Chapter IV

4. Transaction Audit Observations

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

Government Companies

City and Industrial Development Corporation of Maharashtra Limited

4.1 *Loss of revenue*

The Company suffered loss of revenue of Rs 4.46 crore due to allotment of residential-cum-commercial plot for residential purpose and allotment of school plots to an ineligible party.

The Company, allots plots by way of sale for residential, commercial and educational purposes. Audit noticed that the Company suffered loss of revenue of Rs 4.46 crore by not following the land allotment policy. The individual cases are discussed below:

4.1.1 *Allotment of residential-cum-commercial plot as residential plot*

As per the Land Pricing and Disposal Policy (August 2000), plots for Co-operative Housing Societies were to be allotted at fixed price while plots for residential-cum-commercial purpose were to be allotted at competitive prices after invitation of tenders.

In June 2004, Venus Co-operative Housing Society (VCH), a society comprising of members mainly from the medical profession, requested the Company to allot a plot in Sector 58-A in Nerul node. The Company allotted (January 2005) plot No.8 admeasuring 2,966.48 square metres in Sector 58-A of Nerul node earmarked for residential-cum-commercial use at a fixed rate of Rs 14,931 per square metre with one Floor Space Index (FSI) though, as per the policy, the plot was to be allotted by inviting tenders. The society paid the lease premium of Rs 4.43 crore and the agreement was executed in April 2005.

It was observed in Audit that the base rate worked out by the Company itself for sale of this residential-cum-commercial plot through tender was Rs 19,197 per square metre. Also a similar plot located two kilometres away was allotted in June 2004 through tender at the rate of Rs 25,200 per square metre.

Thus, allotment of the residential-cum-commercial plot as residential plot at fixed rate of Rs 14,931 per square metre was not a prudent decision, which resulted in loss of Rs 3.05 crore♦ worked out on the basis of the sale price of similar plot (Rs 25,200 per square metre) allotted through tender in June 2004. Further, allotment of residential-cum-commercial plot at fixed rate without inviting tenders also lacked fairness and transparency.

4.1.2 *Allotment of plots to an ineligible party*

As per the Land Pricing and Disposal Policy (August 2000), plots for establishing primary and secondary schools including junior college were to be allotted at concessional rate of 10 *per cent* of the reserve price of the land. Further, as per the Board decision (January 2004) on the allotment of plots to educational institutes, plots reserved for primary and secondary schools including junior college were to be allotted only to the educational institutions fulfilling *inter alia* the following eligibility criteria:

- Financially sound to acquire the plot and construct the building within the stipulated time along with the required furniture and fixtures.

- Trustees and office bearers had good educational background and credentials.

The Company allotted (February 2005) 11 plots from plot No.11 to 21 admeasuring 2,413.90 square metres in Sector 8, Koparkhairane to Shramik Shikshan Mandal (SSM), a trust registered under the Bombay Public Trust Act, 1950 and the Society Registration Act, 1860 for establishing a junior college at a concessional rate of Rs 330 per square metre. Similarly, the Company allotted (September 2005) plot No.1 admeasuring 3,500.049 square metres in Sector 9, Koparkhairane to SSM for establishing pre-primary, primary and secondary school with junior college at a concessional rate of Rs 405 per square metre.

In this connection Audit observed the following:

- The Company had previously allotted (1992) a constructed school building on plot No.22 in Sector 8 of Koparkhairane node to SSM. As on 31 March 2005 SSM had defaulted in payment of Rs 4 crore apart from delayed payment charges of Rs 1.76 crore. The then Managing Director of the Company had also observed (July 2003) that any further allotment of land to this party was to be considered only after clearance of the pending dues. Despite non-clearance of the said previous dues, land was allotted to SSM.

- At the time of allotment, the Company had pending applications from 13 other eligible educational institutions for allotment of land in and around Navi Mumbai. However, the Company ignoring the waiting list, allotted plots to SSM out of turn though its name was not appearing in the waiting

♦ Rs 25,200 – Rs 14,931 per square metre x 2,966.48 square metres = Rs 3.05 crore.

list. This violated the principles of fairness and transparency in land allotment.

- It was noticed that out of six trustees and office bearers of SSM, only three possessed qualification of degree level though the policy required trustees/office bearers to have good educational background and credentials.

Thus, the allotment of plots to a trust not fulfilling the eligibility criteria resulted in passing of undue benefit of Rs 1.41 crore being the difference between the reserve prices of the land and the allotment at concessional rates. Even though the allotment was made in September 2005 the trust had not established the pre-primary, primary and secondary school with junior college in Sector 9 Koparkhairane till date (December 2009).

It is recommended that the Company ensures fairness and transparency in land allotment matters and should take the decision in the matter in line with the laid down policy in this regard

The matter was reported to the Government/Management (April-May 2009); their replies had not been received (December 2009).

4.2 *Undue benefit to contractors*

Non/short levy of compensation for the delay in completion of contracts resulted in undue benefit of Rs 1.42 crore to the contractors.

The general terms and conditions of all contracts awarded by the Company for various works through tendering system stipulates recovery of compensation for delay in completion of contract.

The contract conditions provided for compensation at the rate of one *per cent*, 0.5 *per cent* and 0.25 *per cent* per week of the contract value in respect of contracts having completion period of six months, between six months to two years and above two years respectively. The compensation recoverable was subject to a maximum limit of 10 *per cent*, 7.5 *per cent* and five *per cent* of the contract value or such smaller amount as may be fixed by the Chief Engineer.

Scrutiny of ten contracts on construction and upgradation of road, construction of culvert *etc*. (contract value: Rs 31.14 crore) awarded by the Company during the period 2004-05 to 2006-07 revealed delays ranging between 38 and 72 days in completion of works. Though, the compensation for the delays at the prescribed percentage stipulated in the contracts worked out to Rs 1.46 crore, the Chief Engineer levied a reduced compensation of Rs 3.65 lakh in nine contracts. In one contract, the Chief Engineer did not levy compensation of Rs 10.17 lakh though there was delay of 61 days attributable to the contractor. The reasons for delay in execution of works considered while levying reduced penalty mainly included heavy monsoon and delay in commencement of work by the contractors. However, the completion period as stipulated in the contract was inclusive of monsoon and the Company also

did not stipulate quantum of the delay to be considered while levying/reducing the penalty. This resulted in passing of undue benefit of Rs 1.42 crore to the contractor in 10 contracts.

To ensure transparency and fairness in the exercise of discretionary powers of reduction/waival of penalties prescribed in the contract the Company should evolve definitive benchmarks laying down the quantum of the delay attributable to controllable reasons for levy of penalty. The reasonability of waival/reduction of penalties as per contractual provisions needs to be assessed against such benchmarks.

The matter was reported to the Government/Management (June 2009); their replies had not been received (December 2009).

4.3 *Extra expenditure*

Failure of the Company to finalise the tender within the validity period resulted in an extra expenditure of Rs 36.39 lakh.

The Company invited (August 2004) tenders for the work of "Providing earthwork for track formation on Nerul-Belapur Uran Railway line" at an estimated cost of Rs 1.74 crore. In response, eight offers were received (November and December 2004) and the tenders were opened on 8 December 2004. The lowest offer was of Girish Enterprises who quoted at par with the estimated cost *i.e.* Rs 1.74 crore with validity up to 4 March 2005. The Tender Committee♦ recommended on 8 February 2005, *i.e.* within the validity period, awarding of the work to the lowest bidder. However, the tender was not finalised before the expiry of the validity period. The lowest bidder in response to Company's request (17 March 2005) refused (21 March 2005) to extend the validity period beyond the stipulated date of 4 March 2005.

The Company re-invited tenders in September 2005 and the work was awarded (February 2006) to the lowest bidder S.N. Naik and Brothers at 25 *per cent* above the estimated cost. The work was completed in January 2007 at a total cost of Rs 1.82 crore which included loading of 25 *per cent* over the actual works cost (Rs 1.46 crore) as per the contract agreement. Thus, the Company had to incur extra expenditure of Rs 36.39 lakh on account of 25 *per cent* loading over the works cost, as it failed to award the work to the L1 contractor as per the tender of August 2004 who had quoted at par with the estimated cost.

