Chapter III

3. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Public Sector Undertakings are included in this Chapter.

Government Companies

Andhra Pradesh Forest Development Corporation Limited

3.1 Loss of ₹2.97 crore due to non-forfeiture

Loss of ₹ 2.97 crore due to non-forfeiture of advance sale amount and security deposit on short lift of quantities as per sale agreements.

Andhra Pradesh Forest Development Corporation Limited (Company) sells Eucalyptus pulpwood for paper manufacturing. The ideal stage for harvesting Eucalyptus according to the Management Plan for the years 2006-07 to 2010-11 (paras 2.6.1 to 2.6.3) is 6/7 years. The Company disposed (August 2008) 1,16,925 metric tonnes (MTs) of Eucalyptus pulpwood during 2008-09 harvesting season to seven parties (purchasers) for rates ranging between ₹ 3,050 and ₹ 2,535 per MT anticipating sales revenue of ₹ 33.17 crore.

Separate sale agreements were entered (September 2008) into with the seven purchasers stipulating, *inter-alia*, that (i) the agreement should remain in force up to 31 July 2009, (ii) the security deposit collected at 15 *per cent* of the total sale value would be refunded to the purchasers at the end of the transaction i.e., in the last bill for supply, only after the Company satisfied that all the obligations and formalities under the agreement have been duly complied with by the purchaser (clause 5) and (iii) the advance sale amount obtained at ₹ 100 per MT would be adjusted towards the payment of sale amount only at the end of the transaction (clause 6).

As per the terms of the sale agreements, sale advance of ₹ 1.17 crore and 15 *per cent* security deposit in the form of Bank Guarantees (BG) of ₹ 4.97 crore, aggregating to ₹ 6.14 crore were obtained (September 2008) from the purchasers.

In December 2008, requests were received from the purchasers for postponement of the supplies of the pulpwood for 30 – 45 days as they were unable to sell the produce to their customers due to the recession and prevailing economic conditions.

The Sales Sub-Committee (SSB) of the Company decided (January 2009) *inter-alia* (i) to slow down harvesting to the extent of purchasers requirement only till the situation improves and (ii) to keep the agreements open and valid

till the end of agreement period and in case the situation improves, the supplies could be affected, or else, at the conclusion of agreement, the advance sale amount and security deposits would be returned duly deducting the due amounts. On the date of meeting of SSB a quantity of 21,946 MTs (19 *per cent*) only was lifted by the purchasers. The Board of Directors (Board) discussed (March 2009) the issue and approved revision of targets of pulpwood supply from 1,16,925 MTs to 53,280 MTs (46 *per cent*) suo-moto done by the SSB as against the request of the purchasers for postponement. The Board, however, did not deliberate on the issues of (i) return of the advance sale amount and the security deposit proposed by SSB, and (ii) the need for revising sale agreements.

As at the end of the contract period, the purchasers lifted only a quantity of 59,627 MTs (51 *per cent*) out of 1,16,925 MTs. While the entire sale advance of ₹ 1.17 crore was adjusted (August – October 2009) against settlement of the outstanding bills, the security deposit of ₹ 4.97 crore was returned (August – October 2009) to the purchasers.

In this connection, it was observed that though considerable period of more than six months (January to July 2009) was allowed to the purchasers for lifting the balance sale quantity, they lifted only 37,681 MTs (32 *per cent*). Thus the purchasers failed to fulfill their contractual obligations to buy total quantity as per the sale agreements. This resulted in shortfall in sales revenue by ₹ 15.84 crore during 2008-09 season. The amount of sale advance and security deposit proportionately for the unlifted quantities worked out to ₹ 0.57 crore and ₹ 2.40 crore respectively. The Company should have forfeited these amounts due to non-fulfilling of agreement condition by the purchasers by invoking clause 5 of the agreement. Non-forfeiture of sale advance and security deposit lacked justification and resulted in a loss of ₹ 2.97 crore.

In reply, the Management stated (October 2009) that as per tender/agreement clause No.10(a), Company was competent to revise the supplies and keeping administrative and operational exigencies in view, Board revised the targets. The purchasers lifted the entire quantity allotted to them as per the revised target duly paying the sale amount and fulfilled their contractual obligation.

