in the built-up area of the project which increased from 20,000 square metre (sq.mt.) at the stage of initial approval by the Board (December 2007) to 26,000 sq.mt. at the time of pre-qualification tendering stage (March 2008); 27,205 sq.mt. as per work awarded to M/s. IVRCL (January 2009) and 41,905 sq.mt. on completion (May 2014). Thus, the project was executed on trial and error basis without clarity on the size and features of the project.

Further, audit observed that the cost of the project increased by 48 *per cent* (from awarded cost of ₹ 173.13 crore to completion cost of ₹ 255.65 crore) due to execution of extra items, increase in quantity and cost escalation.

Consequently, the percentage increase in cost *vis-a-vis* the awarded cost of major works ranged from 19 to 85 *per cent*. The details of increase in area and cost for each item along with justifications for increasing the scope of work *vis-a-vis* revenue potential was not brought out by the Consultant/CIDCO.

CIDCO stated (August 2016) that there was clear vision on concept, scale and size of the project and the same was carried out after critical evaluation of the requirements. CIDCO stated that extra items and excesses were required for value addition and enhanced facilities and were carried out to make the centre commercially viable. The reply is not tenable as the tenders were invited without any detailed project report bringing out the nature and scale of the project, which resulted in frequent changes in the design and huge increase of 109.53 *per cent* in the final built area, with consequential delays in completion of the project and cost escalation. Further, the extra items were carried out without any pre planning and were at the instance of RJBAPL without justification regarding their commercial viability.

Appointment of HVAC contractor without inviting tender

3.2.3 Audit observed that the appointment of contractor for Heating, Ventilating and Air Conditioning (HVAC) works was without competitive bidding process as detailed below:

The consultants prepared an estimate of ₹ 7.73 crore for HVAC work of Exhibition Centre based on the rates collected from M/s. Blue Star Limited who were executing such works. Based on this estimated cost of ₹ 7.73 crore, CIDCO invited (September 2008) tender for HVAC work. No offer was submitted till the scheduled time⁴ of submission of the offers and M/s. Blue Star Limited submitted their offer thereafter⁵. This offer which was belatedly received was opened (October 2008) and found to be 12.81 *per cent* above the estimated cost (₹ 8.73 crore). In keeping with the scope of their agreement to assist CIDCO in finalisation of tenders, the Consultant (RJBAPL) recommended (November 2008) appointment of M/s. Blue Star Limited and CIDCO issued (January 2009) work order at their quoted rate of ₹ 8.73 crore, at an excess cost of ₹ one crore over the estimated cost put to tender. Audit observed that since the consultant had prepared the estimate based on the rates of M/s. Blue Star Limited, the issue of work order to M/s. Blue Star Limited at 12.81 *per cent* above the estimated cost was irregular being violative of tendering process resulting in undue favour to the Agency. Audit also observed that the second pre-qualified contractor *viz.* M/s. Voltas Limited had earlier requested CIDCO to revise the payment conditions so as to enable it to submit bids, but CIDCO did not retender the work with revised qualifying criteria to elicit better offers.

CIDCO stated (August 2016) that the tender of M/s. Blue Star Limited for HVAC work was opened with due approval of Competent Authority. The reply is not acceptable as the appointment of HVAC contractor by accepting the single tender after specified time vitiated the entire tendering process and

4 Up to 13.00 hours on 13 October 2008

5 At 17.00 hours on 13 October 2008

therefore irregular. Further, the consultant's recommendation for selection of an agency that had provided them inputs for preparation of the estimates was irregular and further there was no comparative statement available for them to give an opinion that the Agency's rates were the lowest.

Undue favour

As per tender conditions, the price bid quoted by the contractor was inclusive of all taxes/duties/levies. In this connection, Audit observed the following irregularities:

Reimbursement of Import duty in violation of contractual/tender conditions resulting in avoidable expenditure

3.2.4 M/s. IVRCL (Contractor) submitted (March 2009) a claim for refund of import duty amounting to ₹ 1.57 crore stating that they had to import materials for steel section of which they were unaware and therefore the import duty of material was not factored while quoting their offer. CIDCO's Executive Engineer (EE) and Superintendent Engineer (SE) rejected (April 2009) these claims on the ground that the price quoted by the contractor was inclusive of all taxes/duties/levies and the issue of non availability of the specified grade of steel in India was not raised during the pre-bid meeting held in September 2008. Despite this, the Dispute Settlement Committee headed by the Vice Chairman & Managing Director decided (May 2009) to reimburse import duty based on the request (April 2009) of the contractor. Accordingly, the import duty of ₹ 1.57 crore was reimbursed in March 2010 which was irregular, being violative of the contract conditions.

CIDCO replied (August 2016) that the contractor had to use imported material and therefore CIDCO accepted the request of the contractor. The reply is not tenable as the tender condition specified that taxes/duties on the steel required were payable by the Contractor.

Non recovery of Labour cess from contractors resulting in extra expenditure

3.2.5 As per Government of Maharashtra GR⁶ (April 2008), cess towards Building & Other Construction Workers' Welfare was to be recovered from the contractors and deposited with Labour Commissioner at the rate of one *per cent* of the construction cost of the building/project from 1 January 2008. Accordingly, on a contract cost of ₹ 246.85 crore awarded to the four contractors for Exhibition Centre, the cess to be recovered worked out to ₹ 2.47 crore. CIDCO however, did not recover the same from the contractors and later at the time of obtaining Occupancy Certificate for the EC paid the labour cess amounting to ₹ 55.31 lakh in August 2014 from their own funds and the balance was payable. Non recovery of cess amounting to ₹ 2.47 crore was in violation of the GR for recovery of labour cess and resulted in excess cost to CIDCO.

⁶ Government Resolution No.BCA 12007/Pr. No.788/Kamgar 7 dated 21 April 2008

CIDCO replied (August 2016) that there was no condition for recovery of labour cess from the Contractors in the tender/contract documents as the same was prepared prior to the issue of GR. The reply is not tenable as the GR was issued in April 2008, the tendering for the work was done thereafter and the work order was issued only in January 2009.

Conclusion

CIDCO executed an important and large project of Multipurpose Convention Centre for Navi Mumbai without proper conceptualisation and planning, appointed a project consultant on nomination basis in violation of established tendering procedures who executed the project inefficiently. Non-monitoring by the Management of the project resulted in delays in time and cost overrun in completion of the project, besides irregularities in tendering and payments not covered under the contractual terms were also made by CIDCO.

The matter was reported to the Government (June 2016); their reply was awaited (December 2016).

Mahatma Phule Backward Class Development Corporation Limited, Vasantnao Naik Vimukta Jatis and Nomadic Tribes Development Corporation Limited and Sahitya Ratna Lokshahir Annabhau Sathe Development Corporation Limited

3.3 Implementation of select schemes

Introduction

3.3.1 The Government of Maharashtra (GoM) has formed ten social sector companies with the objective of social and economic upliftment of Scheduled Castes/Tribes, minorities and other backward classes in the State. These companies are scheme implementing agencies who receive equity contribution and loans from Government of India (GoI)/GoM.

Scope and Audit objectives

3.3.2 Audit reviewed the implementation of schemes during the period from 2010-11 to 2015-16 by three such companies incorporated to implement financial assistance schemes for upliftment of targeted communities as shown below:

S1. No.	Name of company	Date of incorporation	Targeted community
1	Mahatma Phule Backward Class Development Corporation Limited (MPBCDCL)	10 July 1978	Schedule caste
2	Vasantnao Naik Vimukta Jatis and Nomadic Tribes Development Corporation Limited (VNVJNTDCL)	8 February 1984	Vimukta Jatis and Nomadic Tribes
3	Sahitya Ratna Lokshahir Annabhau Sathe Development Corporation Limited (SRLABSDCL)	11 July 1985	Matang community

These companies undertook ten different schemes sponsored by GoM and Central Agencies⁷. On the basis of coverage of beneficiaries and quantum of financial assistance, the implementation of the following three schemes viz. Term Loan Scheme (TLS), Margin Money Scheme (MMS) and Mahila Samrudhi Scheme (MSS) were selected for audit scrutiny. Audit selected a sample of 1,850 beneficiaries pertaining to TLS, MMS and MSS implemented by these three companies.

Margin Money Scheme: Under the Scheme funded by GoM, the beneficiaries were eligible for loan up to ₹ 7 lakh with a repayment period of up to five years. The scheme envisaged funding of the beneficiary's project to the extent of 75 per cent loan by Banks as per their rate of interest, 20 per cent loan by these companies at the rate of four per cent interest per annum and five per cent contribution from the beneficiary. Under this scheme, the Company releases its share of loan to the Bank, which in turn finances the beneficiary.

Term Loan Scheme: Under this Scheme, the beneficiaries were eligible for loan up to ₹ 5 lakh for MPBCDCL and SRLABSDCL and up to ₹ 10 lakh for VNVJNTDCL at the rate of six per cent interest annually and repayment period up to five years. The Scheme envisaged 85 per cent loan to be given by Central Agencies, 10 per cent loan by the companies and five per cent contribution from beneficiaries.

Mahila Samrudhi Scheme: Under this Scheme, the beneficiaries were eligible for loan up to ₹ 50,000 at the rate of four per cent per annum interest and repayment period up to three years. The Scheme envisaged contribution of ₹ 40,000 from Central Agencies and ₹ 10,000 from these companies.

The financial assistance under the above schemes is extended for self employment of the beneficiaries for undertaking activities like grocery/garment shop, mandap decoration, goat farming, dairy, furniture shop, commercial/tourist vehicle, etc.

Apart from the above schemes, utilisation of funds in SRLABSDCL was also scrutinised.

Funding

3.3.3 The companies were in receipt of funds from the GoM/Central Agencies by way of equity, loan and subsidy. There were specific guidelines issued by the Central Agencies that the funds released by them should be utilised in a time bound manner. Accordingly, these three companies were to utilise the funds within three months of receipt, failing which, these companies had to pay penal interest at the rate of three per cent over and above the normal rate of interest and any unspent balance beyond six months had to be refunded to the Central Agencies.

⁷ National Scheduled Caste Finance and Development Corporation (NSCFDC), National Safai Karmachari Finance and Development Corporation (NSKFDC), National Backward Classes Finance and Development Corporation (NBCFDC)

The consolidated position of funds received, disbursed and balance of funds in the three companies during the six years period ending 31 March 2016 is given in **Annexure 3**.

- As seen from the **Annexure 3**, MPBCDCL, VNVJNTDCL and SRLABSDCL provided financial assistance of ₹ 216.16 crore, ₹ 122.81 crore and ₹ 305.82 crore respectively during the period 2010-11 to 2015-16. Thus, the average annual disbursement made worked out to ₹ 36.02 crore for MPBCDCL, ₹ 20.46 crore for VNVJNTDCL and ₹ 50.97 crore for SRLABSDCL. Considering the average annual disbursement, the funds available with MPBCDCL and SRLABSDCL would be sufficient for meeting disbursements of 16 years and five years respectively in these two companies. In view of this, there is a need to reconsider further assistance to the companies both by Central Agencies and the GoM.

- The Central Agencies *viz.* NSCFDC, NSKFDC and NBCFDC released funds for TLS and MSS by way of loans to these companies. During the six years period from 2010-11 to 2015-16, MPBCDCL received ₹ 125.88 crore, VNVJNTDCL ₹ 92.11 crore and SRLABSDCL ₹ 100.27 crore from the Central Agencies. They had disbursed only ₹ 107.42 crore (MPBCDCL); ₹ 88.81 crore (VNVJNTDCL) and ₹ 91.95 crore (SRLABSDCL) and thus they had undisbursed balances. The Central Agencies did not insist on utilisation/refund of undisbursed funds of previous years before subsequent release of funds.

- The three companies submit their proposals for fund requirement to the Social Justice and Special Assistance Department (SJSAD) of GoM and the same is forwarded to Finance Department (FD) of GoM subject to availability of plan outlay under the specified schemes. Accordingly, FD allocates funds to these companies. Audit observed that neither the SJSAD nor the FD of GoM did due diligence regarding the requirement of funds by these three companies. Despite non-utilisation of funds given previously to these companies, the GoM released further funds without taking into account the available balance of funds with these companies. During the last six years period from 2010-11 to 2015-16 MPBCDCL received ₹ 426.69 crore, VNVJNTDCL ₹ 35.47 crore and SRLABSDCL ₹ 338.06 crore from the GoM whereas they had disbursed only ₹ 108.74 crore (MPBCDCL); ₹ 34 crore (VNVJNTDCL) and ₹ 213.87 crore (SRLABSDCL).

- Under Subsidy Schemes of GoM, whereby the beneficiaries would receive a capital subsidy of maximum amount of ₹ 10,000 for project. MPBCDCL had disbursed ₹ 52.98 crore during the period 2010-11 to 2014-15 under the Scheme as against the available funds of ₹ 24.61 crore. It is evident that the excess disbursement of ₹ 28.37 crore was made by diverting unutilised funds of other schemes, which was in violation of the Scheme guidelines.

- There were specific guidelines issued by the NSCFDC, NSKFDC and NBCFDC that the funds allocated to the companies be utilised in a time bound manner. It was observed that the companies did not disburse the funds within stipulated period. As on 31 March 2016, MPBCDCL, VNVJNTDCL and SRLABSDCL had unutilised amount of ₹ 585.04 crore, ₹ 5.12 crore and ₹ 238.68 crore respectively. Out of this MPBCDCL and SRLABSDCL stated

that they had invested ₹ 484.60 crore and ₹ 6.20 crore in fixed deposits with banks.

Target and achievement

3.3.4 The physical and financial target and the achievements there against by these companies for the period 2010-11 to 2015-16 for MMS of GoM, TLS and MSS of Central Agencies were as shown in **Annexure 4**. Audit observed that:

- These companies could not achieve their physical and financial target against the GoM sponsored MMS. The percentage of shortfall in physical targets during the period 2010-11 to 2015-16 in MPBCDCL ranged from 37.88 to 66.79 *per cent*. The shortfall in VNVJNTDCL ranged from 63.75 to 99.17 *per cent* and in SRLABSDCL, it ranged from 21.43 to 80.24 *per cent*.
- Though, SRLABSDCL had achieved the physical and financial targets during the year 2014-15, it was not in possession of records pertaining to 11,128 (eight DOs) out of 15,269 beneficiaries to whom financial assistance of ₹ 41.89 crore was stated to have been disbursed during 2014-15. The genuineness of assistance by SRLABSDCL in 2014-15 therefore could not be verified in Audit.
- Thus, it is evident that targets of these companies were not based on the assessment of capabilities of the beneficiaries at the village level/block level to undertake specified activities. The targets fixed were also not with reference to the population of the targeted communities in the State.

Irregularities in implementation of selected schemes

3.3.5 A need based long term strategic plan aligned with the Government policies is essential to fulfill the objective of providing sustainable occupation for livelihood to the beneficiaries for their economic upliftment. As per the prescribed procedure, the targeted beneficiaries would apply for loan alongwith the relevant documents to the District Offices (DOs) of these companies. The DO after initial scrutiny would submit the proposal to the District Level Committee (DLC) consisting of Deputy Collector, Assistant Commissioner of Social Welfare (ACSW), Deputy Chief Executive Officer (ZP), Bank Manager, Principal Industrial Training Institute, District Industrial Development Officer and District Manager (DM) of these companies. The DLC was reconstituted on May 2012 consisting of Deputy Collector of the District, ACSW and DM of these companies. After approval by the DLC, the proposals are to be sent to the Head Quarters Offices of these companies for final approval.

The scrutiny of the beneficiary application was the responsibility of the officials at District/Head Office (HO) before sanction and disbursement of loan. Audit observed that the officials at District/HO had not carried out scrutiny of applications with regard to age, caste, income, residence and guarantor to eliminate the ineligible beneficiary. Scrutiny of the 1,850 records relating to the Schemes implemented by these companies revealed that the

disbursement of loan was made to ineligible beneficiaries in 665⁸ cases involving financial assistance of ₹ 7.98 crore as discussed in the succeeding paragraphs.

Non fulfillment of income criteria

3.3.5.1 As per the eligibility criteria for the Schemes implemented by these companies, the beneficiaries should produce an income certificate stating their annual family income was within the limit prescribed by the companies. Audit observed that financial assistance of ₹ 2.93 crore was disbursed to 178 beneficiaries by these companies who did not submit valid income certificate as detailed below:

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	MPBCDCL	52	130.05
2	VNVJNTDCL	19	27.58
3	SRLABSDCL	107	135.20
	Total	178	292.83

- Audit also observed that income certificate was not attached (24 cases), income certificate attached did not have the required bar code (49⁹ cases) to ensure its authenticity, old income certificates were attached (30 cases), certificates issued by non competent authorities were attached (25 cases), beneficiaries with higher annual income were granted loans (three cases) and certificates issued for educational/other purpose (33 cases) were considered for financial assistance.

- **It was also observed that in 14 cases, same income certificates were used by multiple beneficiaries.**

Thus, the objective of the schemes to provide financial assistance to eligible members based on their income profile was not fulfilled.

Non fulfillment of age criteria

3.3.5.2 As per the scheme guidelines, the age of the beneficiary should be above 18 years but below 45 years in VNVJNTDCL and 50 years in SRLABSDCL. Audit observed that financial assistance of ₹ 77.86 lakh was disbursed to 86 beneficiaries by these companies, who did not fulfill the above age criteria as detailed below:

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	VNVJNTDCL	15	25.76
2	SRLABSDCL	71	52.10
	Total	86	77.86

Thus, the disbursement of assistance to ineligible beneficiaries defeated the intended purpose of providing sustainable occupation for livelihood of targeted beneficiaries.

8 In MPBCDCL 92 cases with financial assistance of ₹ 2.50 crore whereas in VNVJNTDCL 252 cases with financial assistance of ₹ 2.31 crore and in SRLABSDCL 321 cases with financial assistance of ₹ 3.17 crore

9 MPBCDCL (20 cases), VNVJNTDCL (9 cases) and SRLABSDCL (20 cases)

Non submission of caste certificate

3.3.5.3 As per the scheme guidelines, financial assistance was to be provided to the members of specific community and the beneficiaries had to submit documentary evidence in support of their caste identity. Audit observed that financial assistance of ₹ 6.75 lakh was released to 10 beneficiaries who had not submitted the required caste certificate as detailed below:

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	VNVJNTDCL	3	1.75
2	SRLABSDCL	7	5.00
	Total	10	6.75

Thus, there exists no system to ensure that the assistance was reaching the eligible beneficiaries, which defeats the objective of economic upliftment of the targeted community.

Disbursement of loan without guarantors

3.3.5.4 As per the scheme guidelines, the beneficiary should provide two guarantors with photograph, age proof, salary/pay slip, residence proof and affidavit. Audit observed that financial assistance of ₹ 1.79 crore was released to 114 beneficiaries by these companies who had not fulfilled the above criteria as per details given below:

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	MPBCDCL	18	58.07
2	VNVJNTDCL	34	39.93
3	SRLABSDCL	62	81.38
	Total	114	179.38

The Guarantors are meant for securing the financial interests of the Company in case of default by the beneficiary. Non-compliance with the guidelines, could result in non-recovery of loans.

Non fulfillment of residential criteria

3.3.5.5 The scheme guidelines specified that the beneficiary should be domiciled in Maharashtra and should produce a certified copy of Ration card. Audit observed that financial assistance of ₹ 41.45 lakh was released to 19 beneficiaries irregularly as discussed below:

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	VNVJNTDCL	7	29.45
2	SRLABSDCL	12	12.00
	Total	19	41.45

- **In Thane DO of VNVJNTDCL, financial assistance was given to six applicants in two cases on the basis of ration cards bearing same number with same addresses although the name of holder of ration card**

differed. Similarly, in one case of Aurangabad DO, ration card bearing same number was attached with applications of two different beneficiaries with same addresses although the name of holder of ration card differed.