The Management stated (March 2009) that there were inconsistencies in the offer received and accepted the fact that the validity of the offer was overlooked while discussing the offer. The reply is indicative of the flawed contract management process as the Tender Committee had recommended the proposal within the validity period. Failure to finalise the tender within the

♦Tender committee comprised of Additional Chief Engineer, Senior Accounts Officer, Superintendent Engineer, Executive Engineer and Assistant Executive Engineer.

validity period resulted in re-invitation of tenders and incurring of the extra expenditure of Rs 36.39 lakh.

Similar, instances of loss due to delay in finalisation of tenders and award of work after the validity period were also commented in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2007 (**Paragraphs 4.2** and **4.3**). In order to safeguard the financial interest and ensure timely completion of works undertaken, the Company should streamline the system of contract management and institute an accountability mechanism to fix responsibility in case of lapses.

The matter was reported to the Government/Management (March 2009); their reply has not been received (December 2009).

4.4 *Short recovery of lease premium*

Incorrect calculation of lease premium by the Company resulted in short recovery of Rs 25.59 lakh.

As per the provisions contained in Electricity Act 2003, permanent constructions of any type are not permitted on land falling under High Tension (HT) line. With a view to generate additional revenue by utilising the land falling under HT line, the Company formulated (May 2004) a policy to allot such land to the adjoining plot owner and permit utilisation of Floor Space Index (FSI) * of the area under HT line for construction in the adjoining plots. The lease premium for the land under HT lines was to be recovered at the rate of the original plot quoted in the tender duly appreciated by 18 *per cent* per annum (compounded) from the date of allotment of original plot till the date of allotment of additional land as per Board's decision of November 2004, which was applicable retrospectively.

The Company allotted (September 2004 and October 2005) land admeasuring 2,502.50 and 2,360.40 square metres falling under HT lines in Sector-18, Sanpada node adjoining to plot No.2 and 3 held by Bhumiraj Construction at the rate of Rs 13,219 and Rs 16,043 per square metre respectively. Audit scrutiny (July 2008) revealed that contrary to Company's approved policy, the original rates of plot No.2 and 3 were appreciated by 18 *per cent* per annum on simple basis instead of compounding up to the actual date of allotment (1 September 2004) of additional land under HT line. The lease premium recoverable as per the policy worked out to Rs 13,787 and Rs 16,525 per square metre for the land adjoining plot No.2 and 3 respectively. Thus, incorrect calculation of premium for the additional plots resulted in short recovery of land premium of Rs 25.59 lakh. Although, the Company stated that recovery notice has been issued (February 2009) the amount is yet to be recovered till date (December 2009).

The present internal control system is inadequate to the extent that it failed to detect the incorrect calculation. Hence it is recommended that the Company

*Floor space index is fixed by the local authority. It is the *ratio* of the combined gross floor area of all floors (excluding areas specifically exempted) to the total area of the plot.

strengthens its internal control system to prevent recurrence of such omissions and fixes responsibility on the erring officials.

The matter was reported to the Government/Management (May 2009); their replies had not been received (December 2009).

Maharashtra Airport Development Company Limited

4.5 *Undue benefit*

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

The Maharashtra Airport Development Company Limited (Company) was formed (26 August 2002) for development of Multi-model International Passenger and Cargo Hub Airport (MIHAN) at Nagpur. Government of India (GoI) approved in principle (August 2005) the establishment of a multi-product Special Economic Zone (SEZ) in MIHAN area at Nagpur.

The Board of Directors (BoD) of the Company approved (May 2005) the land pricing policy of MIHAN. The rates approved by the Board for sale of land were Rs 65 lakh per hectare[•] up to two hectares, Rs 64 lakh per hectare for more than two hectares and up to 10 hectares, Rs 62 lakh per hectare for more than 10 hectares and up to 20 hectares and Rs 60 lakh per hectare for more than 20 hectares but not less than 25 hectares or more (*i.e.* Rs 24.28 lakh per acre). It was also decided to allot land on 'first come first serve' basis at the rate fixed by the Company.

Satyam Computer Services Limited, Hyderabad (SCSL) approached (November 2005) the Company for allotment of 100 acres of land (equivalent to 40.47 hectare) at the rate of Rs 16 lakh per acre for setting up Information Technology (IT) activities in MIHAN. The BoD of the Company which was the competent authority for the purpose approved (5 December 2005) allotment of 100 acres of land to SCSL at a lower rate of Rs 18 lakh per acre[∇] as against the applicable rate of Rs 24.28 lakh per acre considering it to be an "early bird" offer. A Memorandum of Understanding (MOU) was signed by the Company with SCSL in December 2005 for allotment of 100 acres of land.

Audit observed the following

- The Company had not formulated any policy for concessional allotment of land as an "early bird" incentive. Formulation of such a policy was necessary to ensure fairness and transparency in the Company's sale of land policy.

[•] One hectare = 2.471 acre; one acre = 0.405 hectare.
[∇] Equivalent to Rs. 44.48 lakh per hectare.

- The BoD of the Company had also approved (5 December 2005) allotment of 100 acres of land at MIHAN to Shapoorji Pallonji and Company Limited (SPCL) at the rate of Rs 26.30 lakh per acre for development of IT facilities. Therefore, approval for sale of land to SCSL on the same day at a lower rate as an "early bird" incentive was not justified. Considering the sale price of Rs 24.28 lakh per acre approved by the Company, the allotment of land to SCSL at Rs 18 lakh per acre resulted in a loss of revenue of Rs 6.28 crore to the Company owing to undue benefit offered to the SCSL.

- Further, on the basis of subsequent request received from SCSL and based on site survey, the Company without the approval of the BoD, allotted 28.06 acres of additional land by amending the MOU on 3 March 2007, at the rate of Rs 22.35 lakh⊗ per acre. The market price during 2005-06 was Rs 72 lakh per acre as offered by M/s Reatox Builders & Developers for 'non-processing zone'. The allotment of additional land (March 2007) without the approval of the competent authority at less than the prevailing market price of land was irregular and allotment at concessional rate resulted in loss of revenue of Rs 13.93• crore.

Thus, the decision of the Company to allot land at concessional rates to SCSL resulted in a total undue benefit of Rs 20.21 crore (Rs 6.28 crore + Rs 13.93 crore) and consequential loss of revenue.

The Management in its reply claimed (May 2009) that the Company had called for expression of interest by giving public notice in December 2004, for which no good and enough response was received. It also stated that the allotments to SCSL and SPCL was not made on the same day.

The reply of the Company is not factually correct in view of the following:

- The advertisement for land was given in December 2004 before the GoI had approved the establishment of a multi-product SEZ in MIHAN area at Nagpur in August 2005. Therefore the contention of having given wide publicity is not correct.

- Though, the allotments to SCSL and SPCL were made on different dates, both the proposals were approved by the BoD in the same meeting held on 5 December 2005. The allotment of additional land to SCSL without the approval of BoD was not justifiable in the absence of a policy regarding concessional allotments.

It is recommended that:

- allotment of land should be done only with prior approval of the BoD.

Equivalent to Rs 60 lakh per hectare.
⊗ Equivalent to Rs 55.23 lakh per hectare.
• 28.06 acres x (Rs 72 lakh - Rs 22.35 lakh per acre).

- the Company should evolve a clear-cut policy regarding allotment of land at concessional rates linked with the market price.

- ensure fairness and transparency in allotment of land so that no undue benefits are extended.

The matter was reported to the Government (April 2009); their reply had not been received (December 2009).

4.6 *Avoidable expenditure*

Decision to set up a coal based captive power plant in the prohibited location resulted in avoidable expenditure of Rs 29.62 lakh.

The Company is engaged in developing Multimodel International Passenger and Cargo Hub Airport at Nagpur (MIHAN). The Company intended to develop Captive Power Plant (CPP) along with the main transmission and distribution system to ensure quality and uninterrupted power supply to various units in MIHAN. A proposal to set up a CPP (100 MW) was approved by the Board of Directors of the Company in September 2004. The CPP was to be set up on Build, Operate and Transfer (BOT) basis for a period of 33 years.