The reply was not acceptable in view of the facts that (i) the contract between the Company and the purchasers provided for forfeiture of advance sale amount and security deposit for non/short lifting of quantities, (ii) the purchasers requested for postponement of supplies only but not reduction in targets, and (iii) the pulpwood under contract would complete the rotation period in that season were not apprised to the Board. The completion of rotation period was confirmed (December 2009) by SSB stating that bulk of plantations, even after crossing the rotation period of seven years were remaining un-harvested. Thus reduction of targets (suo-moto) by the Company against the request of the purchasers for postponement of lifting resulted in non-harvesting of the Eucalyptus plantations till 2009-10 harvesting season even though the plantations had exceeded the stipulated period of 6/7 years for harvesting. Further, non-forfeiture of advance sale

amount and security deposit as per the terms of the agreements resulted in a loss of ₹ 2.97 crore.

The Company should enforce the contract clauses properly by forfeiting the security deposit in case of default by other parties. The Board of Directors of the Company failed to take decision in its best interest causing avoidable loss.

The matter was reported (April 2010) to the Government; their reply had not been received (September 2010).

Andhra Pradesh Industrial Infrastructure Corporation Limited

3.2 Undue favour of ₹25.55 crore to an allottee

Company's decision to collect lesser service charges from an allottee resulted in loss of ₹ 25.55 crore with consequential undue favour to that extent.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company/APIIC) in pursuance of its objects for industrial development acquires lands on behalf of others for establishment of industrial zones in accordance with the directions of the Government. For acquisition of land on behalf of others, the Company *inter-alia*, collects 15 *per cent* on the total cost of acquisition of the land as services charges.

Government of Andhra Pradesh (GoAP) entered (April 2006) into a Memorandum of Understanding (MoU) with Satyavedu Reserve Infra City (P) Ltd., (SRI city) for establishment of a multi-product Special Economic Zone (SEZ) and Domestic Tariff Area (DTA) in Nellore and Chittoor districts in 5,000 acres in first phase. The Company was appointed as nodal agency for acquiring the land. Accordingly the Company entered (July 2006) into an agreement with SRI City for acquisition of 5,000 acres of land. The terms, *inter-alia*, stipulated that (i) the Company would acquire the land under Land Acquisition (LA) Act and shall allot it in favour of SRI City on outright sale basis as per the APIIC Allotment Regulations 1998 and (ii) SRI City shall pay 15 *per cent* service charges on the cost of acquisition of the land.

The Company acquired and allotted/registered (May 2007 to April 2010) 6,885.41 acres of land to SRI City for a sale consideration of ₹ 216.21 crore. However, upon a request (April/July 2007) from SRI City, the Managing Director of the Company in contravention of the agreement (15 *per cent* of the cost of acquisition of land) accepted (July 2007) to collect service charges at the rate of ₹ 10,000 per acre. Thus the Company collected ₹ 6.88 crore (at the rate of ₹ 10,000 per acre) instead of collecting ₹ 32.43 crore (at the rate of 15 *per cent* of ₹ 216.21 crore). This resulted in a loss of revenue of ₹ 25.55 crore to the Company and undue favour to SRI City to that extent. It was pertinent to mention that the Company had collected the service charges at the rate of 15 *per cent* of cost of acquisition for 4,409 acres of land in respect of another allottee, Krishnapatnam Infratech Private Limited during the same period. Further the MoU entered into by the GoAP with SRI City and the agreement entered into by the Company were for acquisition of 5,000 acres only. As

against this, the Company acquired and registered 6,885.41 acres of land till April 2010. Thus, acquisition of 1,885.41 acres of land was without any agreement with SRI City and approval of the GoAP.

Thus the Company's decision to collect lesser service charges resulted in a loss of ₹ 25.55 crore and undue benefit to the allottee to that extent.