- Beed DO of SRLABSDCL disbursed financial assistance of ₹ six lakh to six beneficiaries who submitted ration card bearing same number and same address with different names.
- As per the scheme guidelines, the financial assistance was to be provided to only one beneficiary from one family. In Jalna DO of SRLABSDCL, financial assistance of ₹ six lakh under NSCFDC Term Loan Scheme was however disbursed to six members of the same family (Ghode Family) wherein the ration card of all the members remained the same (ration card Sl.No.297856).

Thus, disbursing officers released financial assistance without checking the authenticity of the documents and without ensuring fulfillment of the required residential criteria.

Disbursement of financial assistance directly to the beneficiaries

3.3.5.6 The Scheme guidelines envisaged that payment would be released by these companies to the supplier (quotation holder) for the material to be supplied to the beneficiary. This was to ensure that money was utilised for the purpose for which it was sanctioned and disbursed. In contravention of the directives of Central Agencies and the State Government, SRLABSDCL issued (May 2013) instructions to disburse the financial assistance directly to the beneficiary. Audit observed that MPBCDCL and VNVJNTDCL had also disbursed financial assistance of ₹ 58.94 lakh directly to 151 beneficiaries in violation of the directives.

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	MPBCDCL	01	2.50
2	VNVJNTDCL	150	56.44
	Total	151	58.94

Thus, the objective of ensuring that the money had actually been utilised for the purpose for which it was disbursed was not achieved.

Disbursement to unregistered suppliers

3.3.5.7 According to the prescribed disbursement procedure, the beneficiaries should procure the material only from suppliers registered with Sales Tax Department/Authorities. Audit observed that the financial assistance of ₹ 1.10 crore in respect of 45 cases was released to unregistered suppliers.

Sl. No.	Name of the Company	Number of beneficiaries	Financial assistance disbursed (₹ in lakh)
1	MPBCDCL	21	59.86
2	VNVJNTDCL	24	50.50
	Total	45	110.36

3.3.5.8 Disbursement of assistance to male beneficiaries in a women beneficiary scheme

- Financial assistance under Mahila Samrudhi Scheme of SRLABSDCL was to be given only to female beneficiaries of targeted community. Audit observed that financial assistance of ₹ 30.50 lakh was extended to 61 male beneficiaries in 2014-15 by Mumbai DO and was thus irregular.

3.3.5.9 Disbursement of loan twice to the same beneficiary

- As per the eligibility criteria the financial assistance should be provided to the beneficiary only once. Audit however, noticed that the disbursement of loan was made twice to the same beneficiary under Mahila Samrudhi Scheme in Buldhana district of SRLABSDCL during 2010-11 and 2013-14.

Thus, it was observed that the companies disbursed the financial assistance without ensuring fulfillment of eligibility criteria and without adequate documentation. As a result, financial assistance was extended to ineligible persons and the desired objective of implementation of the schemes by these companies could not be achieved.

Utilisation of funds in SRLABSDCL

3.3.6 Besides the above, Audit came across large scale irregularities in utilisation of funds in SRLABSDCL and examined the circumstances which led to such transactions. Audit observed that the internal control and monitoring in SRLABSDCL regarding sanction and disbursement of financial assistance, expenditure and dealing with the assets was totally absent. The GoM/NSCFDC also did not devise any oversight mechanism to ensure that SRLABSDCL was pursuing the activities for which it was formed and funds provided to it are utilised for the intended purpose. As a result, huge amounts meant for disbursement to the targeted community were disbursed for projects which were not covered under the approved schemes and to beneficiaries not belonging to targeted community. SRLABSDCL made advance payments without safeguarding its interest. Withdrawal of huge cash from Bank in violation of the authority and disbursement without ensuring identity of the recipient and obtaining acknowledgement was also noticed. Further, documents like loan agreement, hypothecation deed, repayment schedule, Post Dated Cheques and name of guarantors which were required to be obtained before disbursement were not collected by SRLABSDCL. The Company stated that the irregularities in SRLABSDCL were being investigated by the State Investigation Agencies. Details of filing cases on any irregularity were however not furnished to Audit. Some of the important findings are discussed below:

Disbursement of funds not covered under the Schemes to related parties

3.3.6.1 The disbursement of financial assistance under the schemes was required to be made to individual beneficiaries. Section 188(1) of the Companies Act, 2013, prescribed the guidelines to be followed while dealing

with related parties. Contrary to the above criteria, SRLABSDCL disbursed ₹ 104.04 crore to three entities as detailed below:

S1. No.	Name of beneficiary /activities	Amount of disbursement (₹ in crore)	Date of disbursement	Brief audit findings
1	Lokshahir Anna Bhau Sathe Magasvargiya Sahakari Soot Girmi Maryadit (LABSMSSGM), Paithan for Cotton Ginning	61.74	July and August 2014	The Board approved assistance of ₹ 45 crore in March 2014. LABSMSSGM was registered in July 2014 and disbursed a higher amount.
2	Joshaba Central Co-operative Consumer Society (JCCCS), Mumbai for purchase of Vehicles for Vegetable supply	41.00	October 2013 to March 2014	The loan was sanctioned under National Horticultural Mission which was not operated by SRLABSDCL.
3	Prathamesh Magasvargiya Vahatuk Sahakari Sansthan Maryadit (PMVSSM), Mumbai for transport business	1.30	December 2014	SRLABSDCL sanctioned (June 2013) the loan even before incorporation of the PMVSSM in July 2013.
	Total	104.04		

Audit observed that in all the above cases, the schemes financed were not approved by the funding agencies or operated by SRLABSDCL. The details of the projects and various assets created there under by the entities and the documents like loan agreement, hypothecation deed, repayment schedule, Post Dated Cheques and name of guarantors were not on record. In absence of proper documentation, it would be difficult for SRLABSDCL to take legal action against the beneficiaries for recovery. No recovery has been made by SRLABSDCL against these loans so far (November 2016).

Audit also noticed that in the first two cases, the then Chairman of SRLABSDCL and of the entity financed was same; in the third case the then Chairman of the beneficiary entity was the brother of the then Chairman of SRLABSDCL. The disbursements thus were directly or indirectly benefitting the then Chairman of SRLABSDCL and were also in violation of Section 188(1) of the Companies Act, 2013 for related party transactions.

SRLABSDCL accepted (November 2016) that no such schemes were operated by SRLABSDCL. Further it stated that then Chairman and then Managing Director had misused the powers vested in them for approving the projects and violated the provisions of Companies Act, 2013 regarding related party transactions. It also stated that investigation is being conducted by the State Investigation Agencies and action would be taken on the basis of the report.

Disbursement of loan to beneficiaries outside the targeted community

3.3.7.1 SRLABSDCL was formed with the objective of undertaking activities for economic upliftment of Matang community. Audit however, noticed that SRLABSDCL sanctioned (July 2014) loan of ₹ 35.34 crore to two firms as shown below:

S1. No.	Name of beneficiary /activities	Amount of disbursement (₹ in crore)	Date of disbursement	Brief audit findings
1	Maitari Sugar and Trading Private Limited for trading	30.00	October 2014	There was no such scheme approved by NSCFDC/GoM.
2	Mahalaxmi Dairy Products Co-operative Limited (MDPCL) for cluster development	5.34	December 2014	The beneficiaries do not belong to the Matang community.
	Total	35.34		

In both the above cases, the beneficiaries do not belong to the Matang community. The loan documents including agreement, hypothecation and security were also not available with SRLABSDCL. In the first case loan of ₹ 30 crore was disbursed in October 2014 and the beneficiary in turn transferred ₹ 25 crore in January/February 2015 to HUBTOWN Limited, a company engaged in real estate business. In the second case SRLABSDCL in November 2014 approved the cluster program project under dairy development at a cost of ₹ 5 crore and disbursed an amount of ₹ 5.34 crore to MDPCL on 12 December 2014 even before submitting the proposal/obtaining sanction from NSCFDC. SRLABSDCL did not produce any details of beneficiaries of the project for Audit scrutiny. No recovery had been made from both the entities so far (December 2016).

SRLABSDCL accepted (November 2016) that the members of the MDPCL were not from the Matang community and MDPCL has been declared insolvent. It also stated that investigation is being conducted by the State Investigation Agencies and action would be taken after receipt of report (December 2016).

Irregularities in transfer of land at Nashik

3.3.7.2 SRLABSDCL acquired a plot measuring 800 square metre at Nashik from Maharashtra Industrial Development Corporation in 1999, for subleasing to a member of Matang community for setting up industrial units. SRLABSDCL after a lapse of 12 years of allotment explored the possibilities of sub leasing it to any member of the Matang community and invited tender (January 2011) with an estimated lease premium of ₹ 16.88 lakh. Three eligible entrepreneurs of the community submitted their responses and the successful bidder from Matang community offered the highest price of ₹ 16 lakh and also had deposited the premium in February and March 2011. The plot however, was not transferred to the bidder. Reasons for not sub-leasing the plot to the bidder were not available on records.

Subsequently, SRLABSDCL without inviting tender subleased the land (July 2014) to M/s. Vision Tech Enterprises (VTE). **Audit noticed that while the value of the plot as per the ready reckoner rate in 2014¹⁰ was ₹ 60.14 lakh, SRLABSDCL transferred the land to VTE at a nominal value of ₹ 18 lakh. Thus, neither the intended objective for setting up of industrial units by members of Matang community was achieved nor SRLABSDCL realised fair value by leasing.** Thus allotment of land to a firm without inviting tenders was irregular.

The reply (November 2016) of SRLABSDCL stated that it had initiated legal course of action to get the land back. It also stated that investigation is being conducted by the State Investigation Agencies and action would be taken after completion of enquiry (December 2016). The reply was however, silent on the transfer of land to VTE in non transparent manner.

Purchase of vehicles

3.3.8 SRLABSDCL disburses loans to individual beneficiaries for purchase of tourist vehicle subject to a maximum of ₹ 7 lakh. The disbursement of loan for purchase of vehicles was not under the purview of any scheme operated by SRLABSDCL. **Six District Offices (DO) of SRLABSDCL during July to October 2014 disbursed an amount of ₹ 10.14 crore for purchase of 64 vehicles including luxury vehicles like Mercedes Benz and Audi where the cost of each vehicle was much higher than ₹ 7 lakh.** Audit noticed that in 12 cases, the names of the beneficiaries as per SRLABSDCL documents and the names of the registered owners of vehicles for which loans were disbursed were not matching. It was also noticed that the registration certificate did not contain the name of SRLABSDCL as financier in 12 cases. Further, in one case, the registered owner created charge against the vehicle and obtained loan from other financier. In cases where the name of the registered owner is not matching with the beneficiaries name and no charge is created in favour of the company, the Company is exposed to the risk of non recovery of dues since the beneficiaries are free to transfer the vehicle. Thus, the entire transaction of sanction and disbursement of loan was irregular and fraudulent.

SRLABSDCL agreed (November 2016) that the purchases of these vehicles were made in violation of scheme guidelines. Further, SRLABSDCL stated that these vehicles had been confiscated by the State Investigation Agencies and the Company had requested to handover the vehicles to them. Further progress is awaited.

Purchase of commercial vehicles without identifying beneficiaries

3.3.9 With a view to work as a catalyst between the farmer and the end product user, SRLABSDCL submitted (23 November 2012) a proposal for purchase of 500 Vehicles (TATA ACE) under Term Loan Assistance Scheme of ₹ 20.50 crore (₹ 4.10 lakh per unit) to NSCFDC without even identifying

10 Ready reckoner rate is the rate on the basis of which Stamp Duty is collected from property purchasers

the eligible beneficiaries. The proposal was placed before the Board in January 2013. NSCFDC sanctioned term loan scheme for purchase of 100 units of TATA ACE to be distributed to the beneficiaries with a total cost of ₹ 4.20 crore in April 2013 and released the funds in October 2013 to SRLABSDCL. SRLABSDCL resubmitted (October 2013) the rate revision proposal to NSCFDC with higher per unit cost of TATA ACE vehicle of ₹ 6 lakh.

As against the approved TATA ACE vehicles, SRLABSDCL purchased Mahindra Maxximo Plus BS-III from M/s. Miracle Motors (MM) at a cost of ₹ 3.90 crore (April 2013) and released an advance of ₹ 2.75 crore. Against the balance amount of ₹ 1.15 crore, SRLABSDCL released (May 2013) ₹ 1.43 crore and thus made excess payment of ₹ 28 lakh to the agency, which had also not been recovered (November 2016).

Thereafter, SRLABSDCL without inviting tender, issued (April 2013) the work order for vending cart fabrication of the above vehicles to two parties viz. M/s. Sanva Motors Private Limited (SMPL) (at the rate of ₹ 2.54 lakh per vehicle) and M/s. Imran Auto Garage (IAG) (at the rate of ₹ 2.53 lakh per vehicle). They allotted 59 and 41 vehicles respectively. SRLABSDCL paid ₹ 1.63 crore to M/s. SMPL and ₹ 1.02 crore to M/s. IAG (May 2013 to December 2014).

On completion of fabrication, the contractors approached (October 2013) SRLABSDCL to take delivery of the vehicles. Records made available to Audit do not indicate that beneficiaries had been identified. Due to their inability in identifying beneficiaries even after lapse of three years, SRLABSDCL did not take delivery of the vehicles (October 2016). M/s. SMPL levied parking charges of ₹ 55.80 lakh for non-lifting of vehicles by SRLABSDCL for the last three years and all the vehicles were lying idle (October 2016) at the premises of fabricators. **Thus, SRLABSDCL purchased vehicles and kept them idle without distribution to the intended beneficiaries resulting in investment amounting to ₹ 6.83 crore blocked without any benefits to the members of targeted community.** Further, there is a possibility of entire investment of ₹ 6.83 crore becoming infructuous, as the vehicle procured may not remain fit for operation due to prolonged idling.

SRLABSDCL accepted (November 2016) that the Mahindra Vehicle was procured instead of the approved TATA ACE vehicle. The reply however is silent regarding utilisation and distribution of these vehicles to the beneficiaries.

Release of advance without approval of GoM and security

3.3.10 The Board in its meeting in July 2014, without obtaining approval of GoM decided to construct a training centre at Aurangabad. SRLABSDCL, however, did not have its own resources for funding the construction of training centre. In September 2013, SRLABSDCL without inviting tenders awarded the construction contract to a private developer (Mahindra

Enterprises) at a cost of ₹ 20.47 crore. **Audit noticed that SRLABSDCL released an advance of ₹ 11.40 crore to the contractor in September 2013, without obtaining any security/bank guarantee.** Though the funds were released in September 2013, neither the contractor had commenced the work of the project (October 2016) nor SRLABSDCL had made any attempts to recover the advance.

Thus, awarding the work of constructing a Training Center without obtaining funds from Government and further release of advance without adequate security resulted in diversion of funds sanctioned for schemes to assist beneficiaries of targeted community.

SRLABSDCL stated (November 2016) that the Registrar Office had been intimated for not considering the said land for sale or purchase. The reply however, was silent regarding approval of the GoM and recovery of advance from the contractor.

Advance to M/s. Orbit Communication Sound and Video Solution (OCSVS), Kolhapur

3.3.11 The GoM had envisaged implementing e-Governance programs across all departments to bring in greater efficiency and transparency in service delivery. In order to manage the above projects and initiatives any Department of GoM or the allied Offices/Corporations/Boards (Independent Bodies), etc. can avail the consultancy services from five empanelled companies (Accenture, Deloitte, Ernst & Young, KPMG and PwC).

SRLABSDCL without inviting tenders entered into an agreement (May 2014) with M/s. OCSVS, Kolhapur at a cost of ₹ 45.02 lakh to install video conferencing apparatus. This was approved by the Board *ex-post facto* (July 2014) and SRLABSDCL paid an advance of ₹ 33.76 lakh to M/s. OCSVS in May 2014.

Audit observed that M/s. OCSVS did not provide the services for which the payments were made and the system was not operational. The servers and other allied apparatus stated to have been procured for video conferencing are not in possession of SRLABSDCL. The issue of work order in violation of GoM directives and the release of advance without any security was against the financial interest of SRLABSDCL.

SRLABSDCL stated (November 2016) that the servers and other allied apparatus procured for video conferencing are in possession of the then Chairman. The reply, however, was silent on the diversion of fund and the recovery of assets from the then Chairman.

Unauthorised cash withdrawal

3.3.12 Under the Companies Act, 2013, every Company is required to keep proper book of accounts in respect of all sums of money received and

expended by the company and the matters in respect of which these have taken place. If a company has a branch office, proper books of accounts related to the branch business must be maintained at that office. Cash book is the basic record for keeping record of all sums of money expended by the Company and its branches. Audit observed that cash book was not maintained on a regular basis either by the Head Office (HO) or at the Regional office (RO)/District Office (DO) of SRLABSDCL.

SRLABSDCL operates bank accounts both at the HO and DOs into which the monies are received and expended for day to day activities. All the disbursements towards assistance under various schemes were to be made through cheques. The District Managers have been delegated powers to withdraw cash up to ₹ 1,000 per day for official purposes. DOs intimate the monthly requirement of funds for disbursement to beneficiaries and other expenses to RO. The RO consolidate the requirement of all the DOs in the region and sends it to the HO of the Company. The HO transfers the funds to RO/DO according to the fund requirements.

Audit scrutiny of the transfer of funds by the HO and their utilisation revealed the following:

- Till 2013-14, the details of fund requirement sent by ROs were available at HO. Records relating to requirements for subsequent period were not made available to Audit either at the HO or by the ROs/DOs.
- The disbursement in 2013-14 by all 35 DOs was ₹ 112.85 crore. Thus, the average monthly requirement for a district was less than ₹ 27 lakh. The HO however transferred ₹ 40.56 crore to six DOs¹¹ during the period between June 2014 and January 2015. In the absence of specific requisition for funds by the DOs, transferring large amount of money lacked justification. Transfer of funds in excess of requirement exposed the Company to the risk of misappropriation.
- **Four DMs in charge of six DOs¹² had withdrawn ₹ 47.83 crore in cash between June 2014 and January 2015 from the bank accounts of the Districts.** The documents showing the purpose of such withdrawals were not available on records produced to Audit. Withdrawal of cash in excess of the delegated powers of ₹ 1,000 per day was irregular and in the absence of documents evidencing bonafide use of the cash withdrawn, this amounted to embezzlement by the officials of the six DOs.
- **These four DMs also transferred ₹ 7.35 crore to the bank accounts of private parties through RTGS in five DOs.** The DOs could not produce any document authorising payment to these parties either as disbursement or for supply/services. Thus, the transfer was unauthorised and irregular and resulted in a loss to the Company.

11 Beed, Bhandara, Buldhana, Hingoli, Jalna and Parbhani

12 Beed (₹ 6.59 crore), Bhandara (₹ 24.69 crore), Buldhana (₹ 11 crore), Hingoli (₹ 0.80 crore), Jalna (₹ 8.44 crore) and Parbhani (₹ 3.66 crore)

- Three¹³ DMs involved in irregular cash withdrawal stated that the cash was handed over to persons as instructed by the then Chairman of the Company through telephone. It was also stated that transfer of funds to private parties was at the instance of the then Chairman.
- Audit examined the records at HO to check if the amounts stated to have been handed over/transferred as per instructions of then Chairman had been recorded in the books of HO. In the absence of maintenance of cash book at HO, Audit did not find any receipt either in the bank account or any other records available at HO.

Thus, due to transfer of funds without any requisition from the RO/DOs and subsequent unauthorised withdrawal/transfer of funds by DOs, the Company suffered a loss of ₹ 55.18 crore. SRLABSDCL replied (November 2016) that investigation against the officials involved is in progress.