The Company applied (March 2005) to Airport Authority of India (AAI) for grant of No Objection Certificate (NOC) for setting up a coal based CPP at Dahegaon which was 4.6 kilometres away from the proposed runway. The AAI granted (August 2005) NOC to the Company with the condition that the use of oil fired or electric fired furnace was obligatory within the eight kilometres of Aerodrome. Before receipt of NOC from AAI, the Company through competitive bidding, appointed (July 2005) Ernst and Young Private Limited (EYP) as consultant for a fixed professional fee of Rs 39.50 lakh. The consultancy work involved preparation of a detailed Business Plan for the CPP, project financial structuring, project viability and tariff setting, bid process management and finalisation of commercial structure. Despite the NOC granted by AAI for use of only oil fired or electric furnace, EYP on behalf of the Company prepared the bid documents and tenders were invited in May 2006 for coal based CPP. After invitation of tenders for coal based CPP, the Company requested AAI, to review and grant NOC for coal based furnace which was not accepted (August 2006) by AAI on the ground that the stipulation for oil/electric furnace was mandatory for which the Company had also given undertaking in Form 1B. The Company therefore had to shift the proposed CPP to a new location which was more than eight kilometres away from the aerodrome to suit usage of coal based furnace. Company paid Rs 29.62 lakh to EYP against 75 *per cent* of the work done for the earlier location. The Company again appointed EYP at a negotiated price of Rs 39.50 lakh since the work of preparing the tender document, agreement, calculation of expected price, evaluation of bid had to be done afresh at changed location.

Thus, the commencement of work for setting up a coal based CPP at an inappropriate location despite being aware of the mandatory condition

prohibiting use of coal based furnace indicated deficient planning on part of the Management, which resulted in avoidable expenditure of Rs 29.62 lakh paid to EYP.

The Management stated (December 2008-August 2009) that it had initiated action well in advance for obtaining various statutory clearances for installation of coal based power plant. However, under extraordinary circumstances the Company had to shift the location of CPP and hence the expenditure was unavoidable. The Management has also stated that once the Board had approved the project it could not wait for the completion of procedural formalities. The reply confirms the fact that the Company was aware of the mandatory condition regarding prohibition of use of coal based furnace within eight kilometres of the proposed airport. The justification given for commencement of work of this nature without obtaining clearance of AAI is not acceptable.

It is therefore recommended that the Company should fix the responsibility for the loss caused due to deficient planning and should select project site as well as commence work only after obtaining all requisite and complete permission.

The matter was reported to the Government (July 2009); their reply had not been received (December 2009).

Maharashtra State Electricity Distribution Company Limited

4.7 *Short recovery of electricity charges*

Incorrect categorisation of seven commercial consumers as industrial consumers resulted in short recovery of electricity charges of Rs 7.59 crore.

Tariff for supply of electricity by Maharashtra State Electricity Distribution Company Limited (Company) to its consumers is revised from time to time with the approval of the Maharashtra Electricity Regulatory Commission (MERC). The tariff categorises the consumers into different categories like industrial, railways, agriculture, commercial *etc*. depending upon the purpose for which electricity is supplied. Therefore, correct classification of consumers is vital as incorrect classification may adversely affect the revenue of the Company. As per the tariff order (May 2007) of MERC effective from May 2007 "commercial consumers" were to be billed under 'HT-VI category. A subsequent tariff order (May 2008) of MERC effective from June 2008 further categorised Commercial category consumers availing supply at High Tension (HT) and classified under existing 'HT-I Industrial' under a new category 'HT-II Commercial'.

Audit scrutiny (March 2009) of bills raised by the Company on high tension consumers in Pune Urban Circle revealed seven cases of incorrect classification of consumers and consequent short recovery due to incorrect billing as discussed below:

- Godrej Properties and Investment Limited (GPIL) was sanctioned (February 2004) power supply for a **commercial complex**. Supply of power was released in April 2004. However, the billing was done by incorrectly categorising the consumer as "industrial consumer" instead of "commercial consumer". The incorrect categorisation resulted in short recovery of Rs 2.84 crore for the period from April 2004 to February 2009.

- Gesco Corporation Limited (GCL) was sanctioned (November 2000) power supply for a **commercial complex**. The agreement executed (November 2000) with GCL also stipulated the use of electricity for **commercial complex.** Supply of power was released in April 2001. However, the billing was done by incorrectly categorising the consumer as "industrial consumer" instead of "commercial consumer". The incorrect classification resulted in short recovery of Rs 2.49 crore for the period from May 2001 to February 2009.

- The Company released ten HT connections to Magarpatta Township Developers and Construction Company Limited, (MTDCCL), during the period December 2003-08 for development of township in Pune. The 10 connections released were for supply of power for Information Technology park, club, gymnasium, ready-mix plant, central garden and water works *etc*. in the township. Scrutiny in Audit revealed that four connections (Consumer No. 17001903024, 17001903107, 17001903183, 17001903301) earlier categorised under 'HT-I Industrial' were not re-classified under 'HT-II Commercial' as per MERC tariff order of May 2008 resulting in short recovery of Rs 1.10 crore for the period between June 2008 and February 2009.

- The Company released (June 2007) HT power to Bharti Airtel Limited (BAL) (Consumer No. 17001903234) for its "Service Call and Data Centre". Being a commercial activity, BAL should have been classified as a "Commercial consumer" and billed under HT-VI category as per MERC's tariff order of May 2007 effective from May 2007. Further, from June 2008 BAL should have been billed under 'HT-II Commercial' as per the tariff order (May 2008) of MERC. However, the billing was done by categorising the consumer as an "Industrial consumer" instead of 'Commercial' resulting in short recovery of Rs 1.16 crore during the period July 2007 to February 2009.

In all above cases, the mistake of wrong classification of consumers was rectified by the Company with effect from March 2009.

The Management while admitting the facts stated (July 2009) that the supplementary bills for differential amounts had been issued to GPIL and GCL which were challenged by them in the Consumers Grievance Redressal Forum and the Hon'ble High Court respectively and stay obtained against recovery. The reply of the Government was awaited (December 2009).

In respect of MTDCCL and BAL the amount of Rs 2.26 crore (MTDCCL: Rs 1.10 crore) and (BAL: Rs 1.16 crore) was stated (July 2009) to have been recovered in May and June 2009 respectively. The Management also stated

that the Company had internal check system at Circle level to check all HT bills before its issue to consumers and internal Audit of HT bills was conducted annually. Government endorsed (August 2009) the reply of Management. The reply is not tenable as the non-detection of the incorrect application of tariff in one Circle Office of the Company, despite 100 *per cent* checking of HT bills stated to be carried out by the Junior Manager/Assistant Accountant of the Company indicated serious inefficiencies in the internal control system. Responsibility also needs to be fixed on the erring officials at all levels with clear accountability parameters. The Company needs to therefore revamp its internal check system with specific verification of classification of all HT consumers.

4.8 *Avoidable expenditure*

Failure of the Company to accept the rate received in the tender and subsequent purchase at a higher rate resulted in extra expenditure of Rs 1.74 crore.

Tenders were invited (October 2007) by the Company for purchase of ten lakh Low Tension (LT) static meters with enclosure and five lakh LT static meters without enclosure. The lowest bid received (November 2007) from HPL Socomec Private Limited (HPLS) quoted Rs 765 per meter with enclosure and Rs 630 per meter without enclosure. The Managing Director of the Company constituted (February 2008) a committee consisting of Director (Finance), Director (Operation) and Executive Director (II) to hold negotiation with HPLS for reduction in the rates of both types of meters. However, the committee held negotiation with HPLS for reducing the rate in respect of meter with enclosure only and did not negotiate for the price of meter without enclosure on the ground that the rate quoted by HPLS for the same was much higher as compared to the rate (Rs 512.16 per meter) accepted in the order placed in July 2006. HPLS reduced the rate for meter with enclosure to Rs 749.70 per meter. Accordingly, the Company placed order (February 2008) for purchase of ten lakh meters with enclosure only, with the approval (February 2008) of the Board of Directors of the Company.

The Company again invited (April 2008) tenders for procurement of five lakh LT static meters each with enclosure and without enclosure having similar specifications as stipulated in the tenders invited in October 2007. The lowest offer was received from HPLS at Rs 749.70 per meter with enclosure and Rs 630 per meter without enclosure. The second lowest bidder Genus Power Infrastructures Limited (GPIL) quoted Rs 811.08 and Rs 671.05 per meter for meters with and without enclosure respectively.