The Management replied (May 2010) that the purpose of charging service charges is to meet the establishment and other expenses in the LA process and the expenses of four LA units established by the Company were borne by SRI City. It was stated that 15 *per cent* service charges were generally charged for land parcels of 100 to 500 acres and in this case land to be acquired was more than 7,000 acres. It was also stated that SRI City entered into MoU with the Government for acquiring land of over 5,000 acres and irrespective of MoU, APIIC was authorized to acquire land for the companies if they approach for land acquisition.

The reply was not acceptable as the Company's allotment regulations did not provide for any such system of reducing the service charges in lieu of the establishment expenditure. Also the Company charged 15 *per cent* service charges for the allotments of more than 4,400 acres. Though the Company was authorized to acquire land, it was not authorized to allot land without any agreement. Hence allotment of land in excess of 5,000 acres in this case was irregular.

The Management should ensure adherence to the terms and conditions of agreements to avoid undue advantage to the allottees.

The matter was reported (May 2010) to the Government; their reply had not been received (September 2010).

3.3 Undue favour of ₹25 crore to a bidder

Company's failure to invoke offer conditions against a defaulted allottee resulted in loss of ₹ 25 crore with consequential undue favour.

The Company invited (January 2008) tenders for development/sale of 15 acres of land in plot Nos. 8, 9 and 10 of Hyderabad Knowledge City Project, Serilingampally Mandal, Ranga Reddy district. Though the land was subject to the final outcome of the appeals pending with the Honourable Supreme Court, it was offered for development on 'as is where is ' basis, based on the opinion of the Solicitor General of India. Earnest Money Deposit (EMD) payable was ₹ 15 crore and the reserve price was ₹ 22.50 crore per acre. The invitation to tender, *inter-alia*, provided that, (i) 10 *per cent* of EMD should be forfeited without any notice if the successful bidder fails to adhere to the terms of sale, time or commit any default or breach of conditions of the invitation, (ii) 30 *per cent* each of the bid amount should be paid by 05 February 2008 and 05 March 2008, (iii) the balance (net of EMD) should be paid by 04 April 2008 and (iv) in case of default in payment on the due dates, all the amounts paid till then should stand forfeited.

The offer of My Home Constructions Private Limited (MHCPL) at ₹ 22.50 crore per acre (total ₹ 337.50 crore for 15 acres) was accepted by the Company and the same was communicated (January 2008) to MHCPL clearly indicating the due dates and consequences of default on due dates as indicated in the invitation to tender (as above). An amount of ₹ 10 crore only was paid by MHCPL on 02 February 2008 in addition to the EMD of ₹ 15 crore paid in January 2008 i.e., ₹ 25 crore paid as against ₹ 337.50 crore due by April 2008. MHCPL requested (May 2008) the Company to adjust ₹ 25 crore paid against plot Nos. 8, 9 and 10 towards the balance amount payable to the Company against plot Nos. 3 and 4 of the same project which MHCPL could bid earlier (September 2007) at a cost of ₹ 200.01 crore for 10 acres.

Managing Director accepted (June 2008) the request on the ground that the bidder came forward to take the possession of the plots despite the pending writ petitions and the amount of ₹ 25 crore was adjusted (June 2008) against the amounts due in respect of plot Nos. 3 and 4. The justification of pending legal cases for non-forfeiture of amounts paid is not tenable as the invitation to tender (for land) was subject to the outcome of the pending legal cases. Thus, failure to enforce offer conditions and forfeit the amounts paid on account of default in payment on due dates resulted in a loss of ₹ 25 crore to the Company and an undue benefit to the allottee.

The Management replied (June 2010) that though 10 *per cent* of EMD was to be forfeited in case of default by the bidder, a management decision was taken to adjust ₹ 25 crore paid by MHCPL for plot Nos. 8, 9 and 10 towards balance cost of plot Nos. 3 and 4 in view of continuing litigation and also to close the transaction for plot Nos. 3 and 4. The reply is not acceptable as the bidder was well aware of the litigation at the time of tendering and default in payment on due dates attracts total forfeiture of the amounts paid till then but not 10 *per cent* and the Company failed to invoke the offer terms against the defaulted bidder.

The Company should adhere to the terms and conditions of its acceptance of bids, in order to avoid undue favour to bidders.