Impact assessment of Schemes not carried out

3.3.13 Post disbursement monitoring of beneficiary is necessary to ensure that the financial assistance was used for intended purpose. The Central Agencies had directed the State Channelising Agencies to prescribe and follow effective monitoring mechanism and send periodical information relating to progress and implementation of the Scheme. Our scrutiny of monitoring system of these companies revealed:

- These companies did not maintain any database of the beneficiaries and guarantors.
- No procedure was prescribed by these companies for post disbursement monitoring of the beneficiaries.
- No impact studies were undertaken by these companies on the Schemes implemented for socio-economic development.

Recovery performance

3.3.14 The deficiencies discussed in preceding paragraphs on selection of beneficiaries and disbursement would have a cascading effect on recovery of loan. The Central Agencies insist on repayment of loans on due dates before further financial assistance to these companies. Thus, for repayment of loan and subsequent demand for obtaining further loan, recovery of loan was

13 Beed, Jalna and Parbhani

essential. The table below depicts the recovery of loan for the year 2010-11 to 2015-16.

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
MPBCDCL						
Amount outstanding	20.00	65.90	129.86	147.32	184.48	NA
Target fixed for recovery	10.00	32.95	64.93	73.66	92.24	358.64
Amount recovered	2.46	4.85	6.30	6.62	5.80	12.13
Percentage of recovery to target	24.60	14.72	9.70	8.99	6.29	3.38
Percentage of recovery to total outstanding	12.30	7.36	4.85	4.49	3.14	-
VNVJNTDCL						
Amount outstanding	68.75	100.16	141.14	162.03	A/c not prepared	A/c not prepared
Target fixed for recovery	20.63	30.05	42.34	48.61	-	-
Amount recovered	0.22	0.60	0.79	1.68	2.53	2.25
Percentage of recovery to target	1.07	2.00	1.87	3.46	-	-
Percentage of recovery to total outstanding	0.32	0.60	0.56	1.04	-	-
SRLABSDCL						
Amount outstanding	93.08	93.08	93.08	113.12	248.13	113.08
Target fixed for recovery	61.22	68.36	51.85	63.61	85.04	-
Amount recovered	6.82	6.83	7.34	7.46	9.02	11.04
Percentage of recovery to target	11.14	9.99	14.16	11.73	10.61	-
Percentage of recovery to total outstanding	7.33	7.34	7.89	6.59	3.64	9.76

- These companies had fixed a target for recovery of loan at 50 per cent (MPBCDCL), 30 per cent (VNVJNTDCL) and 34 to 74 per cent (SRLABSDCL).
- As against the target, the percentage of recovery to the total outstanding has declined from 12.30 per cent in 2010-11 to 3.14 per cent in 2014-15 in MPBCDCL and from 7.33 per cent in 2010-11 to 3.64 per cent in 2014-15 in SRLABSDCL whereas it increased from 0.32 per cent in 2010-11 to 1.04 per cent in 2013-14 in VNVJNTDCL.
- The hypothecation deeds and other documents required for recovery of loan were not obtained and hence these companies could not take legal action against the beneficiaries.

Internal control

3.3.15 Audit noticed the following deficiencies in Internal Control mechanism of these companies.

- There were no documented operational procedures and Accounting Manuals in place for implementation of Schemes in these companies.

- There was no system of cross-checking by the Head Office of the accounting of disbursements and recoveries from individuals in the ledgers maintained in the District Offices (DOs).
- Bank reconciliation statements were not prepared regularly by the DOs of these companies.
- The suspense account of SRLABSDCL depicts a balance of ₹ 1.27 crore on payment side and receipts side depicts a balance of ₹ 1.94 crore. SRLABSDCL does not have any details about the accumulated amount in suspense and no action has been initiated to reconcile and book the amount to the respective heads of accounts.
- In Thane and Aurangabad DOs of VNVJNTDCL, the entire financial transactions pertaining to recoveries and disbursement were looked after by the same person. Moreover, as per the bank operation mandate, cheques should be signed by two authorised signatories whereas the DOs are operating on single signatory basis. Such flouting of rules carried inherent financial risks for the Company.
- SRLABSDCL was maintaining the cash book by deriving entries from Bank Pass book which was against the principles of maintaining cash book on day to day basis.
- **Unauthorised appointments and advances released to ineligible employees** - SRLABSDCL approached the GoM (July 2012) for increasing its sanctioned post, the approval for which had so far (November 2016) not been received. SRLABSDCL, however appointed (August 2012 to January 2015) 76 employees at the level of Clerk/typist and peon without obtaining approval of the GoM. **Audit observed that SRLABSDCL paid advances totalling ₹ 3.24 crore to employees who did not fulfill the requirements of eligibility of minimum length of five years service.** Also the employees were paid advances in excess of the maximum limit¹⁴ fixed by GoM. The management had not taken any action against recovery of outstanding advance from the employees. SRLABSDCL stated (November 2016) that employees appointed unauthorisedly were suspended and District Collector had been instructed to recover the advances.
- There were arrears in finalisation of Accounts of these companies in violation of provisions of Companies Act. The Annual Accounts of these companies were finalised up to 2012-13 (MPBCDCL), 2011-12 (VNVJNTDCL) and 2009-10 (SRLABSDCL). In the absence of timely finalisation of accounts and their certification by Statutory Auditors, it could not be ensured whether the investments and expenditure were correct, accounted for and the purpose for which the amount was invested has been achieved. Further, delay in finalisation of account is fraught with the risk of fraud and leakage of public money and might lead to non fixation of accountability and responsibility.

14 ₹ 3 lakh to ₹ 10 lakh for HBA and ₹ 1 lakh to ₹ 5 lakh for Education, Medical and Marriage

Conclusion and Recommendations

The GoM and Central Agencies continued releasing funds to the companies without any due diligence regarding the requirement of fund which resulted in huge unspent balances and irregular diversion of funds. Despite availability of funds, disbursement of loan by the companies was very low.

The GoM and Central Agencies may adopt a need based funding of the schemes and closely monitor the utilisation of funds and ensure surrender of unspent balances. The companies need to improve their approach and identify the members of the community for extending financial assistance in relation to the schemes.

Records relating to 11,128 beneficiaries were not in possession of SRLABSDCL. The companies did not ensure authenticity and completeness of documents/records of the beneficiaries and as a result loans were disbursed to ineligible applicants. Irregularities in disbursement of loan violating the criteria regarding income, age, guarantee and residence was noticed.

The non-availability of records needs to be investigated in detail. The companies should ensure authenticity of documents and availability of the same before disbursement of loan so that only eligible applicants get the assistance. Responsibility for disbursement of loan without fulfilling the criteria needs to be fixed.

The Board of Directors did not exercise prudence in dealing with the proposals before them to match with the objective of SRLABSDCL. GoM also did not oversee the activities of SRLABSDCL and funds which were meant for financial assistance to Matang community were misused. SRLABSDCL disbursed loan for projects which were not operated by them, to entities managed or related to the then Chairman and his brother. Disbursement of loan outside the targeted community, lease of land without following due procedures, irregularities in purchase of vehicles and payment of advances were also noticed. Unauthorised withdrawals and transfer of funds were observed which was stated to be at the instance of the then Chairman.

The GoM should device an oversight mechanism to ensure that the Board of SRLABSDCL is accountable for the decisions taken by it. Considering the major irregularities in the nature of suspected fraud in SRLABSDCL, a full-fledged enquiry may be conducted and responsibility may be fixed.

Post disbursement monitoring and impact analysis studies were not conducted. As a result, the performance of the schemes and the impact on the beneficiaries/beneficiary communities could not be assessed.

A system for monitoring the performance of the schemes and impact may be formalised.

Internal controls were weak/non-existent which resulted in irregularities in implementation of schemes.

Considering the high risk in their operations and unique business model, the companies should prescribe and adopt adequate internal control mechanism

to ensure that they follow the rules and regulations, protect their assets and work towards achievement of their objectives.

The matter was reported to the Government (August 2016); their reply was awaited (December 2016).

Maharashtra Airport Development Company Limited

3.4 Development of Airports

Introduction

3.4.1 Maharashtra Airport Development Company Limited (Company) was incorporated in August 2002 by Government of Maharashtra (GoM) to plan, construct, operate and maintain airports in the State. GoM, from time to time, entrusted the Company with development of three Greenfield¹⁵ (GF) airports, six Brownfield¹⁶ (BF) projects and a heliport at Gadchiroli.

Scope and Audit objectives

3.4.2 Audit was conducted between April and July 2016 to examine whether new projects were taken up after necessary feasibility study and adhered to the construction milestones and whether the facilities in the existing airports were developed and upgraded in an effective and efficient manner during the period from 2011-12 to 2015-16. The developmental works taken up for the existing Dr. Babasaheb Ambedkar International Airport, Nagpur were also scrutinised.

Audit findings

3.4.3 GoM released grants in aid to the Company for the development and operation of various airports and Multi-modal International Passenger and Cargo Hub Airport at Nagpur (MIHAN) project. Till 31 March 2016, the Company had received ₹ 1,688.03 crore as grants from GoM, of which ₹ 363.13 crore remained unutilised.

Development of airports was not undertaken in five out of the nine locations. Reasons for not undertaking development of these five airports as seen from the records made available are as under:

- The GoM entrusted (May 2008) the project of developing a GF airport at Pune to the Company. The site for the proposed airport however could not be finalised till date due to reasons like restrictions by Indian Air Force, natural obstructions and opposition from land owners. GoM had released ₹ 96.56 crore since 2009 to the Company, of which ₹ 57.36 lakh was expended on surveys and pre-feasibility studies and balance ₹ 95.98 crore was lying idle.
- The pre-feasibility study expressed concerns regarding the commercial viability of Karad airport owing to its proximity (70 km) to the operational Kolhapur airport. GoM, however accorded (August 2012) administrative

15 Pune, Shirdi and Solapur

16 Amravati, Chandrapur, Dhule, Karad, Dr. Babasaheb Ambedkar International Airport at Nagpur and Phaltan

approval and released (up to March 2014) ₹ 85.46 crore for the project. The Company expended ₹ 9.56 crore towards advance for land acquisition, consultancy and other expenses and the balance ₹ 75.90 crore was lying with the Company. In November 2015, the Company proposed to wind up the project citing commercial non-viability. Decision of GoM in the matter is awaited (September 2016).

- In respect of Dhule project, the fact that it was not viable was communicated (August 2010) to the GoM. The feasibility study of Chandrapur BF airport indicated (May 2014) that extension of runway in the existing airport was not possible. Though it was decided to develop a new airport in Chandrapur, site for the same has not been finalised so far. The Company had not made any plans for development of the Phaltan airport.

The Company is undertaking developmental activities in the remaining four airports. The issues noticed therein are discussed below.

Development of Amravati Airport

3.4.4 The GoM entrusted (February 2009) development of existing airport on Build, Operate and Transfer (BOT) basis to the Company. GoM also approved the project cost of ₹ 279.31 crore and sanctioned (August 2009) ₹ 64.33 crore for land acquisition and road diversion works. Audit observed that the decision of GoM to develop the airport was without a pre-feasibility study to ascertain the operational/economic viability. Further, the pre-feasibility report prepared at a later date (August 2010) had indicated a negative Internal Rate of Return (IRR) for the project.

GoM, between 2009-10 and 2014-15, released funds amounting to ₹ 98.30 crore for the project and the Company commenced (February 2012) land acquisition for the project. The Detailed Project Report (DPR) finalised (June 2012) also indicated that IRR for the project would be negative.

The Company, meanwhile during February 2012 to March 2015, acquired 339.69 hectare of land at a cost of ₹ 77.53 crore. Audit observed that the Company had identified the entire requirement of land admeasuring 339.69 hectare in the initial stage itself. At the time of land acquisition, the Company however took action to notify only 336.14 hectare of land under the Land Acquisition Act, 1894. In respect of the remaining 3.55 hectare, action was initiated belatedly in 2015 and acquired at a cost higher by ₹ 1.26 crore.

As the DPR had indicated (June 2012) that the project was not likely to be financially viable, GoM decided (February 2014) to transfer the project to Airport Authority of India (AAI) for development and operation. AAI, however declined (June 2015) to take over the project in view of the negative IRR. The Company/GoM has not taken any decision on further implementation of the project so far (September 2016).

Thus, the decision of GoM and the Company to take up development of Amravati airport despite the pre-feasibility study and DPR indicating negative IRR and further indecision on the development model resulted in blocking up of ₹ 98.30 crore on acquisition of 339.69 hectares of land. Further, the belated

acquisition of 3.55 hectare of land resulted in avoidable additional expenditure of ₹ 1.26 crore.

Development of Solapur Airport

3.4.5 The Company in consultation with GoM decided (June 2008) to develop a GF airport in Solapur. The feasibility study projected (September 2007) a negative IRR. The Company, however, proposed to fund the viability gap through acquisition of additional land for commercial exploitation. Accordingly, the GoM decided (June 2008) to develop the airport on Public Private Participation (PPP) basis for which about 617 hectare of land (314 hectare for airport development and remaining for commercial exploitation) was required. The Company revised (2011) its land requirements to 718.90 hectare.

During January 2010 to November 2012, the Company acquired 549.34 hectare of private land at a cost of ₹ 64.68 crore. The Company could not acquire the remaining land (169.56 hectare) for the project as it included irrigated land (56.56 hectare) and forest land (113 hectare).

In August 2013, GoM changed the development model and decided to develop the airport by forming a Joint Venture Company (JVC) between the Company and AAI. The Master plan prepared (December 2013) by the AAI estimated the land requirement for operational area of the airport as 236.50 hectare. Despite having acquired 549.34 hectare of land, the Company needs to acquire additional 68.33 hectare (32.66 hectare of private land and 35.67 hectare of forest land) of land so as to develop the airport. Unless this land is acquired, the airport cannot be developed as it falls within the operational boundary of the proposed airport as per the Master plan.

Audit observed that since 2013, there is no progress either in the formation of JVC with AAI or acquisition of the required additional land of 68.33 hectare. As a result, the land acquired at a cost of ₹ 64.68 crore was lying idle. Audit also observed that 13.69 hectare of land for which ₹ 1.03 crore was paid by the Company to private parties was later found to be forest land, the possession of which is in dispute.

Development of Shirdi International Airport

3.4.6 Considering the heavy inflow of devotees to Shirdi and to promote religious tourism along with industrial and commercial growth in the State, the Company decided (March 2006) to develop a Greenfield (GF) airport at Shirdi. The GoM accorded (July/September 2008) administrative approval/financial approval to the project, to be taken up in two¹⁷ phases in PPP mode

17 Phase-I comprised: acquisition of land, conduct survey as per Director General of Civil Aviation norms, prepare runway/Airstrip, providing facilities like Airport lighting, Night landing and other miscellaneous Traffic Control Appliances, construct Terminal Building for 150 passengers, make available the Apron facility, construct Compound Wall, install Baggage Screening Machine, Passenger Security Check arrangement, Wind direction indicator and other ancillary facilities.

Phase-II comprised: extension of runway/Airstrip from 2200 meter to 3200 meter, increase the capacity for Terminal Building, increase the capacity of Airport, construct parallel taxiway, install baggage conveyor belt, additional baggage screening machine etc.

and declared the Company as a Special Purpose Vehicle (SPV) for developing the Airport. The total project cost approved by the GoM for developing the project was ₹ 263.98 crore, which included ₹ 40 crore for acquiring 400 hectare (approx) of land. Though the airport was to be completed and made operational by October 2011, the airport is not operational till date (September 2016).

Acquisition of land

3.4.6.1 The Company acquired a total of 350.85 hectares of land including Government land between 2010 and 2015 for the airport. The notification for acquiring the land was issued in 2009 except for a parcel of 48.92 hectare, which was belatedly issued in October 2012.

Audit observed that the belated acquisition resulted in payment of avoidable enhanced compensation of ₹ 5.58 crore. The Company replied that the additional land was necessitated as the land requirement for the airport was revised (2011-12) for development of basic infrastructure such as Airport Terminal Services, DVOR¹⁸, isolation bay, etc. The reply is not tenable since these requirements had been considered when the DPR of the airport was finalised in June 2010.

Audit also observed that land admeasuring 7.31 hectare, falling at western tip of airstrip, acquired in the Phase-I by incurring ₹ 54.82 lakh¹⁹ and the land admeasuring 0.404 hectare in Gat No.162 are falling outside the compound wall. The Company had not taken any measures to protect the same (October 2016).

Development model for execution of project

3.4.6.2 The Company appointed (March 2013) M/s Deloitte Touche Tohmatsu India Private Limited as Transaction Advisor (TA) for selecting the strategic partner of the Company for developing airport on PPP model as decided by GoM. The TA submitted the report in April 2013 for which they were paid ₹ 27.05 lakh. The GoM however decided (February 2016) that the airport would be developed by the Company alone. As a result of change in policy by the GoM, fee of ₹ 27.05 lakh paid (April-May 2013) by the Company to the Advisor became infructuous.

Temporary diversion of Main District Road-9 (MDR-9)

3.4.6.3 The Main District Road-9 (MDR-9) was passing through the airport site and crossing the runway as per the Master plan. It was therefore proposed (June 2010) to divert MDR-9 outside the airport boundary alongside the compound wall. The land acquisition process necessary for undertaking the diversion work however commenced only in October 2012.

As the road was hampering the construction of runway, the Company temporarily diverted (August 2013) the road within the airport boundary at a

18 Doppler Very High Frequency Omni Directional Radio Range

19 Total land acquired at Gatts 105, 106 and 107 was 9.24 Hectare costing ₹ 69.30 lakh

cost of ₹ 52.81²⁰ lakh. In July 2014, the Company started the work of permanent diversion of MDR-9 which was completed in 2016 at a cost of ₹ 4.60 crore.

Audit noticed that the Company was aware that diversion of road outside the compound wall was a pre-requisite for making the airport operational. It was also seen that there was no urgency in completing the runway construction, as none of the other basic infrastructure required for operating the airport was ready at that time.

Thus, due to delay in acquiring necessary land for diverting MDR-9 outside the airport boundary despite knowing that such diversion is a pre-requisite for making the airport operational resulted in wasteful expenditure of ₹ 52.81 lakh on construction of temporary diversion.

Execution of project

3.4.6.4 The Company entrusted (July 2010) the work of 'construction of runway, taxiway, apron, isolation bay, compound wall, etc., for Shirdi airport to the lowest bidder, Soubhagya Projects Private Limited (SPPL) at a cost of ₹ 76.25 crore with directions to complete the work within 12 months *i.e.* by July 2011.

The work was delayed due to delay in acquisition of land and extended several times. Considering the slow progress of work, the Company based on the request of the contractor, permitted (December 2012) sub-contracting the work to M/s. Vasishtha Projects (VP). The sub-contractor resumed the work in April 2013, but due to Company not making work fronts available and opposition from Project Affected Persons (PAPs), the progress of work was slow. The completion date was extended from time to time, the last being up to 31 May 2016. The work was completed, except that of isolation bay (₹ 4.50 crore) and airport lighting along the compound wall (₹ 2.24 crore), which were subsequently excluded from the scope of contract. Against the bills of ₹ 101.58 crore submitted till 30 May 2016, ₹ 86.25 crore was paid to the two Contractors (SPPL and VP).

Audit scrutiny revealed that due to delay in acquisition of land by the Company, the work got delayed for which the contractor was paid price escalation resulting in cost overrun of ₹ 12.33 crore on the project. Further, major works like construction of runway, taxi way and apron were completed by the sub-contractor as early as in December 2013. The same could not be put to use and was deteriorating with efflux of time as project has not been commissioned so far (October 2016).

Incorrect marking of site for project

3.4.6.5 The acquired land for the airport was handed over by the Company in July 2010 to the contractor for commencing earthwork. The earthwork

20 Including cost of barbed wire fencing ₹ 8.88 lakh

undertaken was based on the boundaries of the airport site marked by the Design consultant.