Considering the capacity of the lowest bidder (HPLS) to supply within the delivery period of four months, the Company placed (August 2008) order on it for supply of five lakh meters with enclosure at the rate of Rs 749.70 per meter and 75,000 meters without enclosure at the rate of Rs 630 per meter. The order for balance quantity of 4.25 lakh meters without enclosure was placed on the second lowest bidder *viz.* GPIL at the rate of Rs 671.05 per meter.

Audit observed the following:

- Failure to negotiate the rate for meter without enclosure quoted by HPLS in November 2007, acceptance of the same rate in the subsequent tender called for in April 2008 and award of part order for 75,000 meters without enclosure to HPLS proved that the rate was reasonable. Thus, non- acceptance of the said rate (*viz.* Rs 630 per meter) quoted by HPLS for supply of meters without enclosure in November 2007 and April 2008 and purchase at a higher rate resulted in extra expenditure of Rs 1.74 crore (Rs 671.05 per meter – Rs 630 per meter x 4.25 lakh meters).

- In the tenders called for in April 2008, the second highest bidder *viz*. GPIL did not agree to match its rate with the first lowest bidder. Considering the rate difference, the Company should have placed the order for entire quantity of meters without enclosure with HPLS. Even though, this would have entailed extended delivery period of only three months the extra expenditure of Rs 1.74 crore could have been avoided. Further, it was observed that despite paying higher rate, out of 4.25 lakh meters ordered, only 0.50 lakh meters (12 *per cent*) were supplied by GPIL within the delivery period (December 2008), 2.5 lakh meters were delivered up to May 2009 while the balance 1.25 lakh meters were received only in June 2009.

The Government/Management stated (October/July 2009) that order was placed on GPIL to have multiple sources. The reply is not acceptable as the decision to place order on GPIL for balance requirement was stated to have been taken after considering the ability of HPLS to supply the meters and meet the delivery schedule which was not achieved. Thus, there was no consistent Management policy for multi-source purchases at competitive rates.

As the requirement of meters for new connections and replacement of defectives is a continuing process, it is recommended that the Company should explore the possibilities of developing alternative sources for procurement of meters at competitive rates.

4.9 *Wasteful expenditure*

Acceptance of unreasonable condition of lock-in period for rental premises resulted in wasteful expenditure of Rs 1.29 crore towards rent.

The Maharashtra State Electricity Distribution Company Limited (Company) issued (January 2006) a Letter of Intent (LoI) to Mikamachi Instruments, Pune (Contractor) for supply, installation, commissioning, operation and maintenance of Automatic Meter Reading (AMR) system. As per the provisions of the LoI, the Company was responsible for providing suitable premises for setting up the control centre for installing the equipment.

Though, the contract for the AMR system was not finalised, the Company hired (August 2006) premises admeasuring 8,700 square feet from Sai Erectors, Pune on a monthly rent of Rs 5.80 lakh (including maintenance and parking charges). The Leave and License Agreement (LLA) was valid for

seven years with a lock-in period• of three years. The agreement also stipulated a restrictive clause regarding use of the premises only for the AMR system. The Company paid Security Deposit (SD) of Rs 57.42 lakh in August 2006.

Audit observed (June 2008) that the hired premises remained vacant due to non-finalisation of the contract for AMR system. The Company decided (May 2007) to surrender the hired premises and requested Sai Erectors to take back possession of the premises. However, Sai Erectors refused to take back possession and to refund SD quoting the provision in the agreement regarding lock-in period.

The Company filed a Civil Suit (January 2008) against Sai Erectors. However, on the basis of legal opinion that the Company might be held liable to pay rent for the un-expired lock-in period, it reached on an out of court settlement (March 2008) with the licensor and paid rent of Rs 1.29 crore for the period from August 2006 to June 2008 for the premises which remained vacant.

Thus, the hiring of premises with restrictive conditions like lock-in period and restricted utilisation of premises only for specific purpose of AMR system resulted in wasteful expenditure of Rs 1.29 crore towards rent without utilising the premises for any purpose.

The Management in its reply (May 2009), which was endorsed by the Government (July 2009), while confirming the payment of rent for the period August 2006 to June 2008 accepted the Audit contention. Further, it was stated that utmost care will be taken while accepting contract specifications to ensure protection of the financial interest of the organisation.

It is recommended that the Company should be vigilant and not accept imprudent contract conditions which are detrimental to its interests.

Maharashtra Film, Stage and Cultural Development Corporation Limited

4.10 *Loss of revenue*

The Company suffered revenue loss of Rs 1.65 crore due to delay in restoration of studio damaged by fire.

The Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) was engaged in providing infrastructural facilities like studios, recording, dubbing and preview theatre, processing laboratory *etc*. to the film/entertainment industry.

The Company had 15 Studios out of which Studio No.3 was damaged due to fire on 18 August 2002. The Company received insurance claim amounting to Rs 4.83 lakh in March 2003. The Company belatedly decided (January 2007)

• Lock-in period is the minimum guaranteed period during which the surrender of premises was not permitted.

to undertake restoration work and accordingly tenders were invited in July 2007. The work awarded (September 2007) to Dev Engineers for Rs 36.81 lakh, which was completed in February 2008. After restoration of the studio the Company had earned hire charges of Rs 62.48 lakh in one year during 2008-09, which was almost double the cost of the restoration work incurred by the Company. Thus, the delayed restoration of damaged studio deprived the Company income of Rs 1.65 crore on the basis of its own assessment (August 2007) for the period April 2003 to February 2008.

On being pointed out the Company stated (February 2009) that restoration work was completed after receipt of funds from the Government in 2007. The reply is not tenable as the Company had during 2002-03 to 2006-07 before receipt of funds from the Government in 2007-08 spent Rs 8.62 crore on various capital works. The Company should have prioritised the restoration work of the studio by funding it through loans or with available cash and bank balances in view of the short pay back period. Alternatively, the Company should have approached Government for assistance to raise funds for its short time requirement from financial institutions.

The matter was reported to the Government (June 2009); Government stated (December 2009) that the Company had to give priority for repayment of non-redeemable bonds issued in 2000-01 and hence it did not take up any development work. However, the reply was contrary to the factual position of expenditure incurred on capital works as cited above.

The Company needs to evaluate the financial outgo with reference to its impact on revenue while deciding postponement of expenditure on maintenance/restoration of revenue earning assets.

Maharashtra State Electricity Transmission Company Limited

4.11 *Unfruitful expenditure*

Non-execution of formal agreement with Ispat Industries Limited resulted in unfruitful expenditure of Rs 8.99 crore.

The Maharashtra State Electricity Transmission Company Limited (Company) awarded (February 1996) the work of construction of 220 KV double circuit line from 400 KV Nagothane sub-station to 220 KV, Wadkhal sub-station, for ensuring reliable power supply to the consumers in Wadkhal area to KEC International Limited for Rs 8.49 crore. However, this work had to be abandoned (June 1997) after incurring expenditure of Rs 57.09 lakh on account of severe way leave problems and also resistance from land owners.

Ispat Industries Limited (IIL) a substantial consumer of Maharashtra State Electricity Distribution Company Limited (MSEDCL) who would happened to be a major beneficiary of the work of improvement in the power supply system, in a meeting (May 2004) with MSEDCL agreed to clear the way leave problems at its cost and also to bear the additional cost over and above the estimated cost quoted by the lowest bidder. However, no formal agreement

was entered into in this regard with IIL. Based on the verbal assurance given by IIL, contract for the abandoned work was awarded (May 2006) to Ashtavinayaka construction for an amount of Rs 8.80 crore against estimated cost of Rs 5.54 crore which was later increased to Rs 16.98 crore due to change in route in view of opposition by land owners. The work was to be completed within 15 months period. After executing work valued at Rs 8.99 crore, the contractor expressed (May 2008) inability to execute the balance work due to way leave problems. The balance work was not taken up by the Company till date (November 2009).

Thus, undertaking of abandoned work at the instance of IIL without any contractual arrangement absolved IIL of the responsibility of clearing the way leave problems resulting in unfruitful expenditure of Rs 8.99 crore on the incomplete work.

The Management in reply stated (May 2009) that as IIL itself volunteered to support in resolving the way leave problems, no legal agreement was required to be entered into. The reply did not address the Company's failure in safeguarding its interests through a legally enforceable agreement with IIL which might have avoided the loss caused due to back out by the latter in fulfilling its verbal assurance.