The matter was reported (May 2010) to the Government; their reply had not been received (September 2010).

3.4 Loss of ₹7.77 crore on sale of land

Extension of undue favour to an allottee by selling land at lesser rate resulted in loss of ₹ 7.77 crore.

The District Collector (DC), Medak proposed (May 2006) to the Government of Andhra Pradesh (GoAP) to alienate 75 acres (Ac) and 31 guntas (gu) of government land in Medak district at a value of ₹ 1.50 lakh per acre in favour of Pearl Breweries Private Limited (PBPL) for establishing Breweries Mega Project. Revenue Department pointed out (August 2006) that:

- as this land was relinquished by landless poor, it should be alienated to other landless poor only; and

- ❖ if the land had to be alienated to PBPL it should be at a higher price of at least ₹ one crore per acre as the rate proposed by DC was low.

After careful examination, GoAP decided (November 2006) to handover the said land to Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) for industrial purpose and directed the Company to examine the requirement of PBPL and take action for allotment of land as per usual terms and conditions of the Company.

Upon a request by PBPL, the Company handed over (December 2006) advance possession of 63 Ac and 7 gu of land to PBPL on a payment of ₹ 1.02 crore as part payment pending finalization of price and alienation of the land. Price Fixation Committee (PFC) of the Company while fixing (May 2007) the land cost at ₹ 12 lakh per acre for allotment made to PBPL, stated that the differential land cost between the rate fixed (₹ 12 lakh) and the land cost as per alienation orders should be collected from the allottees. GoAP alienated (March 2008) land admeasuring 75 Ac 31 gu to the Company at a nominal cost of ₹ 1.50 lakh per acre. The Company, in turn executed (August 2008) both the agreement for sale of land and the sale deed transferring 63 Ac 7 gu of land to PBPL at a total cost of ₹ 1.01 crore (at ₹ 1.60 lakh per acre).

Thus, by transferring the land to an allottee at a much lower cost of ₹ 1.60 lakh as against (i) ₹ one crore per acre proposed by Chief Commissioner of Land Administration, (ii) prevailing market value of ₹ 20 lakh per acre as reported by DC and (iii) ₹ 12 lakh per acre fixed by PFC, undue benefit was extended to the allottee to the extent of ₹ 6.57 crore when compared to the cost fixed by PFC.

Further, the Company as per its policy (November 2006) had to collect processing fee of ₹ 10,000 per acre and service charges of 15 *per cent* for acquisition of the land. However, the Company failed to collect processing fee and service charges with respect to 63 Ac 7 gu land resulting in undue benefit to PBPL and loss of revenue of ₹ 1.20 crore to the Company. Thus due to undue favour extended to an allottee, the Company incurred a loss of ₹ 7.77 crore.

Management replied (June 2010) that PBPL filed their application directly with Government and not with Company and as Government alienated the land in favour of the Company at ₹ 1.50 lakh per acre for onward allotment to PBPL, no service charge was collected as in other cases but the cost was fixed at ₹ 1.60 lakh per acre. The reply is not acceptable as GoAP while alienating the land to the Company, directed to examine the requirement of PBPL and allot the land as per the usual terms and conditions of the Company. The rate of ₹ 1.50 lakh per acre fixed was also a nominal rate for alienation to the Company but not to any private party. Hence allotment of land at ₹ 1.60 lakh per acre, ignoring the price fixed by PFC and not collecting the processing fee and service charges was irregular and resulted in undue benefit to an allottee/PBPL.

Allotment of land to private parties should be in accordance with the rates fixed by the PFC or the prevailing market rates and the usual processing fee and services charges should invariably be collected.

The matter was reported (May 2010) to the Government; their reply had not been received (September 2010).

Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited

3.5 Arrears in Finalisation of Accounts

Section 210 of the Companies Act, 1956 read with Sections 166 and 216, casts the duty on the Board of Directors of a Company to place the accounts of the Company along with Auditor's Report (including supplementary comments of CAG) in the Annual General Meeting of the shareholders within six months of the close of its financial year. Further, as per Section 209, proper books of accounts (along with relevant vouchers) to show the receipts and expenditure, sales and purchases and assets and liabilities of the Company should be kept. As per Section 210(5)/209(5), if any person, being a Director of a Company, fails to take all reasonable steps to comply with the provisions of Section 210/209, he shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to ten thousand rupees or with both. Similar provision exists under Section 210(6)/209(7) in respect of a person who is not a Director but is charged with the duty of ensuring compliance with Section 210/209.