The Contractor completed about 30,000 m³ of earth work by first week of August 2010. The work of demarcation of boundaries by the Revenue Authorities, which was in progress at that time, indicated that there was a possibility of change of boundaries determined by the Design consultant. The Company however, did not wait for confirmation of boundaries and continued with the earth work.

When the demarcation of boundaries got completed in November 2010, it became clear that the boundaries ascertained by the Design consultant were incorrect and the entire airport site needed to be bodily shifted by 28 to 30 meters towards north. As a result, the earth work of 1,68,856 m³ carried out outside the newly marked boundary had to be abandoned.

Thus, taking up the work based on the demarcation of boundaries by the Design consultant without ensuring correctness of the marking of the boundaries by Revenue Authorities resulted in additional earth work of 1,68,856 m³. The avoidable expenditure on this score was ₹ 3.31 crore. Audit also observed that the Company despite knowing of a possible shift of the boundaries, had continued with the work for another three months during which period 1.38 lakh m³ earth work was carried out, which could have been avoided.

Development of Dr. Babasaheb Ambedkar International Airport, Nagpur

3.4.7 GoM decided (January 2002) to develop the existing Dr. Babasaheb Ambedkar International Airport, Nagpur owned and operated by AAI, into a 'Multi-modal International Passenger and Cargo Hub Airport at Nagpur' (MIHAN). A Joint Venture (JV) Company²¹ named MIHAN India Limited (MIL) was therefore incorporated in June 2009.

The airport project was to be taken up in PPP mode with an estimated cost of ₹ 1,085 crore in Phase-I (2015-2030) and ₹ 422 crore in Phase-II (2031-2045). MIL appointed (July 2011) Ernst & Young (P) Limited as Transaction Advisor to prepare traffic projection and financial analysis and to prepare various tender documents at a fee of ₹ 34 lakh. Tenders were invited in May 2016 to select strategic partner for developing the airport in four phases by increasing the capacity in each phase.

Land acquisition

3.4.7.1 The land requirement of the project was 1,356 hectares, of which Company was in possession of 1,315 hectares. This included 619 hectare of private land acquired (December 2004 to September 2013) at a cost of ₹ 345.59 crore (at an average cost of ₹ 0.56 crore per hectare). Apart from this an area of 40.44 hectare was pending (October 2016) for acquisition and the

21 Shareholding of MIL - 49 per cent with AAI and 51 per cent with Company

Company anticipated payment of ₹ 259.53 crore towards compensation (at an average cost of ₹ 6.42 crore per hectare).

Audit observed that this land admeasuring 40.44 hectare was notified for acquisition by Revenue Authorities in 2005-06. There was however no follow up action for acquisition. As per records of the Company, the notification was valid only up to 2012. There was nothing on record to show that the Company had taken action to again notify this land for acquisition.

Thus, the delay in acquiring land could result in an additional expenditure of ₹ 236.98 crore²² on land compensation, which may further increase with passage of time.

Design and construction of apron

3.4.7.2 The Company in September 2009 decided to construct two aprons with a total parking capacity of 10 bays in addition to the existing seven bays. The works of the Aprons commenced in January 2010 and got completed in December 2010/February 2011 at a total cost of ₹ 12.10 crore²³.

In this connection, the following observations are made:

The Master plan for development of Nagpur Airport was prepared by AAI in 2001 prior to formation of the Company. In terms of Joint Venture agreement between the Company and AAI, the JV Company was required to identify a strategic partner for development of the Airport. Preparation of a revised Master plan based on the projected growth in traffic was essential for selection of strategic partner.

The decision of the Company to construct additional aprons was not based on fresh traffic projections or a revised Master plan considering the time lag of eight years since preparation of Master plan in 2001. Audit further noticed that the Company later decided (July 2010) to undertake traffic survey projections through a Transaction Advisor for revising the Master plan of the airport.

Audit analysed the utilisation of aprons, for the months of May²⁴ 2015 and December 2015²⁵ in terms of parking by the landed aircrafts. Audit observed that a maximum of seven parking bays only were utilised by the airport at any given time.

Thus, there was no urgency to undertake construction of additional parking bays before determining the projected traffic. The decision of the Company to construct additional parking bays at a cost of ₹ 12.10 crore before assessing the demand resulted in creation of excess capacity and consequent underutilisation.

22 40.44 hectare (₹ 6.42 crore - ₹ 0.56 crore) = ₹ 236.98 crore

23 Including ₹ 88 lakh as consultancy fee

24 Vacation period for education institutions when travelling demands are at its peak

25 Month when State Legislative Assembly meets in Nagpur

Re-carpeting of existing apron and taxiways

3.4.7.3 The Company awarded (October 2011) the work of re-carpeting of existing apron and taxiways to PBA Infrastructure Limited which was completed (March 2012) at a cost of ₹ 6.82 crore. The work was to be supervised by SNC Lavalin who were the consultants for the work appointed for ₹ 55.99 lakh. Subsequently, depressions were noticed on bituminous concrete below the aircraft nose level parking at Bay No.1 and 2. The depressions were due to inferior quality of material and work. The matter was referred to experts who opined (May 2012) that the existing surface could not be used and recommended abandonment.

Thus, the contractor's failure to maintain the quality of construction and inadequate supervision by the consultant resulted in inferior quality of work and consequent depressions which rendered the work unusable. Neither the contractor nor the consultant was made accountable for such significant lapses which involved risk to life and property.

Conclusion and Recommendations

The Company was formed with the objective of constructing operating and maintaining airports in the State. Even after 14 years of its existence, the Company could not develop/expand any airport due to absence of a comprehensive long term plan. Decisions were being taken on *ad hoc* basis without any firm development model for airports. The grants released by GoM for development of airports were lying unutilised for long resulting in blocking up of public money. There were avoidable delays in acquiring the land for the projects. Acquisition of land in excess of requirement and idling of land were also noticed.

The Company may evolve a long term plan for timely development and expansion of the assigned project and utilisation of grant. Proper assessment of land requirement of each project should be made upfront so as to avoid delayed project execution and idling of funds.

The matter was reported to the Government/Management (September 2016); their reply was awaited (December 2016).

Maharashtra State Electricity Distribution Company Limited

Management of R-APDRP related funds

3.5 A review of the Restructured Accelerated Power Development and Reform Programme (R-APDRP) scheme covering issues observed in the implementation of the scheme pertaining to the period 2009-2015 was included in Chapter 2.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015 (Report No.3 of 2016). Thereafter, a scrutiny of management of the project funds and issues crystallised during 2015-16 was undertaken to examine the efficient sourcing and utilisation of funds.

3.5.1 The Government of India (GoI) introduced (2008) the R-ADPRP with the aim of restoring the commercial viability of the distribution sector by reducing the Aggregate Technical and Commercial (AT&C) losses, establishment of reliable and automated system for collection of data and augmentation and strengthening of the distribution network of the distribution utility *i.e.* Maharashtra State Electricity Distribution Company Limited (Company) in Maharashtra. The Ministry of Power (MoP), GoI designated the Power Finance Corporation (PFC) as the nodal agency for implementation and monitoring of the Programme.

3.5.2 The Programme was to be taken up in two parts, Part A and Part B for which the funding mechanism was as follows:

Sl. No.	Particulars	Part A	Part B
1	Loan from GoI through PFC	100 per cent	25 per cent
2	Loan component to be arranged by the utility from Financial institutions	Nil	75 per cent
3	Eligibility for conversion of loan into grant	Entire (100 per cent) loan shall be converted into grant on completion of project duly verified by Independent Agency appointed by MoP/PFC.	Up to 50 per cent loan is eligible for conversion into grant in five annual tranches on achieving and sustaining 15 per cent AT&C loss in the project area. The loan from PFC (25 per cent) will be converted first into grants followed by the loan from external sources (75 per cent).

(Source: R-APDRP Scheme guidelines)

As on March 2016, the Company had availed loan of ₹ 191.96 crore and ₹ 1,363.89 crore and incurred total expenditure of ₹ 223.06 crore and ₹ 1,624.07 crore under Part A and Part B respectively. Result of audit is discussed in the following paragraphs:

Audit findings

Non-adjustment of repayment upon extension in moratorium for Part A projects

3.5.3 R-APDRP guidelines envisaged that the R-APDRP Part A projects would be undertaken from 2009. The funds for the project would be released by PFC in the form of loan with tenure of 10 years. The initial moratorium period of three years was extended to five years for principal and interest thereon. The loan along with interest repaid thereon would be converted into grant after successful completion of Part A as declared by PFC. The original project completion date was extended by two years by the R-APDRP Steering Committee of GoI to September 2014. As the project completion was yet to be got verified by the independent agency appointed by MoP/PFC, the Company requested the Steering Committee to further extend the completion date which was granted (February 2015) for one year *i.e.* up to September 2015. In the meantime (October 2014 to February 2015), the Company repaid ₹ 55.37 crore (principal ₹ 28.96 crore and interest ₹ 26.41 crore). Consequent to extension of moratorium period up to September 2015, PFC intimated

(March 2015) the Company that the above amount repaid during October 2014 to February 2015 was appropriated towards principal repayment.

Audit observed that as the moratorium period was extended till September 2015, the amount of ₹ 55.37 crore repaid during October 2014 to February 2015 should have been adjusted by the Company against the repayments of ₹ 511.86 crore in 2015-16 towards other loans obtained from PFC. Instead of adjusting the amount, the Company however, treated the same as repayment of principal of Part A loans. As a result, the Company lost the opportunity to convert the interest due on loan into grant. Further, the early retirement of R-APDRP loans adversely affected the liquidity position of the Company and it had to resort to short term borrowings at higher rate of interest.

The Company in its reply stated (October 2016) that in the event of project getting completed successfully, the amount of loan can be re-disbursed as grant at the stage of conversion of loan into grant. The reply is not tenable as the benefit of extended moratorium was not availed by the Company.

Delay in completion of Part A projects

3.5.4 Part A of the scheme included projects for establishment of Base Line Data, IT applications for Energy Accounting/Auditing and IT Based Consumer Service centres. As per scheme guidelines, the amount of loan principal and repaid interest thereon would be converted into grant up to 100 *per cent* upon the successful completion of the Part A and declaration to that effect by PFC.

The Company initially sought extension in project completion date which was granted (February 2015) by Steering Committee up to September 2015. Subsequently, the Company availed further extension up to March 2017 which has also been granted.

Audit observed that all projects under Part A were declared 'Go-Live' as early as October 2014 which was a major milestone in the project and thereafter, third party verification as per scheme guidelines was carried out during April to September 2015. Even after one year, the Company could not get its Part A project declared as successfully completed and sought further extension up to March 2017. This was due to delay in completion of project related works and its certification by third party.

As a result, the repaid principal (₹ 75.24 crore) and interest thereon (₹ 22.43 crore) for 2014-15 and 2015-16 was not converted into grant and refunded to the Company. To that extent, Company continued to suffer loss on servicing high cost loans obtained from other agencies.

The Company replied (October 2016) that the conversion would be carried out on expiry of the extended project period. The reply is silent regarding the loss on account of delayed conversion and consequent delay in receipt of funds on conversion.

Payment to contractors from internal sources (Part B projects)

3.5.5 The Company is executing Part B projects under R-APDRP by borrowing funds from Rural Electrification Corporation Limited (REC). As per laid down procedure for payment of bills submitted by the contractors for works, the bills are to be certified by the Company and sent to REC for making payment directly to the contractors. A particular loan is reckoned as disbursed from the date of payment by REC to the contractors.

Audit observed that the Company during the period 2014-15 to 2015-16 made payments to the contractors from its bank overdraft (OD) account and claimed reimbursement from REC at a later date amounting to ₹ 54.03 crore. There were delays ranging from nine to 1,032 days in forwarding 178 bills of Part B projects from billing section to loan section of the Company to enable making reimbursement claims. There were further delays up to 63 days in forwarding the claims by the Company to REC. This resulted in utilisation of Company's costly OD/Cash Credit (CC) limit. The avoidable payment of OD interest on such utilisation in 2015-16 as worked out by audit was ₹ 8.97 crore. Payment of interest on the OD/CC will also not be eligible for conversion to grant²⁶. Moreover, had the Company made payments to the contractors through REC, it could have availed the benefit of moratorium on payment of interest also.

The Company (October 2016) accepted that payment from internal sources had been made for its projects. It further stated that due to cancellation of three towns from the scheme, the loan disbursed against those towns were required to be refunded to PFC and hence corresponding reimbursement was claimed from REC. The reply is not tenable as the Company was aware that those three towns had not been taken up for implementation and as such the loans for those towns were required to be refunded. As such, there was no justification for delay in forwarding claims to REC for reimbursement.

Conclusion

- The Company did not avail the benefit of moratorium and adjusted the repaid amount against other loans from the same agency.
- The Company had not adhered to project deadlines and sought extensions as a result of which it continued servicing the loans and the same was not converted into grant and refunded to the Company.
- The Company made payments to the contractors from its internal sources and belatedly claimed reimbursement from REC which resulted in avoidable payment of OD interest on such utilisation which was avoidable.

The matter was reported to the Government (September 2016); their reply was awaited (December 2016).

26 As per R-APDRP scheme guidelines, the amount of repaid principal and interest thereon is eligible for conversion into grant on fulfillment of certain conditions

3.6 Billing and Recovery of revenue

Incorrect categorisation and application of tariff, delay in generation /issue of bills and payment of ineligible prompt payment discount resulted in loss of revenue.

Incorrect categorisation

3.6.1 As per the Electricity Act, 2003, Maharashtra Electricity Regulatory Commission (MERC) decides the different categories of consumers and the tariff applicable to each category. Consumers are broadly classified as industrial, commercial, residential, agricultural and public services. Appropriate categorisation and application of tariff are essential for proper recovery of revenue. MERC issued two tariff orders (August 2012 and June 2015) which were applicable during the period 1 April 2013 to 31 March 2016.

While implementing the orders of MERC, 10 Circles²⁷ of the Company incorrectly categorised consumers²⁸ which resulted in loss of revenue as detailed below:

- As per MERC tariff order applicable from June 2015, industrial tariff was applicable to mobile towers only if they were covered as IT/ITES in the list of services as per Maharashtra IT/ITES Policy, 2015. The mobile towers however, were not included in the list of IT/ITES services specified in IT/ITES Policy, 2015. The scrutiny of billing data of selected 10 Circles revealed that lower industrial tariff was applied instead of commercial tariff to mobile towers from June 2015 to March 2016 though they were not included in the list of services as IT/ITES. The short billing for the above period worked out to ₹ 1.35 crore.

The Company in its reply (November 2016) did not specify the reasons for classifying mobile towers as industrial.

- The Company incorrectly categorised and applied lower industrial tariff instead of applying commercial tariff in respect of four consumers in four circles, which resulted in short billing of ₹ 2.01 crore as shown below:

Sl. No.	Name of the Consumer	Name of the Circle	Activity	Tariff category actually applied	Amount of short billing (₹ in lakh)
1	Adani Agri Logistics Limited	Vashi	Warehousing	HT-I Industry	34.12
2	Express Services Private Limited	Pen	Repairs of containers, store and handling of goods	HT-I Industry	46.97
3	M. B. Patil Construction	Pune Rural	Road and subway construction	HT-I Industry	16.48
4	IIT Powai	Thane	Public Service, commercial and residential	HT-IX Public Service	103.55
				Total	201.12

27 Aurangabad (Urban), Jalgaon, Kalyan-I, Nashik (Urban), Pen, Pune (Ganeshkhind), Pune (Rastapeth), Pune (Rural), Thane and Vashi

28 Mobile towers in 10 Circles, Adani Agri Logistics in Vashi Circle, Express Service Private Limited in Pen Circle, M.B. Patil Construction in Pune (Rural) Circle and IIT Powai in Thane Circle

Reply given by the Company and further remarks thereon are as follows:

- **Adani Agri Logistics Limited**-The Company stated (November 2016) that the consumer was utilising power supply for operating various machinery for processing of raw agricultural products. The reply is not tenable as the Company in the electricity bills issued to the consumer had classified the consumer's activity as warehousing, which was a commercial activity.
- **Express Services Private Limited**-The Company accepted (November 2016) the audit observation and stated that recovery would be made from the consumer.
- **M.B. Patil Construction**-The Company stated (November 2016) that the consumer was operating a 'Dambar mixture' plant and the activity was industrial. The reply is not tenable as MERC in its tariff orders clearly classified construction as a commercial activity and accordingly commercial tariff was to be applied.
- **IIT Powai**-The Company stated (November 2016) that the consumer is billed partially for residential and remaining for public service. The reply is not acceptable since the consumer had declared its commercial usage to the Company which was not considered by the Company for billing purposes.

Delay in generation/issue of bills

3.6.2 The Company was issuing monthly/quarterly bills to Low Tension (LT) consumers for which due dates for payment were 15/21 days from bill date. The billing of the LT consumers was done by distributing them into various Processing Cycles (PC) based on their geographical locations/tariff category. PC wise monthly billing programme was prepared for taking meter reading and submission of data to IT section for generation of bills. Hence, it is of utmost importance to ensure timely meter reading, feeding data into the system and submission of the same to IT section so as to ensure timely issue of bills and realisation of revenue.

Audit observed that there were delays in submission of billing data as above to IT section, which led to delay in generation of bills and consequent delayed realisation of revenue. During January 2015 to April 2016, out of total 59,684 PCs, there were delays in respect of 22,087 PCs (37 per cent) for a period up to 64 days, in submission of billing data to IT section for generation of bills with reference to the billing programme. The delay in issuance of bill resulted in delayed recovery of ₹ 7,946 crore in respect of the PCs which were delayed beyond 10 days. This adversely affected the cash flow of the Company. Further, the avoidable payment of OD interest for delayed recovery of bills during January 2015 to April 2016 as worked out by audit was ₹ 75.08 crore. The Company in its reply admitted that the delays were on account of delay in submission of data by the outsourced meter reading agencies and efforts were being taken to adhere to the schedules.

Ineligible grant of prompt payment discount

3.6.3 The consumers were eligible for Prompt Payment Discount (PPD) in case bills were paid within seven days from the date of issue of bills or within

five days from the receipt of bill, whichever was later. As per instructions (August 2011) in respect of consumers making payment by cheque, PPD was to be given only if the amount was credited to Company's account on or before due date of PPD.

Audit observed that in case of LT consumers paying by cheque in two circles²⁹, PPD was given to consumers despite realisation/credit of amount to the company's account after due date, which was in violation of the policy of the Company. The Company suffered loss of ₹ 3.02 crore³⁰ due to ineligible payment of PPD as worked out for the period December 2014 to July 2016 in respect of these two circles.

The Company (October 2016) stated that necessary modifications in the software are being made and the amount of PPD given wrongly, if any, would be reversed and recovered from the consumers.

The matter was reported to the Government (September 2016); their reply was awaited (December 2016).

3.7 Avoidable extra expenditure on purchase of power

The Company incurred an avoidable extra expenditure in short term purchase of power ₹ 3.65 crore.