It is recommended that the Company should not undertake work based on voluntary support which is not enforceable and binding in the absence of any formal legal agreement.

The matter was reported to the Government/Management (June 2009); their replies had not been received (December 2009).

Maharashtra State Road Development Corporation Limited

4.12 *Unfruitful investment*

Construction of Food mall without conducting a feasibility study resulted in unfruitful investment of Rs 5.80 crore with consequential loss of interest of Rs 1.50 crore.

Maharashtra State Road Development Corporation Limited (Company), considering the need of expressway users, constructed (August 2006) a Food mall at Kusgaon near Lonavala along the Mumbai-Pune Expressway at a total cost of Rs 5.80 crore. The Food mall with a built-up area of 3,153.07 square metres included a drivers canteen, parking area, landscaping area *etc*. The Food mall was lying (September 2009) vacant since its construction in August 2006.

Audit observed the following:

- The Company did not conduct a feasibility study prior to construction of the Food mall. The Food mall was located on the ramp from the Expressway to the National Highway-4, due to which the access to it was

restricted to road users on the way to Lonavala city at Kusgaon. Further, most road users who intended to go to Lonavala used the main ramp before the ramp at Kusgaon where the Food mall was located, thereby further restricting the number of road users having access to it. Thus, the location of the Food mall was inappropriate. Consequently, despite inviting tenders in February, September and December 2007 for lease of the Food mall, no response was received due to lack of direct access and poor visibility of the Food mall from the Expressway.

- Construction of the Food mall without conducting a feasibility study and subsequent lack of response for leasing it resulted in unfruitful investment of Rs 5.80 crore with consequential loss of interest of Rs 1.50 crore[♣] (September 2006 to March 2009).

The Management stated (May 2009) that the mall at Kusgaon was connected to the Expressway as well as NH-4 and was accessible from both the corridors of the Expressway. The reply did not address the issue of direct accessibility of the mall from the Expressway or the non-conducting of a feasibility study prior to construction of the mall. The fact that the Company was not able to lease the mall for more than three years (September 2009) also confirmed the Audit finding of inappropriate location of the mall.

It is recommended that the Company should evolve a system of providing such amenities only after conducting a feasibility study for establishing the need, economic viability and techno-commercial aspects of the specific location for such amenities.

The matter was reported to the Government (March 2009); their reply had not been received (December 2009).

4.13 *Avoidable expenditure due to unrealistic contractual condition*

Award of contract without ensuring possession of land for work resulted in avoidable expenditure of Rs 1.89 crore.

Judicious planning of construction contracts require that prior to award of contract, pre-requisites of undertaking the work such as availability of dispute free land, *etc*. are ensured.

The Company awarded (November 2000) the work of improvement of 53 kilometres of road and construction of one Rail Over Bridge at Sinnar Ghoti Road to Ray Constructions, Mumbai (Contractor). The contract value was Rs 36.29 crore with a completion period of 24 months. As per the contract condition possession of site for 44 kilometres of the road was to be given to the Contractor within 14 days from the date of issue of notice (16 November 2000) to proceed with the work and the balance site for nine kilometres of road after expiry of six months. The Company failed to fulfill the contract condition of giving the possession of site for 44 kilometres within

[♣]Rs 5.80 crore x 10 *per cent* (borrowing rate of interest on bonds) x 31 months (from September 2006 to March 2009).

the stipulated period due to non-availability of dispute free land. The possession of site was given in stretches between November 2001 and March 2004 causing considerable delay (12 to 39 months) in handing over the site to the Contractor. Consequently, the work was completed in December 2006 *i.e.* after a delay of more than four years from the stipulated period of completion at a total cost of Rs 41.22 crore including additional work and excess quantity.

On account of delay in giving the possession of site by the Company, the Contractor claimed (July 2004), Rs 11.79 crore towards idle machinery, interest on mobilisation advance *etc.* The claim was initially rejected (April 2007) by the Company. The Steering Committee of the Company, however, approved (September 2007) a claim of Rs 1.89 crore as compensation towards idling of machinery, loss due to extension of bank guarantee *etc*., on account of delay in handing over possession of the site.

Audit observed that the contract condition stipulating handing over of 44 kilometres of land within 14 days from the date of issue of notice to proceed with the work without assessing its feasibility showed improper planning on the part of the Company.

Thus, award of contract without ensuring possession of land for execution of the work resulted in avoidable expenditure of Rs 1.89 crore on account of payment of compensation.

The Government/Management admitted (November 2009) the failure in handing over possession of site as per the terms of contract due to delay in acquiring land.

It is therefore recommended that the Company should award a contract only after ensuring the availability of dispute-free land and other mandatory facilities. Co-ordinated action with related State agencies in this regard should be factored into the initial planning process. Accountability mechanisms should also be firmed up within the Company so as to fix responsibility for unrealistic site projection inputs.

4.14 *Avoidable loss*

The Company suffered a loss of Rs 1.69 crore due to non-recovery of cost of project through toll collection.

The Company constructs roads and bridges on Build, Operate and Transfer (BOT) basis for Government of Maharashtra (GoM). The project cost alongwith interest component is recovered by the Company by collecting toll from the general public for the period prescribed by GoM. The notification for levy of toll is issued by the Public Works Department (PWD) of the GoM based on the proposal submitted by the Company.

The Company completed the construction of Rail Over Bridge (ROB) at Rotegaon in Aurangabad District in June 2000 at a cost of Rs 4.21 crore. As per the cash flow statement the expenditure on the project was expected to be

recovered by the year 2007. Accordingly, the Company in April 2000 requested PWD to issue notification for collection of toll at Rotegaon up to December 2007. PWD issued (September 2000) notification for collection of toll for the period from 20 September 2000 to 19 September 2003. In August 2003, the Company submitted another proposal to PWD requesting to increase the period of levy of toll up to the year 2011 due to decrease in the traffic and consequent decrease in the toll revenue. PWD, however, permitted levy of toll only up to December 2005 and directed the Company to bear the loss on the ground that the estimation of toll revenue done by the Company was wrong.

In this regard, Audit observed the following:

- The actual toll collection during the years 2001 and 2002 was Rs 80.42 lakh and Rs 1.09 crore respectively as against the estimated toll collection of Rs 1.81 crore and Rs 1.90 crore submitted by the Company in April 2000 ***i.e***. lower by 56 and 43 *per cent* respectively of estimated toll thereby indicating faulty estimation of toll revenue by the Company.

- As against the project expenditure of Rs 7.23 crore including the interest component up to March 2006 incurred by the Company towards the construction of ROB, the recovery of expenditure through toll collections during the period from September 2000 to December 2005 was only Rs 5.54 crore leaving a gap of Rs 1.69 crore. The gap of Rs 1.69 crore also resulted in further loss of interest of Rs 91.26 lakh ♦ for the period April 2006 to March 2009 at the rate of 18 *per cent* per annum considered in the cash flow statement.

- Since recovery of cost of project through toll collection is an essential characteristic of a BOT project the decision of the PWD/Government in not allowing toll collection to the extent of expenditure incurred on the project was contrary to the concept of undertaking infrastructure projects on the principles of BOT.

The Company, justified (May 2008) the loss, stating that the estimate was a forecast and may vary with the actuals. It further attributed the gap in expected revenue and actual revenue to reduction in traffic and concessions offered to frequent travellers. The Company also stated that it was making efforts to recover the loss from the Government. The reply is not tenable as the wide variation in the actual and estimated toll collection and non-reckoning of concessions in the estimates indicated adoption of faulty forecast methodology resulting in loss of Rs 1.69 crore. The State Government had neither reimbursed the loss (July 2009) nor had the Company followed up the matter after August 2006.

Since toll is a major source of revenue for the Company to recover the cost of a project it is recommended that the Company should adopt accurate and viable forecast technique for assessment of the same to ensure minimum variation between the actual and estimated recovery of the cost. The Company should vigorously follow-up the issue of reimbursement of loss with the State

♦ Rs 1.69 crore x 18 *per cent* for 36 months from April 2006 to March 2009.

Government. The State Government should allow the cost of BOT projects to be recovered through toll collection to avoid loss to the entrepreneur undertaking such projects.

The matter was reported to the Government/Management (June 2009); their reply has not been received (December 2009).