The Company invited (15 September 2014) tender No.T-6 for purchase of 400 MW round the clock (RTC) power during the period 22 September 2014 to 31 October 2014 on the basis of requirement intimated by Load Management Cell (LMC) of the Company. The Company received offers ranging from ₹ 3.28 - ₹ 3.79 per unit from three bidders. The Company procured only 250/275 MW from the L-1 bidder M/s. JSW Power Trading Company Limited for the period 22 September 2014 to 31 October 2014 at following rates:

Quantum in MW	Period	Rate (₹ per Kwh)
250	22 to 30 September 2014	3.44
275	01 to 15 October 2014	3.38
275	16 to 31 October 2014	3.28

Audit observed that simultaneously (from 03 to 31 October 2014) the Company had additionally procured 370 MW from four different traders under tender No.T-7 at the rate of ₹ 4.148 per unit. Under tender No.T-6, the Company had already received offers for 400 MW for the same period (from 03 to 31 October 2014) of which only 275 MW was procured. Thus, the Company could have procured remaining power from L-2 and L-3 parties at L-1 rates or even at the rates of ₹ 3.44 - ₹ 3.50 per unit offered by them. Further, the tender No.T-6 for 400 MW was on the basis of requirement intimated by LMC of the Company and thus the Company should have accepted the offers for 400 MW. Instead the Company separately procured power under tender No.T-7 at ₹ 4.148 per unit resulting in avoidable extra

29 Rastapeth Circle Pune and Pune Rural Circle

30 Rastapeth, Pune-₹ 2.68 crore and Pune Rural-₹ 0.34 crore

expenditure of ₹ 3.65 crore in respect of 125 MW which the Company did not finalise under T-6.

It is pertinent to note that during the month of October 2014, generation pertaining to five Independent Power Producers (IPPs) was backed down *i.e.* reduced to the extent of 38.65 Million Units against which the Company paid ₹ 4.48 crore towards fixed costs of backed down units as per the terms of agreement of IPPs. The energy charges per unit in respect of these IPPs ranged from ₹ 1.40 to ₹ 1.98 per unit. Thus, the action of the Company in procuring short term power and backing down long term power simultaneously was not justified.

The Company in its reply stated (October 2016) that:

- 250/275 MW was awarded to the L-1 bidder in T-6 as that was the quantum offered by the L-1 bidder and balance was procured in T-7 to meet the demand. The reply is not acceptable since the Company had not made any attempt to purchase the balance quantity from remaining bidders of T-6 in view of demand indicated by LMC.
- In real time management of power system, there is always some underdrawal or overdrawal quantum and that the backing down was only 1.89 *per cent* of the power purchase for the month. Thus, Company accepted the audit observation that backing down and short term power purchase was done simultaneously.

The matter was reported to the Government (September 2016); their reply was awaited (December 2016).

Maharashtra State Electricity Transmission Company Limited

3.8 Procurement, repairs and maintenance of transformers

Introduction

3.8.1 Transmission of Electricity and Grid Operations in Maharashtra are managed by Maharashtra State Electricity Transmission Company Limited (Company) which is mandated to provide efficient, adequate and properly co-ordinated Grid Management and transmission of energy.

The purchases of transformers are made by the Central Purchase Agency (CPA) of the Company after getting approval from the Board of Directors (BoD). The Company has issued guidelines (May 2014) for protection and diagnostic testing of transformer.

Scope and Audit objectives

3.8.2 The audit was conducted to assess whether procurement, repairs and maintenance of transformers were made in an economical, efficient and effective manner. Audit scrutinised records relating to 71 transformers (five new, 52 repaired and 14 failed within the guarantee period) out of 166

transformers (18 new, 122 repaired and 26 failed within the guarantee period) in seven³¹ of the 14 Extra High Voltage Operation and Maintenance (EHV O&M) Circles during the period 2013-14 to 2015-16. A general review of capacity utilisation of transformers of the selected Circles was also carried out during audit.

Audit findings

Assessment of requirement for procurement

3.8.3 Assessment of requirement is a prerequisite before purchase and is essential to safeguard the financial interest of an organisation. The CPA of the Company make purchases of transformers on the basis of indent received from field offices. The available spare transformers, pending supply orders, transformer under repairs and transformers available from augmentation were to be considered while assessing the new purchase order quantity. Audit observed that the Company had not considered the availability of following three transformers while making the purchase of 18 transformers during 2013-14 to 2015-16.

- The Company had a 100 Mega Volt Ampere (MVA) transformer purchased (June 2009) for Niwaliphata Sub-Station (SS) at cost of ₹ 2.55 crore. The transformer was lying unutilised for six years. In November 2015, the Company transferred it to Shahada SS incurring expenditure of ₹ 25 lakh. Audit however, noticed that the Company had already overhauled (May 2013) another 100 MVA transformer at a cost of ₹ 1.50 crore which was available with Shahada SS. The Company had also purchased a 25 MVA transformer at a cost of ₹ 1.45 crore which was delivered in Vashi SS in January 2008. Audit observed that all the above transformers were unutilised and lying idle since the date of receipt by the Company. The Company had not considered the availability of these transformers while placing purchase order for similar rated transformers. Thus, the incorrect assessment of requirement resulted in excess purchase of transformers which continued to remain idle.

The Company in its reply stated (October 2016) that the new Inter Connected Transformer had longer service life and was not specifically purchased for Niwaliphata SS. It was further stated that the said transformer was kept spare and could be utilised later. The reply is incorrect in view of the fact that the transformer was purchased for Niwaliphata SS under a specific scheme.³² Further, the reply is silent on the transportation of the transformer to Shahada at a cost of ₹ 25 lakh and overhauling of transformer by Bhusawal EHV O&M Circle at a cost of ₹ 1.50 crore. In respect of 25 MVA transformer it was stated that the transformer was kept to meet the emergency at 100 KV Vashi SS. The fact however, remains that the Company had not put to use the transformer (purchased at a cost of ₹ 1.45 crore) received in January 2008 so far (October 2016).

31 Bhusawal, Kalwa, Nagpur, Nashik, Panvel, Pune and Solapur

32 Japan International Co-operation Agency (JICA) Scheme

Procurement of new transformers

3.8.3.1 The Company procured 18 transformers during 2013-14 to 2015-16, of which 11 transformers were commissioned and seven transformers valued at ₹ 18.20 crore were not commissioned (October 2016). Audit scrutiny of procurement of five transformers revealed that the following two transformers remained idle as discussed below:

- The Company placed an order (February 2014) for supply of a 50 MVA power transformer at ₹ 2.04 crore for augmentation of Thal SS. The transformer was delivered in February 2014. As the requirement of Thal SS was met by diverting a transformer lying in another SS, the new transformer delivered in February 2014 was lying idle. The Company decided (February 2016) to transfer it to Roha SS for proposed augmentation. Audit observed that while placing the purchase order in February 2014, the Company had already decided to divert the transformer lying idle in another SS to meet the requirement of Thal SS.

The Company in its reply stated (July 2016) that the sanction for augmentation of Roha SS was awaited. The reply is not acceptable since the decision to divert the transformer for Thal SS was taken before the issue of purchase order and therefore the purchase should have been avoided.

- The Company placed an order (January 2014) with M/s. IMP Limited, Silvasa for supply of a 50 MVA transformer at ₹ 2.25 crore for augmentation of Satpur, SS, for uninterrupted power supply in Simhastha Kumbha Mela (SKM). The transformer received in June 2014 is still idle (October 2016), though the SKM at Nashik had concluded in August 2016.

The Company in its reply stated (July 2016) that the permission for placing work order for erection of the transformer at Satpur SS was received only in July 2016 and therefore the transformer remained idle. The reply is not acceptable since the requirement was met with the available capacity and therefore there was no need for new purchase.

Under utilisation of transformers

3.8.4 The Company installs/augments its transmission system considering the current load requirements and increase in future load requirements. As on 31 March 2016, the Company had 633 SS with 1,675 transformers having transmission capacity of 1,10,815 MVA. A review of the utilisation of transformers installed in seven selected circles revealed that 825 transformers were installed in 278 SS, out of which 109 transformers were working at less

than 40 per cent load. This included 79 transformers of 50 MVA and above as detailed below:

Sl. No.	Name of the EHV O&M Circle	No. of transformers installed	No. of transformers below 40 per cent load	50 MVA and above Transformers having load less than 40 per cent (in per cent)					Total
				Below 5	5 to 10	10 to 20	20 to 30	30 to 40	
1	Bhusawal	127	6	-	-	-	-	-	-
2	Kalwa	100	9	3	1	-	1	3	8
3	Nagpur	82	12	-	-	-	2	1	3
4	Nashik	152	10	-	1	3	1	2	7
5	Panvel	83	34	1	-	5	13	8	27
6	Pune	153	30	2	2	5	7	10	26
7	Solapur	128	8	1	-	2	1	4	8
	Total	825	109	7	4	15	25	28	79

As per the Manual of Transmission Planning Criteria (MTPC) of Central Electricity Authority (CEA), the transformers in the SS shall be planned in such a way that in the event of outage of any single transformer the remaining transformer(s) could still supply 80 per cent of the load. The guidelines issued by the Power Finance Corporation (PFC) provide that no transformer should be loaded beyond 75 to 80 per cent of its capacity in normal times. Even after factoring these parameters, the transformers in the systems should function at a capacity of not less than 60 per cent. Audit however noticed that 109 of the 825 transformers test checked in seven circles, were working below 40 per cent capacity. This includes 79 transformers with 50 MVA³³ and above working at a capacity in the range of zero to 40 per cent. The gross under utilisation of the capacity of transformer was an indication of incorrect assessment of load and consequent installation of higher capacity transformers which resulted in avoidable excess investment.

The Company in its reply stated (October 2016) that they had decided to replace the under loaded transformers with lower capacity transformers and use the replaced transformers for augmentation schemes.

Utilisation of transformers removed during augmentation

3.8.5 The Company undertakes augmentation of system by replacing the existing lower capacity transformers with higher capacity transformers to maintain firm capacity, reduce distress load shedding and to cater to additional load due to growing demand. Audit observed that during 2013-14 to 2015-16,

³³ The Company is installing transformer with capacity of 10, 16, 25, 50 and 100 MVA and most of the transformers in the system were 50 MVA and above

the transformers removed from service for augmentation of SS were not put to use and kept idle as under:

Sl. No.	Name of the EHV O&M Circle	Transformers kept idle and its condition as on July 2016		
		Total No.	Removed while in working condition	Repaired but kept idle
1	Bhusawal	7	5	-
2	Kalwa	12	4	7
3	Nagpur	4	3	-
4	Nashik	12	2	2
5	Panvel	9	6	1
6	Pune	14	4	7
7	Solapur	8	7	-
	Total	66	31	17

It could be seen that 31 transformers which were in working condition were removed from service under augmentation scheme. The Company had not framed any plan for utilising these transformers in other SS or explored the possibility of up-rating the transformers so as to utilise them in higher capacity SSs. The Company also did not have any guideline/criteria for storage of transformers removed in working condition so as to avoid expenditure on repair, overhauling, re-insulation and oil filtering.

The Company replied (October 2016) that 11 transformers of 16 MVA were removed during augmentation and may not be required since 16 MVA transformers are not in operation in the new SSs. The Company further stated that the possibility of using idle transformers will be explored while framing the augmentation schemes. The Company thus accepted that they had not framed any policy for utilisation of removed transformers and for disposal of obsolete transformers.

Maintenance of working condition transformers

Avoidable expenditure on overhauling of transformer

3.8.6 As part of the scheme for augmentation of transformers in SS, transformers in working condition were replaced with higher capacity transformer in EHV O&M Nagpur Circle during the period March 2011 to January 2013. The Company incurred an expenditure of ₹ 2.54 crore on overhauling of five old transformers as under:

Place	Details of transformers	Transformer number	Date of replacement	Date of utilisation	Cost of overhauling (₹ in lakh)
132 KV Hingna II S/S	25 MVA, 132/33 KV	T 9890/4	04/03/2011	09/02/2015	53.91
220 KV Kalmeshwar S/S	25 MVA, 132/33 KV T/F-I	4553/6	10/03/2011	04/11/2015	41.09
220 KV Kanhan S/S	100 MVA, 220/132 KV	T-8852/2	26/12/2012	Idle at Chandrapur Circle	69.00
220 KV Kanhan S/S	100 MVA, 220/132 KV	T-9058/1	30/01/2013	01/02/2015	68.55
132 KV Mankapur S/S	25 MVA, 132/33 KV	1435/11885	18/05/2011	14/03/2015	21.10
			Total		253.65

The transformers were in working condition at the time of removal at various SS and were lying idle for a period ranging from two to five years. It was noticed that during the intervening period, the Company did not prescribe and follow any criteria for storage of removed transformers in good condition to avoid expenditure on its repair, overhauling, re-insulation, oil filtering, etc. As a result, the Company had incurred avoidable expenditure of ₹ 2.54 crore on overhauling of the transformers before they were put to use again.

Conversion and repair of existing transformers

3.8.7 The details of transformers repaired during 2013-14 to 2015-16 in seven circles were as under:

Sl. No.	Name of the EHV O&M Circle	Transformer repaired				Value of work order (₹ in crore)
		2013-14	2014-15	2015-16	Total	
1	Bhusawal	6	11	3	20	16.05
2	Kalwa	13	2	12	27	40.91
3	Nagpur	7	2	4	13	10.50
4	Nashik	6	9	4	19	10.10
5	Panvel	4	2	2	8	10.16
6	Pune	11	11	1	23	31.84
7	Solapur	4	7	1	12	10.99
	Total	51	44	27	122	130.55

Non-commissioning of repaired transformer

3.8.7.1 The Company entrusted the work of repairing the failed transformers and conversion of transformers into higher capacity to contractors. The contracts provide for guarantee of transformers delivered after repairs or conversion. The period of guarantee was 30 months from the date of delivery or 24 months from the date of commissioning, whichever was earlier. It is therefore necessary to issue work orders for repair/conversion duly considering the date on which they would be put to use. Audit noticed that 12 out of 52 repaired transformers test checked in Audit were not put in service so far (October 2016).

Sl. No.	Transformer	Sub-station	Repaired in	Cost of repairs (₹ in crore)
1	Two 25 MVA	Bhusawal	May 2015 and November 2015	1.06
2	50 MVA	Chakan	April 2015	1.53
3	25 MVA	Pathardi	September 2013	0.44
4	Three 50 MVA	Solapur	March 2014, December 2014 and April 2015	4.47
5	Four 25 MVA	Solapur	March 2015, October 2015	
6	100 MVA	Trombay	July 2013	2.52
	Total			10.02

The Company could not avail the full benefit of guarantee period due to delay in putting them in service. It is pertinent to note that the guarantee period in respect of three of these transformers had already expired.

The Company stated (October 2016) that one transformer of Solapur SS has since been used for Karkambh SS and the delay in commissioning of remaining transformers would be reviewed.

Non repair of transformers failed during guarantee period (GP)

3.8.8 The details of transformers which failed during 2013-14 to 2015-16 in respect of the seven circles test checked were as under:

Sl. No.	Name of the EHV O&M Circle	2013-14		2014-15		2015-16		Total
		Within GP	After GP	Within GP	After GP	Within GP	After GP	
1	Bhusawal	5	2	4	2	1	2	16
2	Kalwa	4	3	1	2	2	4	16
3	Nagpur	1	2	1	2	-	1	7
4	Nashik	2	1	1	-	-	-	4
5	Panvel	-	1	-	1	-	-	2
6	Pune	-	1	4	1	0	0	6
7	Solapur	-	-	-	-	-	-	-
	Total	12	10	11	8	3	7	51

3.8.8.1 The supplier/contractor was required to repair the transformers failed during GP free of cost. The Company obtained Bank Guarantee (BG) for ensuring compliance with terms and conditions of contract. Audit noticed that the contractor did not repair the transformers within the guarantee period and the same were lying idle as seen in the following instances:

Sl. No.	Transformer capacity	EHV O&M circle	Cost of repairs (₹ in lakh)	Repaired in	Commissioned in	Failed in	Remarks
1	10 MVA	Bhusawal	23.26	July 2009	October 2009	August 2011	Not repaired till date. BG lapsed
2	25 MVA	Bhusawal	56.96	May 2013	May 2013	July 2014, December 2014 and April 2015	Repaired in first two instances but not repaired in 3 rd instance. BG withheld
3	10 MVA and 16 MVA	Nashik	24.81	July 2010 and May 2012	July 2010 and May 2012	December 2011 and November 2012	Not repaired till date. BG withheld

It could be seen that the transformers failing within the GP were not repaired free of cost by the contractor. As a result, the transformers were lying idle either with the Company or with the Contractor. The Company allowed the BG to lapse in the first case. In the remaining two cases, the Company has not encashed the BG available with it for non-compliance of above condition.

The Company stated (October 2016) that the 25 MVA transformer at Bhusawal was lifted by the contractor in May 2016 and the contractors were being pursued to repair the transformers. The reply was however silent regarding non encashment of BG.

Non disposal of obsolete (CT and PT) transformers

3.8.8.2 Fifty three Current Transformers (CT) and Potential Transformers (PT) procured during 2008-10 costing ₹ 80.32 lakh was lying idle at Major Store 'A' Baramati as on October 2016. The Company in its meeting with MSEDCL decided (November 2010) not to use 0.2 Class type CT and PT.

Audit observed that though the Company decided in 2010 not to use these CT and PT, these had not been disposed off and were still lying in store (December 2016).

Conclusion

The capacity utilisation of number of transformers was far below their installed capacity due to incorrect assessment of load. The Company did not consider the transformer in stock and released due to augmentation/repairs/conversion while assessing the additional requirement. This resulted in excess procurement.

The Company did not prescribe and follow guidelines/criteria for storage of good condition transformers removed from service to avoid subsequent expenditure on its repair, overhauling, re-insulation and oil filtering. As a result, the Company had to incur expenditure in overhauling at the time of reinstallation.

The matter was reported to the Government/Management (September 2016); their reply was awaited (December 2016).

Maharashtra State Power Generation Company Limited

3.9 IT Audit on the implementation of Fuel Management Process Module under SAP-ERP System

Introduction

3.9.1 Maharashtra State Power Generation Company Limited (Company) is engaged in generation and sale of electricity; having installed capacity of 12,077 Mega Watt (MW), as of March 2016, which included Thermal, Hydro, Solar and Gas Power plants. Thermal *i.e.* coal based energy constituted majority of the plants (8,640 MW *i.e.* nearly 70 *per cent*) while one gas based generating station at Uran, had installed capacity of 672 MW. The Chairman & Managing Director and other Directors of the Company are nominated by MSEDCL Holding Company Limited. The Information Technology needs of the Company are overseen by the Chief General Manager (IT) under the overall supervision of Director (Operations).

Computerisation in the Company

3.9.2 In order to bring about an end-to-end automation of all business processes, the Company had taken initiatives since 2007 to implement SAP-ERP System for the existing processes. Administrative approval for the same was accorded by the Board of Directors (BoD) in 2007. The Company appointed (May 2008) M/s. KPMG Advisory Services Private Limited as Project Management Consultant (PMC) for assisting the Company in implementation of SAP-ERP System. The SAP-ERP System was planned for mapping the manual processes and replacement of individual decentralised/standalone software.

The objectives of the Company for SAP-ERP implementation were:

- Enabling the Company to improve its operational and financial efficiency by increasing the availability of Plants, reducing working capital requirement, optimising inventories of fuel and spares and streamlining the accounts functionalities for efficient cash flow management.
- Providing real time Management Information System for fast, efficient and transparent decision making at the highest levels.
- Integrating existing systems to address issues relating to data management to avoid duplication of efforts, accuracy, timelines and comprehensiveness of management information.
- Setting in place a system to capture information to build accountability for performance, across organisation levels at the Corporate office and the Plants.

The work of implementation of the SAP-ERP System was awarded (April 2010) to M/s. Larsen and Toubro Infotech Limited (LTIL) who was the lowest bidder at a price of ₹ 29.80 crore³⁴ after approval of the BoDs (November 2009). LTIL was awarded the work of supply, implementation, post implementation support, Annual Support (AS) and Annual Technical Support (ATS) of SAP package based Integrated Business Solutions. The project consisted of eleven modules³⁵ and was to be completed in two phases³⁶ covering all units. The first phase, which commenced in June 2010 was completed in September 2011 and the second phase commenced in October 2011 was completed by November 2011 within the stipulated period of 18 months (from June 2010). The designing of the SAP-ERP System was undertaken from June 2010 and project went live for all locations in November 2011. The ATS by LTIL provided for supply of upgrades/updates/

34 Total cost includes License Cost ₹ 8.41 crore, ATS ₹ 5.06 crore, Implementation cost ₹ 9.60 crore and AS ₹ 6.73 crore

35 Enterprise Asset Management (EAM), Plan to Supply (PTS), Order to Cash (OTC), Procure to Pay (PTP), Quality Assurance and Control (QAC), Fuel Management Process (FMP), Project Monitoring and Control (PMC), FICO-Posting to Finalisation (PTF)/Plan to Control (PTC), Recruit to Retire (RTR), Environment Health and Safety (EHS) and Energy Data Management (EDM)

36 Phase-I covering Head office at Mumbai, Coal Office at Nagpur, Pophali Hydro Plant, Uran Gas Plant, TPS at Bhusawal, Chandrapur, Khaperkheda and Nashik
Phase-II covering TPS at Koradi, Hydro circle at Nashik, Paras, Parli and Pune

patches for all modules at an annual payment of ₹ 1.01 crore. Annual Support by LTIL with a dedicated onsite help desk, at an annual payment of ₹ 1.35 crore was also to be provided for entire SAP-ERP System, for a period of five years from the date of expiry of one month after implementation of Phase-II *i.e.*, up to December 2016.

The Fuel Management Processes Module (FMPM) was one of the 11 modules under SAP-ERP System which detailed the complete processes of fuel procurement and its management and covered the working of Fuel Management Cell at Headquarters, Coal Handling Plant, Major Stores and Fuel Accounting at Thermal Power Station (TPS). This module also provided an interface with the Railways, weigh bridges, *etc.* The designing of the FMPM started in June 2010 and it went live in November 2011 along with other modules.

Scope of Audit

3.9.3 The present audit of FMPM in SAP-ERP System covered the designing, development, implementation and the working of the FMPM for the period from September 2011 to 31 March 2016. The present audit covered the FMPM implemented by the Company at five³⁷ coal based TPS out of the seven coal based TPS and one gas based TPS.

Audit objectives

3.9.4 The audit objectives were to ascertain whether:

- there existed a proper plan for computerisation, commensurate with Company's Mission and Objectives and requirements;
- the documentation including Business Rules, Regulations and procedures of the Company were adequately mapped into the system;
- the information in the database was complete, accessible, accurate and reliable;
- adequate security controls were in place;
- the benefits expected from the FMPMs is utilised by other modules through inter-linkages; and
- implementation of FMPM had improved the efficiency, effectiveness and economy in fuel management of the Company.

Audit criteria

3.9.5 In pursuing Audit objectives, audit adopted the following criteria:

- Business rules, regulations and procedures of the Company;
- Board resolutions;
- Contract with LTIL;

³⁷ Bhusawal, Chandrapur, Khaperkheda, Koradi and Nashik

- Various control and security parameters as prescribed in policies of the Company, if any; and
- Orders/Circulars for constitution of IT Steering Committee and its functioning.

Audit methodology

3.9.6 The FMPM under SAP-ERP System and its linkages with other modules was analysed using IDEA software, Smart Exporter software and Audit Information System functionality of the SAP-ERP System.

Audit findings

System acquisition, development and implementation

Non-preparation of SRS and URS and absence of IT Policy

3.9.7 The audit findings regarding the implementation of FMPM are as follows:

3.9.7.1 The basic requirement for implementing an ERP solution involves a thorough study of the business processes by Project Core Committee (PCC) which consisted of the Company's Process-Business Owners/Department Heads/CGMs. Any major IT system development and its implementation requires detailed User Requirement Specification (URS) and System Requirement Specifications (SRS) in the absence of which certain business processes may not get mapped. Although PCC was formed, the Company had not prepared URS and SRS and the nature of consultation between the implementation team and the users were not available on record. It was stated in the SAP Handbook that the PCC would provide guidance and inputs to finalise TO-BE processes and were responsible for business process sign-off and its implementation. The PCC did not prepare documents like URS, SRS and Study Design resulting in non-mapping of essential business processes in the SAP-ERP System, as brought out in subsequent paragraphs. Audit observed that implementation of the SAP-ERP System was undertaken without formulating and adopting a formal IT Policy.

The Management while accepting (October 2016) that there was no documented/formulated IT Policy/roadmap stated that the formulation of the same will be undertaken in near future. It was also stated that, workshops with Subject Matter Experts (SME) from all locations including HO were conducted along with module wise core team and a Business Owner for each function was identified for finalisation of business requirements. The common and interfaced processes were discussed among business owner(s) in PCC meetings and were documented as part of Business Blue Print (BBP) which was handed over to SAP team for configurations.

The reply of the management is not tenable since it was observed that the Company had not considered all the requirements at the user level in TPS which, in turn, forced the users to rely on excel/legacy data for many reports.³⁸

38 Coal Claims, Performance Incentives, Monthly Coal Cost Report, ZFMP_OCM5_REPT etc.

It was accepted at the exit conference that standard SAP functions were matched with the current processes but not to all the user requirements.

Interfacing of prevailing IT solutions with SAP-ERP System

3.9.7.2 As per Article 6.2 of the Agreement dated 6 April 2010 with LTIL, the SAP system was to be interfaced with various applications viz. GCR-For Analytics, E-Tendering, Exchange Server, Data Exchange in the CPF System, Weigh Bridge (WB) and Biometric Attendance System. Accordingly, interfacing of E-Tendering and the WB application software (Weigh Tech Software) with the FMPM was in the scope of work of LTIL. Audit observed that the Company had not integrated the above two applications with FMPM at the Company's TPSs resulting in non-fulfilment of contract conditions as detailed below:

A) E-Tendering System: The E-Tendering system for procurement of imported coal was implemented by the Company before implementation of FMPM. With the implementation of FMPM, the same should have been interfaced with the FMPM. As this was not done, there was repetition of work since data captured in E-Tendering application had to be re-entered manually into the FMPM with consequential delays and scope for human errors.

Management admitted (October 2016) that the interfacing of the E-Tendering system with the SAP-ERP system, though not done till date, will be implemented in the near future.

B) Weighbridges: The interfacing of Weigh-Tech software and FMPM was successfully done at all TPS, except in Bhusawal TPS. It was observed that the details of coal received by rail and unloaded at tippler were not captured into the WB interface (Weigh-Tech) automatically due to non-functioning of dedicated systems at the tipplers. This forced the Coal Handling Plant (CHP) at the TPS to maintain manual records at tipplers and manual data entry in Weigh-Tech system at Coal Accounting Section of the TPS and subsequent uploading on to FMPM. As explained by the IT Section of the Company, the option for manual data entry provided was to be used in the case of manual unloading of wagons, if required. Audit however observed that the manual data entry was being done on a regular basis, thus defeating the purpose of automation at Bhusawal TPS.

At Chandrapur STPS, coal was received through Roadway, Railway, Ropeway and Unique Train System (UTS). Although interfacing facility of WB with FMPM was available in case of coal received through Railways, the interfacing from WB in the case of Lorry Receipt (LR) was not done till date. As a result, the TPS entered data manually into the FMPM.

Management stated (October 2016) that Weighbridge interfacing for Roadway, UTS and Ropeway could be explored only after technical feasibility study though interfacing was implemented for Railway Mode Receipt at all plants.

The reply of the management is not tenable as the Company failed to ensure proper utilisation of the integrated WB interface resulting in repetition of efforts for recording the weights and subsequent feeding into the system and defeating the purpose of implementation of the system at wagon tippers. Technical feasibility study for interfacing of Ropeway, UTS and ropeway should have been undertaken before implementation of the module.

Generation of reports through legacy software

3.9.7.3 Though a period of more than four years had lapsed since the implementation of the FMPM, the use of Legacy/other software continued as under:

➤ Legacy software (such as Power Plant Management System (PPMS)) was in use for preparation of various reports such as Coal Receipt Report (CRR), coal mill feeding, stone claims and its compensation, monthly coal cost report, etc.

Management stated (October 2016) that the reports, which were non-commercial and are provisional/*ad-hoc* in nature and used only for reporting purpose were generated outside SAP System.

The reply is not tenable as the data is already available in SAP-ERP and hence, reports should have been customised in SAP-ERP for efficient usage and functioning of the system. Preparing these reports in legacy software led to repetition of efforts in maintenance of this data in a different format.

➤ Interface for receipt of coal at Chandrapur STPS by Unique Train System (UTS) and Ropeway mode to the FMPM was not working and hence was being re-entered manually into FMPM.

Management in its reply stated (October 2016) that integration of WB interface with SAP-ERP for receipt through UTS, Ropeway could be explored only after technical feasibility study. The reply is not tenable since transportation of coal by Ropeway and UTS existed at TPS Chandrapur, and the same should have been included in the agreement.

Underutilisation of Annual Technical Support Services

3.9.7.4 As per Article 13 of the Contract, LTIL was to provide support and maintenance for all the licensed software products supplied at an annual cost of ₹ 1.01 crore for a period of five years from the date of expiry of one month post implementation support of Phase II. This included provision of upgrades, updates and patches of the products to the Company as and when released. This also required a technical upgrade of the installation to the new version, when required by the Company. Further, as per Article 1.1.2, LTIL was to suggest on requirement of hardware and networking.

Audit observed that:

- The SAP version used by the Company is SAP ECC 6.0 EHP 4.0 with SAP NetWeaver 7.01 whereas the latest version released by SAP with additional functionalities is SAP ECC 6.0 EHP 7.0 with SAP NetWeaver 7.03.
- More than 50 *per cent* of the computers (935 out of 1,497) utilising the SAP-ERP System were being run on outdated Windows XP Operating System which were not compatible with latest versions of SAP.
- The SAP client version used by the Company was not the latest version. Functionalities in the SAP-ERP System implemented at various locations of the Company were carried out through the usage of multiple outdated versions of the SAP-ERP package out of which one version *viz.*, SAP Logon 710 expired on 12 April 2011, *i.e.* during the System Implementation phase itself.

Management replied (October 2016) that up-gradation of old systems would be done in a phased manner since the compatibility of the machines was checked only with the SAP version which existed at the time of implementation. Further, due to system constraints, the upgradation of new SAP client's version would be taken with the SAP support partner after upgradation/replacement of old machines and operating systems.

The reply of management is not tenable since the Management should have planned its resources in line with the requirement for implementing the system. LTIL too did not adhere to Clause 5.7 (2) of the Tender document wherein technical upgrade of installation to new version had to be done when required by Company.

Thus, it was observed that in spite of incurring an annual expenditure of ₹ 1.01 crore for ATS, both the Company and LTIL had not ensured availability of compatible hardware and/or software for the implementation of updates of SAP-ERP System as per terms of the contract.

Post Implementation Review

3.9.7.5 Post Implementation Review of the FMPM by a third party or by Internal Audit wing of the Company was not undertaken till date. Submission of Report of Business Benefit Review after Go Live and advising future roadmap for enhancing ERP effectiveness, which was to be submitted by the PMC (M/s. KPMG), within three months after Go Live (*i.e.* by March 2012) was submitted only in June 2013.

Management stated (October 2016) that CGM-Internal Audit would be requested to arrange the post implementation review of SAP.

Change Management Plan

3.9.7.6 The SAP-ERP System including the FMPM went live on 30 November 2011. The Company had not formulated/adopted a change management plan to ensure smooth transition of business processes through SAP-ERP System including FMPM after expiry of the contract period with

LTIL for AS and ATS, in December 2016. The plan for capacity building and training imparted to the IT team as well as users in the Company for independent functioning had not been formulated (June 2016).

Management during exit meeting (August 2016) admitted that change management plan was not formulated.

Intellectual Property Rights (IPR) in respect of Customised Software

3.9.7.7 As per the Tender, the Intellectual Property in the context of the customised software developed, was to be considered as ‘work made for hire’ and was exclusive property of the Company. The Company however had not ensured protection of its IPR in respect of the customisations made in the FMP Module.

Management stated (October 2016) that SAP-ERP is product of M/s SAP; all changes/modifications have to be done with permission of SAP. Hence, IPR is with SAP/LTIL as per contract agreement. Reply of Management is not tenable since it is contradictory to Clause 4.12.1 of the Tender which clearly mentioned that the IPR on customised software was exclusive property of the Company.

Underutilisation of SAP-ERP licenses

3.9.7.8 Scrutiny of the usage of licenses revealed that out of 1386 allocated Dialog (professional) user licenses and 5035 allocated Communication (ESS³⁹) user licenses, 595 licenses were not in use for a period ranging from one month to more than three years. Also, in 1144 instances, users, after allocation, have not logged in to the system for a period ranging from a minimum of one year to a maximum of more than four years. Thus, there was no laid down mechanism for monitoring the usage of the SAP-ERP System by users who were allocated Professional and Communication User licenses.

Management replied (October 2016) that Communication users are the ESS users, who used the system through portal to check personal things like pay slips, leave and ITAX deductions. SAP Professional Users (end users, who carry out transactions as per their roles and authorisations) are monitored continuously and disabled if not utilised on monthly basis.

The reply of management is not tenable since it was found that professional user was not disabled on non-utilisation.

Migration issues

3.9.7.9 As per contract LTIL was to develop conversion programs to convert data from legacy system format to SAP upload format. Audit however observed that the data pertaining to period prior to implementation of FMPM was not integrated, thereby limiting the accessibility of the Management to utilise prior period data for decision making.

39 Employee Self Service

Management stated (October 2016) that it was decided to 'Go Live' with Business Critical Data and SAP Mandatory data. The remaining data would be built or uploaded in SAP as and when required by the stakeholder/management. The reply is however not acceptable since it has been five years after 'Go Live' and yet data from legacy system is not integrated in FMPM.

Mapping of Business Processes in FMPM

3.9.7.10 Though Business Blue Print (BBP) envisaged inclusion of various processes/reports for missing/unconnected wagons/overload/Demurrage for raising claims, it was found that the same was not included in the Agreement. This has led to non-mapping of various business processes in the FMP Module, as stated under:

Claims against Coal companies

➤ Short delivery of coal

The TPS of the Company procured coal from coal companies like Western Coalfields Limited (WCL), South Eastern Coalfields Limited (SECL), Mahanadi Coalfields Limited (MCL) and Singareni Collieries Company Limited (SCCL) for which payments to suppliers are required to be passed/paid and compensation claims have to be raised for short delivery of coal. It was seen that the Company had not made suitable provisions in the FMPM for raising these claims for short delivery. As a result, these are being prepared manually by each TPS and forwarded to SE Coal Office, Nagpur, who then takes up the issue with the concerned coal company.

➤ Grade slippage

Though grade slippages were prevalent in coal received in TPS, there was no mechanism in place to claim the grade slippages in FMPM. Also the system did not capture the applicable grade of the coal based on the entry of Gross Calorific Value (GCV). This was confirmed from TPS Bhusawal and SE Coal Office, Nagpur.

Management stated (October 2016) that grade slippage claims were processed and generated in SAP-ERP FMP module and was in place.

It was however observed during verification that Grade slippage claims were done manually till 31 March 2016 and not through SAP-ERP System though provision existed in the system for generation of claims.

➤ Receipt of foreign material (other than stones)

There was no mechanism in the FMPM to capture the weights of foreign material (other than stones) received with coal. Consequently, no claims were raised against coal companies either through FMPM or otherwise.

➤ **Claims against Railways**

No provisions were made in the FMPM to capture, generate and monitor claims against Railways for missing wagons, missing rakes, excess service tax, wrong route charges, wrong wagon load charges, *etc.* These were also being done manually. Also, no request was raised by any TPS for creating these provisions in FMPM.

➤ **Claims against Liaison Agents**

It was seen that no provision has been made in the FMPM for calculation of recoveries from Liaison Agents on account of increase in percentage of transit loss, idle freight, penal freight, late receipt of Railway Receipt (RR), *etc.* and that the same was being done manually. This resulted in MIS Reports being incapable of depicting actual amounts receivable from liaison agents. Recoveries were proposed separately and the same were debited while effecting the payments at Accounts Section.

Other processes not mapped

➤ **Taxation parameters**

It was seen that while processing the invoices at TPS the taxation parameters for Excise Duty and cess thereon, VAT, Clean Environment Cess, Royalty, *etc.* were not mapped in the FMPM system and amount of taxes payable were entered manually.

Thus, it was observed that due to non-mapping of various processes as mentioned above, the Company has not reaped full benefits of implementation of FMPM.

➤ **Underloading Problem**

The freight for transporting the coal was to be paid to Railways on the basis of Carrying Capacity (CC) of RR. As per Coal Supply Agreement (CSA), claims towards under loading were to be claimed from coal companies based on CC of Electronic Printout (EP) given by the Coal Companies. It was however noticed that in all TPS, under loading of coal in FMPM was calculated on the basis of CC of RR and the claims were manually submitted to Coal companies based on EP.

➤ **Multiple coal invoices not processed through FMPM**

It was noticed at the SE Coal Office, Nagpur, which consolidated all coal claims, that in case a single rake was received at TPS containing coal loaded at different sidings with one RR and multiple coal invoices, there were no provisions in FMPM for regulating such coal claims.

➤ **Manual invoice preparation**

Fly ash includes all categories of coal ash generated at TPS collected by Electrostatic Precipitator (ESP) and the same was to be disposed by sale to

achieve the mandatory ash utilisation to achieve environmental safety norms. Manual invoices were prepared at TPS though this was a regular activity and should have been mapped in FMPM.

Management stated (October 2016) that the process of ash sale and invoice generation was mapped in the system in SAP-OTC module. The reply is not tenable as the Company continued to generate manual invoices which was duplication of the process.

➤ **Daily closing balance of unloaded wagons**

Scrutiny of Daily Coal Consumption/Receipt Report revealed that closing balance of wagons on any particular day was calculated as only the absolute difference of total wagons received and unloaded on that day, without considering the closing balance of unloaded wagons of the previous day. These flaws in the System Design should have been detected during the User Acceptance Testing (UAT) phase and corrected.

Financial issues

Excess payment towards Octroi

3.9.7.11 As per Section 192(1) of Mumbai Municipal Corporation (MMC) Act, 1888, a tax, at rates not exceeding those specified in Schedule H, shall be levied on articles mentioned in the said schedule, on the entry of said articles into Mumbai for consumption, use or sale therein and the said tax was called an 'Octroi'. As per Supplementary Note to Chapter 85 of Schedule H (under Section 192(1) of the MMC Act), (head 8524) 'Information Technology Software' means any representation of instructions, data, sound or image, including source code and object code, recorded in a machine readable form, and capable of being manipulated or providing interactivity to a user, by means of an automatic data processing machine and was to be charged Octroi at an advalorem of 5.5 *per cent*. Further, as per Rule 3 of Municipal Corporation of Greater Mumbai, Octroi Rules, 1965, articles which were imported into Greater Mumbai not for consumption but for immediate exportation, from the place of import to the place of export were exempted from payment of Octroi.

Scrutiny of the Contract Agreement with LTIL revealed that 1100 Professional User Licenses and 4500 ESS User Licenses were obtained on which ₹ 34.16 lakh was paid as Octroi at the rate of 5.5 *per cent*. The Company however, utilised only 236 Professional User Licenses and 415 ESS User Licenses within Greater Mumbai limits and the balance 864 Professional User Licenses and 4085 ESS User Licenses were utilised outside Greater Mumbai limits for which payment of Octroi amounting to ₹ 27.83 lakh was avoidable.

It is pertinent to note that the PMC (KPMG) had recommended (November 2009) that the Company should obtain opinion of Octroi Consultant on rates and the assessable value. The details of the appointment of Octroi Consultant, to ascertain the levy of Octroi, during the tendering process however, were not available for Audit scrutiny. Moreover, Management stated

that the SAP-ERP licenses were destined for Mumbai and the Octroi was paid accordingly. The reply was not correct since the licenses were for use at locations outside Greater Mumbai limits and were exempted from payment of Octroi as per the Octroi Rules and the Company should have ascertained the applicability of Octroi before making payments.