4.15 *Avoidable loss of revenue*

Failure of the Company to finalise toll collection contract within the validity period resulted in avoidable loss of revenue of Rs 1.18 crore.

The Company executes road construction contracts on Build, Operate and Transfer (BOT) basis. The project cost is recovered by collecting toll from the general public for the concession period prescribed by the Government of Maharashtra. The Company engages contractors who pay the lump sum amount to the Company and collect the toll. An efficient contract management system would require the Company to ensure that the new toll collection contract is finalised at appropriate levels of decision making before the expiry of the earlier contract and that the contract is awarded to the highest bidder so as to maximise revenue generation. Audit scrutiny revealed that at Dhoregaon toll station on Aurangabad-Ahmednagar Road the earlier toll collection contract was valid till 29 May 2007. For collection of toll for the period 30 May 2007 to 29 May 2009, the Company had invited tenders in February 2007 which were opened on 15 March 2007. The offer of Ganesh Enterprises at Rs 13.05 crore stood highest and was valid up to 13 June 2007.

Instead of finalising the offer, the Company awarded (28 May 2007) toll collection work on temporary basis to Ganesh Enterprises on monthly payment of Rs 50.19[♦] lakh with effect from 30 May 2007 on the ground that the Board of Directors (BoD) of the Company did not discuss the proposal for award of contract. No reasons were available on record for the same. As a result, the contract could not be finalised within the validity period. Meanwhile, Ganesh Enterprises also refused (August 2007) collection of toll.

Later the Company awarded two toll collection contracts to the second and third highest bidder in the tenders invited in February 2007 for the periods 17 August 2007 (three months) to 22 November 2007 and 23 November 2007 to 6 September 2008 (10 months) at the rate of Rs 48.64 lakh per month and Rs 41.55 lakh per month respectively. Fresh tenders were invited in November 2007 and February 2008 for awarding the regular toll collection contract which also could not be finalised due to receipt of unreasonably low offers and poor response to the tenders respectively. The regular toll collection contract was finally awarded (August 2008) to MEP Toll Road Private Limited (MEP) based on tenders invited in April 2008 for 52 weeks at monthly toll payment of Rs 46.38 lakh with effect from 7 September 2008. MEP continued toll collection till 26 February 2009 and the toll collection was handed over to the Public Works Department with effect from 27 February 2009.

[♦] Rs 13.05 crore ÷ 104 weeks x four weeks = Rs 50.19 lakh.

Thus, non-finalisation of tender within the validity period at the offered bid of Rs 13.05 crore for two years and the consequent award of contract for lower amounts resulted in avoidable loss of revenue of Rs 1.18 crore.

The Company therefore needs to evolve an effective contract management system which would facilitate timely finalisation of high value contracts having significant impact on the revenue of Company. Accountability mechanism fixing responsibility for delays at all levels of decision-making also need to be developed.

The matter was reported to the Government/Management (March 2009); their replies had not been received (December 2009).

Maharashtra Tourism Development Corporation Limited

4.16 *Wasteful expenditure*

Construction of tents resort without ascertaining the title of the land resulted in wasteful expenditure of Rs 22.14 lakh.

Maharashtra Tourism Development Corporation Limited (Company) awarded (June 2005) the work of constructing tent resort at Vengurla Taluka in Sindhudurg District to Suchintan Enterprises. The work was completed in March 2006 at a cost of Rs 36.90 lakh. Based on a complaint received (June 2006) from Shri Andurlekar, a private individual, the Company found that six out of 10 tents constructed by the Company were on the land owned by the complainant.

The Company invited (November 2006) tenders for running the tents resort on rental basis for a period of 10 years. The highest offer was received from Kinara Restaurant for a monthly rent of Rs 42,500. However, since six tents were constructed on the land not owned by the Company, no action was taken on these offers. The Company belatedly decided (July 2008) to rent only four tents constructed on its land and handed over (September 2008) the same to Kinara Restaurant the highest bidder in the tenders invited in November 2006 at a proportionate monthly rent of Rs 17,000. Earlier, the Company based on negotiation with Shri Andurlekar rented out the tents constructed on the land belonging to him up to May 2007 by sharing the rent earned equally (Rs 1.07 lakh). These six tents could not be rented out thereafter. The Company's attempt (September 2007) to shift the tents was also not successful as Shri Andurlekar obstructed the shifting against which the Company approached the court. No further developments were noticed in the matter thereafter.

It was observed in Audit that the Company constructed the tents without clearly ascertaining the title to the land and demarcating the boundaries of the land belonging to it through the Taluka Inspector of Land Records, Vengurla. Thus, construction of six tents at a cost of Rs 22.14[•] lakh on land not owned

[•] Rs 36.90 lakh ÷ 10 x six = Rs 22.14 lakh.

by the Company indicated lack of supervision in execution of the project resulting in wasteful expenditure of Rs 22.14 lakh.

The Management while admitting the fact stated (November 2009) that the error occurred due to wrong scale on certified map used for giving layout. The Government endorsed (November 2009) the views of the Management.

The Company needs to fix responsibility for the failure of its officials to ascertain the clear title to the land and undertake accurate demarcation of land boundaries before constructing the tents. Lack of supervision in project execution needs to be strengthened to avoid such lapses.

Statutory Corporation

Maharashtra Industrial Development Corporation

4.17 *Undue favour in the allotment of land*

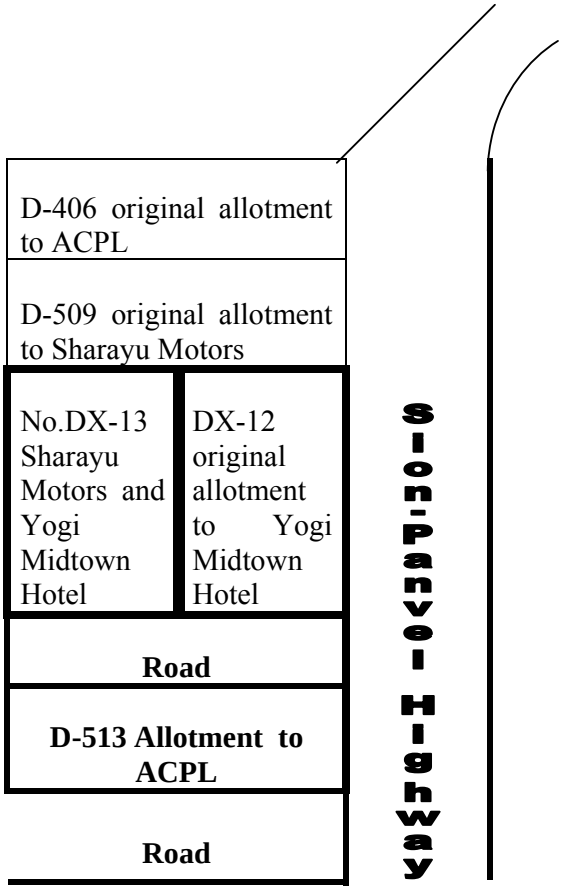
The Corporation extended undue benefit of Rs 5.44 crore due to allotment of a commercial plot of land at industrial rate.

Maharashtra Industrial Development Corporation (Corporation) allotted (April 1990) Plot No.D-406 admeasuring 4,118 square metres at Turbhe in Trans Thane Creek (TTC) Industrial area to Arpee Consultant Private Limited (ACPL) for carrying out the business of "Mechanical Workshop for Automobile Engines". In September 2007, ACPL requested the Corporation to allot additional plot for expansion of its existing business. As per the policy framed (August 2007) by the Corporation, allotment of plots for expansion of existing business could be done on the basis of demand received from the adjacent plot holder at 10 *per cent* above the prevailing price of the plots. Where the demand for a plot is from more than one plot holder for expansion of existing business, the party quoting the highest rate is to be allotted the plot subject to the party quoting 10 *per cent* above the reserve price of the plot. Public Works Department (PWD) surrendered (December 2007), 2,678.48 square metre of land taken from the Corporation for construction of a flyover at Turbhe in TTC area. The Corporation allotted (February 2008) plot admeasuring 1,500 square metre (earmarked as Plot No.D-513) to ACPL, which was carved out of the land surrendered by PWD, at the industrial rate of Rs 6,710 per square metre in response to the request made by ACPL in September 2007.