Management stated (October 2016) that the matter was taken up for seeking the views of Octroi Consultant.

General Controls

3.9.8 General controls regulate the environment in which the IT application is operated and includes disaster recovery and business continuity planning, access controls both physical and logical access and organisational issues such as segregation of duties and providing adequate training. Thus, General controls are aimed at ensuring that the assets of the project are not put to risk and this requires risk assessment and preventive measures prior to implementation of the system.

Inadequate segregation of duties

3.9.8.1 In any major IT system, the duties and responsibilities of various IT staff are required to be properly defined and segregated. Segregation of duties is a fundamental control requirement as it reduces the risk of error and fraud.

IT staff of the Company at its TPS did not however, have well defined job specifications and responsibilities with demarcation of duties. Dedicated core IT Teams were not in place at each TPS for FMPM to ensure processing of claims raised by various TPS which included preparation, authorisation and consolidation. Since most of the transactions were interlinked, non-segregation of duties and responsibilities adversely affected functioning of the system and resulted in repetition of efforts.

Management stated (October 2016) that the segregation of duties and assignment of work related to FMP module was under the purview of the plant authorities. The staff structure and roles/authorisations at different plants were defined and assigned in the system as per the requirement of the plant and FMP module users were transacting entries within the stipulated SAP open period. The claims generated and saved in the system were authorised by respective data owner/user entities. Only the claims for the period prior to implementation of SAP-FMP module were done manually or in legacy system.

The reply of the management is not tenable as the segregation of work was not done and documented to ensure track of the transactions and audit trail based on the roles assigned to the users.

Inadequate Training and absence of Core IT Teams

3.9.8.2 Audit observed that the change management plan comprising training and skills development for preparing the organisation's human resources to

handle new challenges pertaining to the implementation and use of the FMPM did not exist. TPS Parli stated that they required training in FMPM, as they were unaware of complete functionalities and reports in FMPM. Further, it was noticed in all TPS that the users who were trained initially in FMPM were transferred and their replacements were not trained. Core Teams for FMS implementation were not in place at all the TPSs as seen by audit, thereby raising ownership issues of the Application System and consequential dependence on the system provider (LTIL). Although the Company paid ₹ 1.35 crore annually for AS to LTIL, the implementation of FMPM and user acceptance at TPS level was not uniform across all TPS of the Company. It was observed that while at Nashik TPS data were captured and processed through FMPM, the same was manually entered at Bhusawal and Chandrapur TPS in many instances.

In reply the Management admitted (October 2016) that key Power Users identified and trained at various locations during and till the SAP stabilisation had been transferred/replaced without ensuring transfer of knowledge for continued operation.

Non-updation of User Manuals

3.9.8.3 A User Manual is a tool to facilitate the day to day functioning and utilisation of the System implemented. As per the scope of work the designing and completion of end-user training manuals of the implemented FMPM was the responsibility of PMC (M/s KPMG) in coordination with functional module team leaders.

Audit observed that elaborate and detailed User Manuals were not available with the Users of FMPM and the functioning of the Users was regulated by a SAP Handbook released in August 2013 which gives concise but not detailed information to the end-user. Though a period of almost three years have elapsed since the release of this Handbook, it has not been updated till date to cover the changes, enhancements, *etc.* carried out in the process of customisation of the FMPM.

Audit further observed that certain Reports pertaining to the FMPM⁴⁰ though generated through the SAP-ERP System were not mentioned in the SAP Handbook thereby rendering end-users unaware about the functionalities of these Reports. Thus, non-updation of the SAP Handbook which served as a user manual in the absence of elaborate user manuals, deprived the end-users of the additional functionalities and reports.

The Management replied (October 2016) that, as there was no major change in implemented processes, the revision of SAP-ERP handbook was not done.

The reply is not tenable since provision for generating additional reports than those specified in the handbook had been made but the users were unaware of the same.

40 ZFMP_COAL_CLAIM_REP, ZFMP_CONS_DAILY, ZFMP_RAKE_DIV_REPORT, ZFMP_RAKE_MONITOR, ZFMP_UNLOAD_REPORT

IT Security

Lacunae in Logical Access Controls

3.9.8.4 Although the Company had adopted a password policy in 2012, the Password Policy such as length of the password, periodicity of passwords, *etc.* had not been strictly adhered to. The number of days for change of System level, User level and all other passwords though defined as 15 days, 30 days and 60 days respectively in Password Policy were non-functional in FMPM.

As a result of non-defining of number of days for changing password in the SAP-ERP system, it was noticed that out of 1,757 Professional users allocated, 51 users were using their initial passwords while out of 5,171 ESS user licenses issued, 3,326 users were using their initial passwords. Number of users under FMPM who had not changed their initial passwords was not separately available.

Non-enforcing of password policy and absence of periodical changes in passwords do not augur well for the Company as the same is necessary to protect confidentiality of information and integrity by avoiding unauthorised access to the SAP-ERP system.

The Management admitted (October 2016) that the password policy in SAP-ERP System needed strengthening and would be implemented on an urgent basis.

Inoperative System Audit functionality

3.9.8.5 (A) System Audit conducted using Audit Information System Function in SAP-ERP revealed that the SAP CCMS Admin Workplace (Security) - Maintenance functions utilised to identify memory problems in good time, to check the security of database system and to monitor performance was disabled.

Management stated (October 2016) that SAP CCMS would be turned ON only after discussion and thorough analysis with SAP & Implementation partner. Making it ON may lead to generating logs and may impact system performance.

(B) It was observed that the functionality of Security Audit Log, which is a tool designed for audit trail in SAP-ERP System, was disabled by the Company citing the reason that activation of the same takes up commercial storage space. Thus, security related changes to SAP-ERP environment like changes to User Master records, details of successful and unsuccessful logon attempts to provide higher level of transparency and successful or unsuccessful transaction starts to enable the reconstruction of a series of events were not being recorded in the system due to this disabling of Security Audit Log.

Management stated (October 2016) that enabling of Security Audit Log will also be verified with SAP & Implementation partner SAP standard.

Absence of business continuity planning and disaster recovery mechanism

3.9.8.6 Business continuity planning is essential to ensure that the organisation can prevent disruption of business and resume processing in the event of a total or partial interruption of information availability. In order to restore the information processing capability at the earliest in event of a disaster, a business continuity plan was required to be formulated by the Company outlining action to be taken.

It was observed that the Company had not implemented a full-fledged disaster recovery centre even after four years of implementation of the SAP-ERP System. It was also noticed that there was no offsite storage location and backup taken on tapes at Mumbai was retained at Mumbai itself. Further, there were no records/logs to ensure that the backup files were tested to ensure their integrity.

The Management stated (June 2016) that proposal for implementation of Business Continuity plan as well as Disaster Recovery centre has been approved and process of tendering for the same was in progress.

Application Controls

3.9.9 Application controls are included in IT Systems to provide assurance that all transactions are valid, authorised, complete, accurate and properly recorded. Shortcomings in application controls noticed during audit are discussed in succeeding paragraphs.

Absence of Audit Trails in Master tables

3.9.9.1 Audit trail is a record displaying who has accessed the system and what operations were performed during a given period of time. An audit trail of changes to data in the system is to be maintained and any change made in a record is to be time stamped and logged. In Transactions modifying critical data, the audit trail must record the user responsible for the modification. The audit trail must operate on nominated Tables and Data items and a facility to report on audit logs should exist.

Though, the FMPM has a role based security model, it was observed that there were no provisions to capture details of the user performing transactions relating to the creation/modifications/deletions, *etc.* of records contained in the Master Tables of the customised FMPM. In the absence of this trail, critical data could be tampered with and the system could be rendered vulnerable to unauthorised manipulation.

The Management stated (October 2015) that this would be discussed with LTIL so as to activate it without affecting the commercial storage space and performance of the system.

It was further explained (October 2016) that the basic Audit trails for the critical Masters data and transactions performed by users in system was maintained in SAP. Security Audit Logs helped administrator to find the

causes for system failures which would be verified with SAP and implementation partner for customised functions. This could be implemented after rollout of standard SAP Security Audit logs system.

Non-accounting of coal received through Unconnected Wagons⁴¹

3.9.9.2 The entire process of coal management from receipt of coal till its consumption was dealt with in the FMPM module and thus non-accounting of coal received through unconnected wagons resulted in the cost of such coal not being considered in the computation of generation cost. Scrutiny of the coal received during the period 1 April 2010 to 31 March 2016, revealed that 303 wagons containing 22,785 MT of coal at six⁴² TPS received through unconnected wagons had not been accounted for in the records of the Company. It was further observed that the unaccounted coal was also consumed.

Management clarified (October 2016) that every un-connected wagon was accounted in SAP FMP module but its stock (GR) was taken into account only after a valid railway connection was available against it. The stock (GR) could not be taken in the system as the details (source/colliery/RR) of un-connected wagon were not available at the time of its receipt.

The reply of the Management did not however state the accounting of coal received through unconnected wagons.

Non-capture of information in respect of Sick Wagons⁴³

3.9.9.3 Audit observed that though there was a provision to record information in respect of Sick Wagons (SWs) in FMPM (ZFMP_wagon_report), TPS did not capture details of SWs (except Koradi TPS). In the case of Koradi TPS, the practice of capturing the details of SWs in the consignments was undertaken through FMPM and the same was also reported to the Railway authorities. Proportionate amount of demurrage excluding the demurrage on SWs however, was being worked out manually at Koradi TPS.

It was observed that no SW had been recorded at Chandrapur STPS (CSTPS) since the implementation of FMPM, though maximum quantity of coal was received at CSTPS compared to other power stations. Due to non-capturing of details of SWs in the FMPM, the Company/TPS could not calculate the exact quantum of such excess payment on account of demurrage charges through the FMPM.

Management stated (October 2016) that there was a provision in the system for SW, and it appeared that CSTPS was not using the same.

41 Wagons delivered to Company's TPS by Railway, which were originally despatched to another entity/TPS. Hence no match found in RR and Invoice for such wagons in Company's records. As per arrangements with Railways, such wagons were to be accepted and unloaded subject to wagon-to-wagon reconciliation in future

42 Bhusawal, Chandrapur, Khaperkheda, Koradi, Nashik and Paras

43 Wagons received in TPS in technically damaged condition and could not be unloaded/removed without due repairs by Railways

Invalid data due to absence of validation checks

3.9.9.4 Data entry in FMPM in the fields where manual data entry was allowed should be adequately validated. Audit observed that non-provision of proper validation mechanism in the system resulted in inability to capture complete, requisite and vital information/reports as under:

- Table showing trip details of a rake displayed the trip in date as 5/9/1912 which was unrealistic. This indicated lack of proper validation controls while implementing the system.
- Table showing trip details of a rake displayed the trip out date prior to trip in date in 51 cases. This indicated lack of proper validation controls while implementing the system.
- Table showing Detention time of rakes based on Rake in Date/time & Rake out date/time in two cases (TRIP NO 011206032 and 071207063) was 8,833 hours and 8,811 hours which was due to incorrect data entry by users which were not validated by the system. The Company in its reply admitted that this had occurred due to non-existence of the Weigh-bridge interface at the time of data entry and hence validation was not done.
- Scrutiny of tickets⁴⁴ revealed that non-provision of checks to prevent data of closed tickets from further modifications after corrective action.

The cases of wrong data entry pertaining to date and time fields can be avoided if provisions are made to capture the system date and time automatically with due validation checks.

The Management stated (October 2016) that all the errors pointed out in audit pertained to data entry in the initial stages of SAP-ERP implementation, when validation checks were not enforced in the system.

The reply of Management is not acceptable since the existence of junk data till date indicated that cleansing of this data in the system was not undertaken by the Company. Also, erroneous data pertaining to post implementation period was present in the system.

Incomplete and inaccurate MIS Reporting System

3.9.10 MIS Reports provide real-time, online information for fast efficient transparent decision-making at higher levels. Scrutiny of MIS reports associated with FMPM revealed inaccuracies and incompleteness which are discussed as under:

(A) Coal Claim Reconciliation Report: The Coal Claim Reconciliation Report for the period April 2009 to December 2014 listed only three Grade Slippage cases at Khaperkheda TPS (valuing ₹ 0.17 crore, weighing 0.12 lakh MT from WCL) whereas scrutiny of physical records for the same period

44 Complaints raised by users for support by sending emails to erpsupport@mahagenco.in as prescribed in FMPM

revealed Grade Slippage cases valuing ₹ 7,029.42 crore weighing 1,333.11 lakh MT in all the TPS.

Management stated (October 2016) that in SAP-ERP coal claims were generated from April 2014 onwards and were available in a SAP report if all the required details were available with the user and entered in the system. Hence the coal claim figures for the period April 2009 to December 2014 was incomparable and not rational.

The reply of the Management is not tenable since records pertaining to the period after April 2014 were also not available in the SAP-ERP System.

(B) Daily Coal Consumption/Receipt Report: The FMPM captured availability of day to day levels of stock of coal at each TPS. It was however noticed that the data pertaining to coal stock in the Daily Coal Consumption/Receipt Report of Parli TPS was erroneous as the monthly closing stock of March 2016 in the OCM5⁴⁵ report did not match the annual closing stock for the year 2015-16. Further, the closing stock of coal at the TPS was negative during 13 May 2015 to 23 July 2015 due to incorrect formula applied.

Management stated (October 2016) that Program to calculate Opening stock, RDRL Receipt and Closing Balance had a bug. This bug was rectified and informed to users.

This was verified and it was found that the mismatch of the monthly closing stock of March 2016 with the annual closing stock for 2015-16 still existed in the system. The negative closing stocks noticed earlier during the period 13 May 2015 to 23 July 2015 were however, found rectified.

In four TPS, though no wagons were unloaded in 15 instances, the Net Coal Receipts on the respective dates showed receipt of 1,68,398 MT of coal. Railway Receipts of Nashik TPS for 01 March 2016 was negative (-18,228 MT).

The Management stated (October 2016) that the figures were arrived after considering actual receipt, reversal adjustments, *etc.* The reply was not tenable as FMPM contained provision for receipts through different modes, diversions to/from various TPS, *etc.* which were kept blank by users which in turn led to negative data entry in the column pertaining to Railway Receipts.

Thus, incompleteness, inaccuracy and unreliability of the MIS reports generated through the FMPM necessitated the Company to utilise reports created and obtained through the usage of legacy system for monthly Operational Committee Meetings. The unavailability of MIS reports for decision-making by top-level Management was also pointed out by the PMC in May 2015.

Management stated (October 2016) that even though SAP implementation was similar to IT systems, effective utilisation of the same totally depended on the

45 OCM5 report shows the daily receipts, consumption and opening and closing stock and can be generated for any specified period

business owners/stakeholders involvement and approach towards utilisation of systems.

Conclusion

Following were the achievements and non-achievements of the implementation of FMP Module of the SAP-ERP System with reference to the Agreement with LTIL and the Business Blue Print.

Achievements	Non-Achievements
Creating Annual Contract (for Imported coal)	SRS and URS document not done
Creating Purchase Request by SE Coal office	Data migration from legacy software not achieved (Data prior to September 2011)
Training (partial)	Training (partial)
Capturing RR details from FOIS	Security procedures (Password policy, audit trails, validation controls, Intellectual Property Rights w.r.t customisation of FMPM)
Interfacing of Weighbridges (partial – only at TPS Nashik)	User responsibilities (segregation of duties)
Preparation of Coal Receipt Report	Disaster Recovery Plan
Preparation of Purchase Order	Data Management (Business continuity) and backup procedures
Preparation of Goods Receipt Note	Issue of sign off from end users for closure of all issues raised during the post-implementation period (Final Completion Certificate for SAP/ERP)
Processing of Invoices	Change Management plan
Booking of transit loss	Interfacing of Weighbridges (partially not done at Bhusawal, Chandrapur, Khaperkheda, Koradi, Paras and Parli)
Conversion into common coal	Interfacing of E-tendering
	Approval of Contract and agreement
	Instances of sick wagon
	Lodging of various claims (railways and coal companies-overloading/under-loading of wagons, grade slippage, demurrage, oversized stones, etc.)

Besides:

- The Company was yet to formulate and document a formal IT policy. Provisions had not been made to protect the Intellectual Property Rights with respect to customisation of the module.
- During processing of Invoices, the details of RR were not captured by the Finance wing at TPS and processing of claims by SE Coal Office at Nagpur were continued to be done manually.
- The implementation of FMPM at all the TPS was not uniform as the users were unaware of complete functionalities and reports in FMPM.

- Absence of audit trails in master tables, non-capturing of information, absence of validation controls, *etc.* resulted in incorrect and invalid report generation.
- The Company continued use of legacy software for generating various reports evidencing lack of full transition to FMPM.

Recommendations

- *The Company may formulate and document a formal IT policy. Further, provisions may be made to protect the Intellectual Property Rights with respect to customisation of the module.*
- *The Company may prepare a Business Continuity Plan and Disaster Management Plan.*
- *The Company may ensure that SRS and URS were prepared after due consultation with users to ensure implementation of any major IT Systems so as to ensure mapping of critical business processes in the system.*
- *The Company may impart adequate training to ensure achievement of objectives set forth for implementation of IT Systems to improve operational and financial efficiency and reduce continued dependency on the service provider.*
- *The Company may prepare change management plan to ensure independent functioning of FMPM after expiry of the contract with LTIL.*
- *The Company may ensure interfacing of different systems for integration of ERP software.*
- *The Company may define job specifications and responsibilities along with demarcation of duties among the IT staff at TPS. Core IT Teams may be established at TPS level also so as to ensure complete usage of the Module by users.*
- *The Company may customise and generate all the required reports in FMPM ensuring full transition and discontinue use of legacy software for fast, efficient and transparent MIS.*

The matter was reported to the Government (July 2016); their reply was awaited (December 2016).

Maharashtra State Road Development Corporation Limited

3.10 Non-recovery of toll from Contractor

The Company did not verify the traffic data provided by the contractor and recover its share of ₹ 54.59 crore in excess toll revenue.

Maharashtra State Road Development Corporation Limited (Company) invited (February 2014) tender for toll collection contract at Kini and Tasawade for 104 weeks with an estimated realisation of ₹ 265 crore and the work was awarded (May 2014) to the highest bidder M/s. Raima Manpower &

Consultancy Services Private Limited (Contractor) for 104 weeks from 29 May 2014 at ₹ 227.07 crore. The tender *inter alia* contained the following provisions:

- The Contractor should make upfront payment of toll on monthly basis.
- Income in excess of revenue projected by the Contractor in the bid should be shared in the *ratio* of 90:10 by the Company and the Contractor. The traffic count reported by the contractor and traffic count taken by the Company independently, whichever was higher was to be considered for the purpose of ascertaining actual toll income.

In this connection, Audit observed that:

- The Contractor defaulted in making the monthly upfront payments from the first month *viz:* from May 2014 itself contrary to the tender conditions. The Company neither pursued the recovery nor encashed the Bank Guarantee of ₹ 45.38 crore for non-compliance of tender conditions. The total outstanding as on 31 August 2016 was ₹ 66.60 crore (including interest of ₹ 13.91 crore).
- According to the traffic data provided by the contractor, no amount was payable by the contractor towards Company's share on excess revenue generated. As per the contract with toll collection contractor, the Company appointed M/s. Samarth Softech Solutions Private Limited (SSSPL) to carry out traffic survey for enforcing the profit sharing clause. Audit observed that SSSPL conducted the survey twice⁴⁶ and had estimated revenue of ₹ 144.22 crore and ₹ 143.50 crore for 2014-15 and 2015-16 respectively. Thus, SSSPL based on traffic data, had informed the Company that the toll revenue was ₹ 287.72 crore for the contract period. The Company however did not question the veracity of the traffic data provided by the Contractor. Considering SSSPL's data, the Company was to receive ₹ 54.59 crore,⁴⁷ being its share in excess of upfront toll revenue during the contract period. Though, the contract period ended in May 2016, the Company has not made any effort to collect their share of excess revenue.
- Further, the Company had also appointed M/s. AJS Scale International (AJS) for carrying out the daily traffic count throughout the year by Automatic Traffic Classification cum Counting Machines (ATCCM) and this data was furnished by the Company to National Highway Authority of India (NHAI). Considering this data, the Company's share in excess toll works out to ₹ 83.31 crore⁴⁸ for the contract period.
- It is pertinent to note that the Company awarded the contract for following 104 weeks from August 2016 to another contractor at ₹ 329.49 crore.