In this connection Audit observed the following:

- Plot No.D-513 allotted to ACPL was a corner plot facing the road and next to the Sion-Panvel Highway and the area had commercial potential as had been stated (June 2002) by the Corporation earlier. The Corporation had also allotted Plot No.DX-13 (August 2008) at the rate of Rs 43,000 per square metre and Plot No. DX-12 (February 2004) as "commercial plot''

which were adjacent to plot allotted to ACPL as shown in the diagram below:



Trans Thane Creek (TTC) Industrial Area

Therefore the allotment of Plot No D-513 to ACPL at the rate of Rs 6,710 per square metre by earmarking the same as an "industrial plot" instead of a "commercial plot" resulted in an undue benefit of Rs 5.44♦ crore being passed on to ACPL.

- The Corporation did not also follow a consistent pricing policy for allotment of adjacent plots located in the same area and also designated differential rates for similar activity of automobile servicing and repairing.

- The Corporation further did not advertise the availability of the plot of land earmarked as Plot No.D-513, carved out of land returned by PWD in December 2007 to assess the demand before allotment and to ensure transparency in this regard.

The Management stated (September 2009) that to make proper use of the land and taking into consideration the request of the party to allot the plot for expansion of their existing activities, the proposal to convert use of the amenity plot into industrial plot was approved by the competent authority. It was further stated that the Corporation was competent to decide the land use.

♦Rs 43,000 – Rs 6,710 per square metre x 1,500 square metre = Rs 5.44 crore.

Government endorsed (December 2009) the views of Management. The reply, however, did not address the issue of ensuring transparency and fairness in the process of allotment through widespread publicity of the availability of plots. Further, the absence of clear-cut norms for effecting such changes in the categorisation of plots resulted in *ad-hoc* allotment on case to case basis without safeguarding the financial interest of the Corporation.

It is, therefore, recommended that the Corporation strengthen its internal control mechanism by formulating clear-cut norms for earmarking plots as "industrial" or "commercial" and evolving uniform benchmarks for effecting changes in the categorisation of plots. It is also recommended that the Corporation ensures transparency and competition in allotment of plots by widely advertising the availability of plots of land to all interested parties.

4.18 *Avoidable expenditure*

Failure of the Corporation to finalise the tenders within the validity period resulted in award of works at higher rates and avoidable expenditure of Rs 4.71 crore.

An efficient contract management system requires acceptance of offers within the validity period to safeguard the financial interest of the organisation. The re-invitation of tenders involves the risk of increased rates besides delays in completion of works.

Audit scrutiny (November 2008) of tenders awarded by Corporation indicated delays in finalisation of tenders within the validity period and the consequent award of work on re-tendering at higher rates resulting in avoidable expenditure. Three cases noticed in Audit are discussed below:

Case I

The Corporation invited tenders (September 2006) at an estimated cost of Rs 1.77 crore to carry out the work of "Flood protection measures and construction of slab drains" at Taloja Industrial Area in Navi Mumbai. In response two offers were received which were opened on 6 November 2006. The offer of the lowest bidder S.C. Thakur & Brothers (SCTB) was for Rs 1.68 crore. As per the tender condition, the validity of the offer was 180 days from the date of opening of tender *i.e.* up to 5 May 2007. The Chief Executive Officer (CEO) of the Corporation recommended (8 December 2006) award of the work to the lowest bidder within the validity period. However, the approval of the Chairman of the Corporation was received only on 22 August 2007 *i.e.* after the expiry of the validity period. No reasons for the delay in according the approval were found on record. The request of the Corporation (July 2007) to extend the validity period was not agreed to by SCTB.

As the contract was not finalised within the validity period, tenders were re-invited in October 2007 and the work was awarded at a cost of Rs 2.47 crore to the same party who was again the lowest bidder. Thus,

non-finalisation of tender within the validity period and award of work at a higher rate on re-tendering resulted in avoidable expenditure of Rs 78.96 lakh.

Case II

Similarly, tenders were invited (January 2007) for providing, laying and jointing 450 mm diameter pipe from Chalkewadi to Mirjole at an estimated cost of Rs 4.53 crore. The lowest offer received from SMC Infrastructure Private Limited (SMC) was for Rs 6.02 crore which was reduced to Rs 5.80 crore after negotiation. As per the tender condition, the validity of the offer was 180 days from the date of opening of tender *i.e*. up to 8 September 2007. The CEO recommended the acceptance of the offer on 10 September 2007 *i.e.* after the expiry of the validity period which was approved by the Chairman of the Corporation on 18 October 2007.

The Corporation requested (November 2007) SMC to extend the validity period which was agreed to subject to grant of increased price of pipe amounting to Rs 82.88 lakh. In view of the condition stipulated by SMC the Corporation cancelled the tender and invited fresh tenders in February 2008. The lowest offer was again from SMC which was accepted and the work was awarded (October 2008) at a cost of Rs 7.79 crore.

Thus, non-finalisation of tenders within the validity period and award of work at higher rates to the same party on re-tendering resulted in avoidable expenditure of Rs 1.99 crore.

The Management in its reply (April 2009) attributed the delay in both the cases to administrative reasons. Further, it was stated that the time schedule will be closely monitored in order to avoid re-tendering. However, the Management did not elaborate the exact administrative reasons and no such reasons were found on record.

The above cases are indicative of the failure on the part of the Corporation to act prudently and in the best financial interest of the Corporation, non-observance of which led to avoidable expenditure of Rs 2.78 crore.

Case III

The administrative approval (ADP) for the work of "providing, laying and jointing 150 mm diameter pipelines from Latur to Ausa Industrial area" was given (December 2005) by the Chief Executive Officer (CEO) considering use of 150 mm diameter Cast Iron (CI) pipes. The technical sanction for the work was given (February 2006) by the Chief Engineer, (CE) Pune Zone before inviting the tenders. In the technical sanction the use of 200 mm diameter MS pipeline was considered instead of 150 mm diameter CI pipeline as per sanctioned ADP. The dissimilarity in specification of input material at ADP and technical sanction stages indicated lack of co-ordinated planning in the process. Based on technical sanction, the Division of the Corporation invited tenders (April 2006) at an estimated cost of Rs 3.13 crore. The tenders were opened on 12 June 2006 and the validity of the offers was up to 11 December 2006. The offer of Rs 3.12 crore received (June 2006) from

Rudrani Construction Company (RCC) was the lowest. However, the tender was not finalised on the ground that the administrative approval granted in December 2005 by CEO was for use of 150 mm diameter CI pipeline whereas tender invited (April 2006) after obtaining (February 2006) technical approval by CE, Pune Zone was for use of 200 mm MS pipeline. A final decision to use 200 mm diameter MS pipeline was taken by the Corporation only on 16 January 2007 *i.e.* after expiry of the validity of the offers of April 2006 tender. The lowest bidder refused to execute the work at quoted rates. Therefore the tenders were re-invited (July 2007) with the same estimated cost (Rs 3.13 crore) and the lowest offer of Rs 4.68 crore from the same party (RCC) was accepted and the work was awarded in December 2007. The increased rate was justified by the Corporation on the ground that the estimates were based on 2004-05 District Schedule of Rates. The work was completed in July 2009 and the expenditure incurred was Rs 5.05 crore. The Board of Directors of the Corporation accorded *post facto* ADP for the work.

Thus, the change of pipeline specifications after its approval (ADP), while inviting tenders and delay of six months in finalising the decision to use the MS pipes instead of the CI pipes resulted in lapse of validity of offer received. The subsequent award of work at higher rate on the basis of re-invited tender resulted in avoidable expenditure of Rs 1.93 crore (Rs 5.05 crore - Rs 3.12 crore).

The Management in its reply (September 2009) while accepting the Audit contention stated that efforts are being made to avoid delay at all levels for acceptance of tenders as per powers delegated. It is recommended that the Corporation:

- streamlines the system of contract management for safeguarding its financial interest and ensuring timely completion of work.

- institutes an accountability mechanism with re-delegation of powers, if required, for approval of such work tenders at appropriate lower levels so as to avoid such delays in finalisation of tenders.

- ensures better co-ordination at the planning stage and strengthen the Management Information System so as to avoid slippages in works specifications.

The matters were reported to the Government (July 2009); their reply had not been received (December 2009).