The Company in its reply accepted (July 2016) that the daily traffic data was uploaded belatedly from December 2015 due to technical problems and recovery of balance dues is in progress. The Company accepted that the

46 From 23 April 2015 to 29 April 2015 and 28 January 2016 to 03 February 2016

47 Being Company's share of 90 *per cent* of excess revenue as projected by the SSSPL

48 Based on traffic data provided by the Company to NHAI

survey was carried out jointly with the contractor and the data was authentic as it was carried out by an expert independent agency. The Company however was silent on recovery of Company's share of excess revenue amounting to ₹ 54.59 crore from the Contractor.

The matter was reported to the Government/Management (October 2016); their reply was awaited (December 2016).

3.11 *Cost overrun and wasteful expenditure on flyover project*

The Company by changing original plans for merger of flyovers incurred wasteful expenditure of ₹ 1.65 crore on the Kapurbawadi flyover project.

Maharashtra State Road Development Corporation Limited (Company) awarded (July 2009) the work of construction of new flyover at Kapurbawadi junction in Thane to a private construction company at a cost of ₹ 131.37 crore with a completion period of 18 months *i.e.* by January 2011. As per the approved plan, the two lanes of Mumbai arm of the new flyover was to meet the existing Golden Dyes Flyover (GDF) which was a six lane flyover (three up and three down lanes).

During execution of the work, the Company requested (September 2010) the Project Management Consultant (PMC)⁴⁹ to submit a Report regarding extension of the new flyover independently, along the existing GDF flyover citing traffic congestion, increased accidents and the old age of existing fly over for structural stability. The PMC submitted (December 2010) their Report stating that the width of Right of Way (RoW) of Eastern Express Highway was insufficient and that the modifications could be accommodated only if the service road of the Thane Municipal Corporation (TMC) was used as a slip lane, with the consent of the TMC.

Audit observed that the Company approved (December 2011) the above proposal subject to No Objection Certificate from the TMC for the use of service road. The Company informed (February 2012) TMC about its Board's approval for independent arm. It however, did not specifically request TMC to provide its service road. TMC in its reply opined (April 2012) that since there was a valve of an important water supply line on the slip road, permission will have to be taken from Municipal Corporation of Greater Mumbai (MCGM) for any modifications/changes. Without ensuring the availability of service road as decided by the Board or technical feasibility of construction of independent arm without shifting the valve as suggested by the TMC, the Company through contractor carried out (December 2012 to May 2013) the work of casting of segments, fascia panels and RE panels based on the revised proposal for independent arm. The Company however, belatedly requested (June 2013) MCGM to shift the valve which was not agreed (July 2013) to by them. Since the required width was not made available for extension of Mumbai arm of the flyover, the work was completed (August 2015) as originally proposed by merging the two lane traffic into the GDF. These castings, therefore could not be used elsewhere as they were project specific.

49 S.N. Bhohe & Associates Private Limited.

Subsequently, the castings were approved for destruction by Vice Chairman & Managing Director (July 2014). These castings made at a cost of ₹ 1.65 crore were broken and disposed off by the Company.

It was noticed that the Company did not approach the TMC for usage of its service road as slip lane as decided by the Board on the advice of PMC. The request for shifting of MCGM valve was made as late as in June 2013 after the contractor was allowed to proceed with the work of casting the segments, fascia panels and RE panels. Neither these facts were brought to the notice of the Board nor approval obtained for making the payment of ₹ 1.65 crore. Further, the issues raised for proposed extension of the new flyover independently, such as traffic congestion, increased accidents and the old age of existing fly over for structural stability remained unresolved.

The Management in its reply stated (November 2016) that they proceeded with the work as sufficient width was available and later they encountered the water valve. The reply is not based on facts as the PMC in December 2010 itself had stated that the service road would be required for construction of independent arm and also the Board had clearly advised that the approval for modification would be subject to required permissions from TMC. The Company, however went ahead in casting the segments without obtaining necessary permissions, resulting in wasteful expenditure of ₹ 1.65 crore.

The matter was reported to the Government (June 2016); their reply was awaited (December 2016).

Statutory corporations

Maharashtra Industrial Development Corporation

3.12 Change in purpose of allotment and subletting of plots

Introduction

3.12.1 The Government of Maharashtra (GoM) acquires land and entrusts the same to Maharashtra Industrial Development Corporation (Corporation) for allotment of plots to entrepreneurs after development of infrastructure.

The Corporation allots land for industrial, commercial and residential purpose and specifies the purpose at the time of allotment. The allottee can request for change in use of land by paying differential premium at prevailing rates. The corporation ensures that the change in use does not violate the development control regulations regarding the proportion of area allotted to each activity of industrial, commercial and residential in the industrial area as per the development plan approved by GoM. The Corporation demands the differential premium when the request is acceptable and on receipt of the same, permission for change in use is granted. Similarly, subletting is permitted subject to payment of subletting charges calculated at the rate of five *per cent* till 2009 and three *per cent* thereafter of prevailing land premium. Subletting is permitted only for the kind of activity for which the land was allotted. Subletting permissions are given for a maximum period of 10 years

and charges are to be paid in advance. Unauthorised change in use/subletting attracts penal provisions including resumption of plot by the Corporation.

Scope and Audit objective

3.12.2 Audit was conducted to assess whether there existed a system to ensure that plots were used for the purpose for which it was allotted, due permission was taken for change in use of land and subletting and appropriate action was taken against allottees for non-compliance.

The Audit was conducted between April 2016 and June 2016 in eight⁵⁰ Regional Offices (ROs) out of 16 ROs and audit scrutinised 232 out of 452 cases of subletting and change of use in these eight ROs during the three year period 2013-16. Survey Reports and correspondence file made available to audit were also verified.

Audit findings

3.12.3 The Corporation had not devised a system to conduct survey of the industrial areas and units at regular intervals to ensure that the plots allotted were being used for the intended purpose only. Similarly, subletting permissions were not monitored to ensure renewal after expiry of original permissions. The Corporation has also not prescribed any time frame for taking action against the allottees involved in violation of allotment conditions. As a result of this, certain deficiencies were noticed which are discussed below:

Unauthorised change in use of plots

3.12.4 The Corporation allots plots for specific purpose and in case the allottee requires change in the purpose of use of plot, the Corporation considers the same provided the development rules allow it and on payment of differential premium. As per the terms and conditions of allotment, the Corporation is empowered to resume possession of the plot in case of unauthorised change in use of plots after issuing Show Cause Notice and termination notice thereafter. In the para no. 3.1.27 of the Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended 31 March 2013-Government of Maharashtra, instances of unauthorised change in use of plots were reported. In its reply, the Corporation stated that action was initiated to stop the unauthorised change in use of land. Audit however, noticed that the action in this regard was inadequate even when Corporation came across cases of unauthorised change in use. Audit also did not find any system prescribed by the Company to ensure that possession is resumed within a time frame after the issue of show cause notice/termination notice. As a result, the allottees continued with the possession of land despite violation of terms and conditions of use of land. Audit observed that the Corporation had the knowledge from the survey reports that 20 allottees under the Ratnagiri Regional Office changed the use of land without prior permission. The Corporation issued

50 Aurangabad, Mahape, Nashik, Pune-I, Pune-II, Ratnagiri, Thane-I and Thane-II

show cause notices/termination notices for repossession of the plots, which were not properly followed up in the following cases.

Regional Office (Industrial area)	No. of cases	Remark
Ratnagiri (Kudal)	2	Vacation notice issued by the Corporation stayed by Court in 2007. No action was taken to vacate the stay and termination of the allotment.
	3	Show-cause notice issued in 2005 and 2011. Termination notice was however issued only in April 2016.
	8	Show-cause notice issued in May 2015. Termination notice was however sent after one year in April 2016.
	7	Show-cause notice issued in April 2016. No further action was taken.

Thus, failure to take prompt action for resuming possession of the land even after a lapse of nine months to nine years of issuing show cause notice indicates inadequate monitoring and ineffective control.

Unauthorised subletting of plots and non renewal of permissions

3.12.5 The Corporation allows subletting of leased plots to third parties on payment of subletting charges at five *per cent* per annum of the land premium till 2009 which was reduced to three *per cent* per annum thereafter. Penal provisions including recovery of subletting charges at five times the normal rate are prescribed for unauthorised subletting. Audit observed that the Corporation has not devised a system of periodical survey to identify cases of unauthorised subletting. The records/registers in respect of subletting permissions granted were not prescribed and maintained to enable the Corporation to monitor and ensure that subletting was not continued without renewal on expiry of original permission. This resulted in subletting of plots without permission and continuation of subletting without renewal after expiry of period for which subletting was permitted. Out of 452 subletting cases as produced by the Regional Offices from the subletting premium receipt ledgers, 312 cases were test checked in 34 industrial areas of eight Regional Offices. Audit observed continuation of subletting without renewal after expiry of subletting permission in 13 cases. Audit also observed subletting of plots without permission in 107 cases during random checking of plots by the Surveyor/Regional Officer. The amount of subletting charges and penalty recoverable in these 120 cases at the rates applicable from time to time worked out to ₹ 24.03 crore (up to 31 March 2016) as detailed in **Annexure-5**.

It was also noticed that in respect of 63 out of 120 cases, the Corporation has not initiated any action. In the remaining 57 cases, except the issue of demand notice, the Corporation has not pursued the matter for recovery of dues or termination of the lease agreement and resume possession of land. Thus, absence of a system of periodical survey and non maintenance and monitoring of subletting cases resulted in unauthorised subletting. Besides, failure to take

penal action on allottees violating the terms and conditions of allotment resulted in non recovery of subletting charges amounting to ₹ 24.03 crore.

Subletting of industrial plots for commercial purpose

3.12.6 The Corporation permits subletting of plots for the same kind of activity for which the land was allotted so that the allocation of land area for different purposes *viz.* industrial, commercial, residential, common amenities, *etc.* is as envisaged in the Development Control Regulation (DCR). In cases where change of activity was involved, the allottee had to follow the due procedures for change in use as decided by the Board in November 2011. Corporation vide circular dated 23 July 2014 reiterated that subletting of industrial plots for commercial activities was not to be allowed and in respect of permissions given prior to the date of the circular, further extensions were not to be allowed. The Regional Office, Pune-II however allowed (May 2014) subletting of 25 premises admeasuring 1,342 sq.mtr. built on industrial plot for commercial purpose and extended (December 2014) the same from January 2015 to December 2016. Similarly, the Regional Office, Thane-I allowed (April 2012) subletting of two premises admeasuring 319 sq.mtr. built up area on industrial plot for commercial use up to February 2014. The subletting charges and penalty worked out to ₹ 71.74 lakh. Thus the Corporation did not monitor compliance of its instructions for change in use by its Regional Offices and allowed subletting of plots, which defeated the very objective of maintaining the balanced development of the area as provided in the DCR.

Short recovery of subletting charges

3.12.7 The subletting charges were to be recovered as a percentage of prevailing land premium and land premium includes road width charges of 15 *per cent* on basic premium in respect of plots having roads with a width of 45 metres or more. Audit observed that in five cases at Regional Office, Thane-II and Aurangabad, subletting charges were recovered without considering the road width charges as premium which resulted in short recovery of subletting charges to the extent of ₹ 34.42 lakh.

3.12.8 As per the terms and conditions prescribed by the Corporation, the lessees were required to obtain permission for extension of subletting one month before the expiry of the existing permission. In case of delay in obtaining permission, the period from the date of expiry of previous permission to the date of renewal was to be treated as unauthorised subletting and penalty was to be levied on the plot holder. Audit observed that the Regional Office, Nagpur short collected penalty of ₹ 8.53 lakh while regularising two cases of unauthorised subletting.

Indecision of the Corporation on the request for subletting

3.12.9 M/s. EON Kharadi Infrastructure Private Limited (allottee) (Plot No.PL-1 -Clusters A, B, C and D) having built up area of 2,55,453 sq.mtr. was given subletting permission up to 31 May 2014. The allottee approached Regional Office, Pune-II for renewal of subletting permission (17 May 2014)

for increased built up area of 2,62,159 sq.mtr. The Corporation however did not renew the subletting permission without any recorded reasons till date (June 2016). Further, the plot holder approached the Corporation in April 2016 for subletting permission for an additional built up area admeasuring 45,990 sq. mt. which was already sublet from August 2015 without permission. Thus, the indecision of the Corporation on the request of the allottee resulted in unauthorised subletting and non recovery of subletting charges of ₹ 26.78 lakh till April 2016 .

Conclusion and Recommendations

The Corporation had not devised a system to ensure that the plots are used only for the purpose for which it was allotted. As a result, allottees are involved in change of use and subletting without permission. The up to date information about subletting is not available due to non maintenance of subletting registers. Further, the violation of its own instructions by the field offices and failure in taking penal actions defeated the very objective of maintaining the balanced development of the area as provided in the DCR.

- *The Corporation may put a system in place to conduct surveys of Industrial Areas and Units at regular intervals to ensure that the land allotted is being used only for the intended purpose and change in use and subletting is made only with proper authorisation. Penal provisions should be invoked including resuming possession of plot where violations were noticed in a time bound manner.*
- *Records/registers may be maintained and monitored to ensure that subletting permissions are renewed on expiry of original permissions.*

The matter was reported to the Government/Management (September 2016); their reply was awaited (December 2016).

3.13 Undue favour

The Corporation neither repossessed the plot nor recovered extension charges of ₹ 2.12 crore for non completion of construction within the stipulated time limit.

Maharashtra Industrial Development Corporation (Corporation) had allotted (August 2004) a plot admeasuring 1,800 square metre in TTC Industrial Area to a Lessee for residential purpose. Subsequently, they approved (November 2010) the transfer of the plot to another Lessee by charging ₹ 36.60 lakh as transfer charges. The lease agreement *inter alia* provided for completion of construction and obtaining Building Completion Certificate (BCC) within three years from the date of transfer. The Corporation had the right to resume possession of land or extend the time period on payment of extension charges, if the lessee failed to complete construction within the prescribed time. In January 2011, the Lessee requested the Corporation to

grant permission for change of use of plot from residential to commercial which was allowed (January 2012) by the Corporation by charging differential premium of ₹ 2.38 crore. Based on the Lessee's request (June 2014), the Corporation also allowed extension of time limit subject to payment of extension charges.

Audit observed (September 2015) that the lessee did not complete the construction as provided in the Agreement within three years *i.e.* by November 2013. The lessee requested (June 2014) the Corporation that the time limit of three years should be considered from the date of change in the use of land *i.e.*, from January 2012. This was not accepted by the Corporation. Though the Corporation demanded the extension charges of ₹ 2.12 crore for the period from November 2013 to November 2014, the Corporation did not recover the same from the Lessee. Thereafter, the extension charges of ₹ 6.80 crore for the two years period November 2014 to November 2016 were also due since the construction of the hotel remained incomplete. Thus, the Corporation did not monitor the completion of construction on due date and take action as per the terms and conditions of allotment. As a result, Lessee continued to possess the property without paying extension charges. Further, the intended benefit of utilisation of land could not be fulfilled even after 12 years of initial allotment.

The Corporation stated (February 2016) that they have demanded ₹ 2.12 crore for grant of extension up to November 2014 and further extension would be granted only after payment of charges by the Lessee. The reply is not acceptable since the Corporation has not monitored the completion of construction on due dates and taken action as per the terms and conditions of allotment/agreement. This led to non-recovery of dues/non-repossession of the plot. Also, the intended benefit of utilisation of land could not be achieved.

The matter was reported to the Government/Management (July 2016); their reply was awaited (December 2016).

Maharashtra State Road Transport Corporation

3.14 Loss of revenue

Delay in awarding contracts for advertisements rights resulted in loss of ₹ 1.46 crore to the Corporation.

Maharashtra State Road Transport Corporation (Corporation) floated tenders for display of advertisement in passenger buses and bus stations/office premises through hoardings, computerised audio-video announcement system, glow sign board/non glow sign board to generate additional revenue. The tenders were floated separately for various modes/types of advertisement rights as it ensured participation of specialised agencies leading to increased revenue. There were delays in awarding advertisement contracts resulting in loss of revenue as discussed below:

- The Corporation invited (August 2014) e-tender for appointment of licensee for granting advertisements rights on bus seatbacks and grab handles of buses with estimated revenue of ₹ 2.50 crore for three years. Om Advertisers (Party) emerged as the highest bidder at license fee of ₹ 1.71 crore for three years. As the offer was lower than the estimated revenue, the Corporation decided (May 2015) to negotiate with the Party who revised their offer (May 2015) to ₹ 2.70 crore for three years. Accordingly, the Traffic Department of the Corporation proposed (May 2015) appointment of the Party for three years (from 15 June 2015 to 14 June 2018) subject to approval of the Board of Directors (BoD).
- Another contract for electronic advertisements through glow sign board at selected 80 bus stations at monthly license fees of ₹ 0.72 lakh was expiring in February 2015. The Corporation in view of expiry of the contract, invited (January 2015) e-tender for appointment of licensee for subsequent three years (March 2015 to February 2018) with the estimated revenue of ₹ 40 lakh. As the highest bid (₹ 31.82 lakh) was below the estimated revenue, the Corporation retendered the rights (March 2015) and Rakesh Advertising Private Limited (Bidder) emerged (May 2015) as the highest bidder at ₹ 92.51 lakh for three year period, which was higher than the estimated revenue.

The proposal to award this contract to the highest Bidder was also submitted (May 2015) by the Traffic Department for approval of the Board.

Audit observed that the contract for granting advertisements rights on bus seatbacks and grab handles of buses was finalised belatedly in August 2016 and awarded to Om Advertisers (Party) at a license fee of ₹ 2.70 crore for three years. In respect of other tender for electronic advertisements through glow sign board, the tender is yet (September 2016) to be finalised. As a result, the Corporation lost an opportunity to earn revenue of ₹ 1.46 crore (₹ 1.05 crore⁵¹ and ₹ 0.41 crore⁵²) till September 2016 in the above two cases due to delays in awarding contracts for advertisements rights.

The Management replied (November 2016) that the Corporation had earlier decided to go for a consolidated tender for various advertisement rights. It was further stated that after detailed deliberation and examinations, it was decided to opt for separate tenders for each item, instead of clubbing the advertisements for maximising the revenue.

51 At ₹ 7.50 lakh per month from 15.06.2015 to 15.08.2016 (date of award) *i.e.* 14 months for advertisement rights on backside of bus seats and grab handles

52 At ₹ 2.57 lakh per month for 16 months from 01.06.2015 to 30.09.2016 for electronic advertisement through glow sign board

The reply is not tenable as the Corporation itself had earlier switched to the system of calling for separate tenders on the grounds that this ensured participation of specialised agencies leading to maximisation of revenue. Thus, the deliberations on the same issue only delayed the award of advertisement rights and resulted in loss of revenue.

The matter was reported to the Government (September 2016); their reply was awaited (December 2016).



MUMBAI
The 15 March 2017

(D. K. SEKAR)
Accountant General (Audit)-III, Maharashtra

Countersigned



NEW DELHI
The 16 March 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India