4.19 *Undue benefit*

The Corporation extended undue benefit of Rs 12.38 lakh in transfer of plot by not charging the additional land premium rate for the plot facing State Highway due to flawed documentation.

As per the transfer guidelines (May 1998) of Corporation transfer of plots from Holding Company to Subsidiary Company, from one Subsidiary Company to another Subsidiary Company, from one private limited Company

to another private limited Company *etc*. is permitted subject to recovery of 30 *per cent* of the differential premium. The differential premium is the difference between the land premium rate prevailing at the time of transfer of land and the land premium rate at which the plot was originally allotted. The Corporation decided (July 2002) that the land premium rate should be increased by 15 *per cent* if the plot is facing or is parallel to National/State Highway or service road. However, the circular through which Corporation guidelines were issued did not categorically state that additional charges for plots facing National/State Highway would be exempt from computation of additional premium in cases of transfer of plots.

The Regional Office of the Corporation at Nashik permitted transfer of plots admeasuring 4,500 and 3,360 square metres held by Dhananjay Marketing Private Limited (DMPL) in Nashik (Satpur) Industrial area to Roots Corporation Limited (RCL) and Shell India Marketing Private Limited (SIMPL) in January and August 2006 respectively. The Corporation recovered transfer fee of Rs 46.94 lakh and Rs 35.04 lakh from DMPL for permitting transfer of land to RCL and SIMPL respectively. Audit observed (November 2008) that during the recovery of the transfer charges by the Regional Manager, Nashik the land rate prevailing at the time of transfer was not increased by 15 *per cent* as per the decision of the Corporation (July 2002) though the plots transferred were facing the State Highway. Consequently, there was under recovery of transfer charges amounting to Rs 12.38 lakh.♦

The Management in its reply (September 2009) which was endorsed by the Government (November 2009) stated that the 15 *per cent* additional charges as per circular of July 2002 were to be recovered only at the time of allotment of plot and the same was not applicable for transfer cases. It was further stated that as per Corporation's circular of June 2007 the levy of additional premium in respect of transfer cases was made applicable only from June 2007. The reply is not tenable as the basic principle in levy of additional charges for plots facing National/State Highway is to share the additional benefits accruing to the plot owners on account of the strategic location. In the instant case, the plots transferred faced the State Highway and were strategically located for which additional charges were recoverable. The subsequent circular of June 2007 categorically asserted that additional premium for road facing plots are also to be recovered for transfer cases. This clear assertion stipulating recovery of additional premium even in transfer cases only corroborates Audit contention of granting of undue benefit to the parties through ambiguous wording of the earlier circular.

It is therefore recommended that the Corporation should avoid ambiguities in the guidelines/circulars on such significant issues in order to safeguard its financial interest.

♦15 *per cent* of prevailing land rate of Rs 3,500 square metre = Rs 525 per square metre (Total area = 7,860 square metres x 525 per square metre) x 30 *per cent* = Rs 12.38 lakh.

General

4.20 *Opportunity to recover money ignored*

Nine Public Sector Undertakings did not either seize the opportunity to recover their money or pursue the matters to their logical end. As a result, recovery of money amounting to Rs 332.70 crore remains doubtful.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 59 paras in respect of nine Public Sector Undertakings (PSUs) involving a recovery of Rs 332.70 crore. As per the instruction of Government of Maharashtra, Finance Department Resolution No.VGI-1161/XIX dated 26 June 1960 the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been initiated to take the matters to their logical end, *i.e*., to recover money from the concerned parties. As a result, these PSUs have lost the opportunity to recover their money which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in **Annexure-12**.

Sl. No.	PSU Name	No. of paras	Amount for recovery (Rupees in crore)
1.	Maharashtra State Electricity Distribution Company Limited	37	310.02
2.	Maharashtra State Electricity Transmission Company Limited	5	5.88
3	Mahatma Phule Backward Class Development Corporation Limited	6	3.00
4	Maharashtra State Financial Corporation	5	10.46
5	City and Industrial Development Corporation of Maharashtra Limited	1	0.48
6	Development Corporation of Vidarbha Limited	2	2.40
7	Maharashtra Tourism Development Corporation Limited	1	0.10
8	Maharashtra State Police Housing and Welfare Corporation Limited	1	0.04
9	Vasantrao Naik Vimukta Jatis and Nomadic Tribes Development Corporation Limited	1	0.32
Total		**59**	**332.70**

The paras mainly pertain to non-recovery on account of cost of meters, processing charges from wind mill developers, expenditure incurred by the PSUs on behalf of the consumers, arrears recoverable from consumers, under billing *etc*.

Above cases point out the failure of respective PSU authorities to safeguard their financial interest. Audit observations and their repeated follow-up by

Audit, including bringing the pendency to the notice of the Administrative/ Finance Department and PSU Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to the Government (July 2009); their reply had not been received (December 2009).

4.21 *Lack of remedial action on Audit observations*

Five Public Sector Undertakings did not either take remedial action or pursue the matters to their logical end in respect of 31 Inspection Report paras, resulting in foregoing the opportunity to improve their functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 31 IR paras in respect of five Public Sector Undertakings (PSUs), which pointed out deficiencies in the functioning of these PSUs. As per the instruction of Government of Maharashtra, Finance Department Resolution No.VGI-1161/XIX dated 26 June 1960 the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been initiated to take the matters to their logical end, *i.e*., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below. The list of individual paras is given in **Annexure-13**.

Sl. No.	PSU Name	No. of Paras
1	Maharashtra State Electricity Transmission Company Limited	12
2	Maharashtra State Power Generation Company Limited	6
3	Maharashtra State Electricity Distribution Company Limited	11
4	Kolhapur Chitranagri Mahamandal Limited	1
5	City and Industrial Development Corporation of Maharashtra Limited	1
Total		**31**

The paras mainly pertain to lack of pursuance in obtaining administrative approval for excess cost, idle asset, incomplete work, obsolete/surplus spares *etc*.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit

observations and their repeated follow-up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to the Government (July 2009); their reply had not been received (December 2009).

Follow-up action on Audit Reports

4.22 *Explanatory Notes outstanding*

4.22.1 Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department of the State Government issues instructions every year to all administrative departments to submit explanatory notes to paragraphs and reviews included in the Audit Reports within a period of three months of their presentation to the Legislature, in the prescribed format, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Report (Commercial) for the year 2006-07 containing six reviews and 28 paragraphs was presented to the State Legislature on 30 December 2008, eight Departments did not submit replies to 20 out of 34 paragraphs/reviews, as of 30 September 2009. Moreover, even in the case of the Audit Report (Commercial) for the year 2005-06 which was presented on 17 April 2007, three Departments (Social Welfare, Co-operation and Textile and Urban Development) did not submit explanatory notes for two reviews and one paragraph.

Compliance to Reports of the Committee on Public Undertakings

4.22.2 Action Taken Notes (ATNs) to 116 recommendations contained in 18 Reports of the COPU presented to the State Legislature between April 1995

to September 2009 were still awaited as on September 2009 as indicated below:

Year of COPU Report	Total no. of Reports involved	No. of recommendations where ATNs were not received
1995-96	1	7
1997-98	3	27
1999-2000	2	12
2005-06	2	2
2006-07	3	22
2007-08	4	38
2008-09	3	8
Total	**18**	**116**

The matter of pending ATNs has been taken up with the concerned administrative departments and also Finance Department at various levels so as to expedite the ATNs on pending recommendations of COPU.

Response to inspection reports, draft paragraphs and reviews

4.22.3 Audit observations noticed during Audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks Inspection Reports issued up to March 2009 pertaining to 54 PSUs disclosed that 2,020 paragraphs relating to 485 Inspection Reports remained outstanding at the end of September 2009. The department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2009 is given in **Annexure-14**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 21 draft paragraphs and two draft performance reviews forwarded to various departments between March to August 2009 and included in the Audit Report, 14 draft paragraphs and two draft performance reviews as detailed in **Annexure-15**, were not replied to (December 2009).

It is recommended that the Government should ensure that (a) procedure exists for action against officials who fail to send replies to inspection reports/draft paragraphs/reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/ overpayment is taken in a time bound schedule; and (c) the system of responding to Audit observations is revamped.

Sayantani Jafa

MUMBAI **(SAYANTANI JAFA)**
The 08-03-2010 **Accountant General (Commercial Audit), Maharashtra**

Countersigned

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