In spite of above provisions in the Companies Act, the Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (Company) has not been finalizing its accounts in time and there were arrears of 11 years in finalization of its accounts as of 30 September 2009. The finalization of accounts had been completed for the year 1996-97 by 11 February 2003. Thereafter, the finalization of accounts for the year 1997-98 had been completed only on 26 March 2008. We have been bringing out the arrears in finalization of accounts to the notice of the Chief Secretary, Government of Andhra Pradesh (GoAP) (April 2010). However, the position of arrears of accounts continue to persist till date (September 2010). The GoAP had already made an investment of ₹ 15 lakh in the Company in the form of equity during the period for which the accounts had not been finalized. Further, the Company, being a channelizing agent, raised loan of ₹ 167.18 crore and disbursed ₹ 131.12 crore without reliable internal control system as at the end of 1997-98 and incurred ₹ 0.40 lakh (₹ 5.82 crore as per Statutory Auditors' qualification) loss.

We observed that the delay in finalization of accounts was mainly due to non availability of the records/supporting papers and vouchers pertaining to the earlier years. Also it was seen that the Company assigned function of maintenance of accounts to privately employed personnel who maintained cash book/accounts using Tally. As such no ledger is available with the Company in physical form. It was stated (July 2010) by the Company that though details of loans from Housing and Urban Development Corporation

Limited can be made available, details of loans to Urban Local Bodies may not be available and Statutory Auditors were unable to certify the accounts in the absence of the records.

In the absence of records/accounts and their subsequent audit, it cannot be ensured whether the investment made, expenditure incurred and loans raised and disbursed have been properly accounted for and the purpose for which the amount was invested/incurred has been achieved or not and thus Government's investment in the Company remained outside the scrutiny of the State Legislature. Further, delay in finalization of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act. Thus it can be concluded that the failure of the management to maintain proper books of accounts led to non-finalization of accounts. Further, as per the provisions of the Companies Act, no action was taken against any official responsible for the same.

We recommend that the Company should finalise the accounts with the help of vouchers traced based on the transactions recorded in the bank statements. Further, the Company should maintain all the books of accounts as required under the law to prevent recurrence of the instances of non-finalisation of accounts in future.

The matter was reported (June 2010) to the Government; their reply had not been received (September 2010).

The Andhra Pradesh Mineral Development Corporation Limited

3.6 Irregularities in barytes contract management

Tendering without estimates resulted in extra expenditure of ₹ 97.21 crore. The Company made irregular payment of ₹ 24.72 crore for the excess overburden removed and avoidable payment of ₹ 2.33 crore towards service tax during execution of contract.

The Andhra Pradesh Mineral Development Corporation Limited (Company) is engaged in the development of mineral resources in Andhra Pradesh, including exploration, exploitation and beneficiation. The Company has a mining lease for barytes over an area of 223.33 hectares in Mangampeta Barytes Project (MBP), Kadapa district.

As the tenure of the existing contract was expiring in March 2008, the Company issued (February 2008) a tender notification, without indicating estimated contract value (ECV), for excavation and removal of 40 lakh cubic metres (M^3) of overburden (OB) and 15 lakh metric tonnes (MTs) of Barytes Ore – run of mine (ROM) per annum for a period of five years.

Though the work was awarded (March 2008) to PLR Projects (L1) at ₹ 238.50 crore, the same was cancelled (April 2008) due to non-submission of security deposit (SD). As the second lowest tenderer V. Prabhakar Reddy, Deepika JV, Hyderabad (L2) who had quoted ₹ 264.80 crore, on the invitation

of the Company to match with L1 rates, did not agree to match their rates with the L1 tenderer, the tender was cancelled (April 2008).

Tenders were again called (April 2008), without indicating the ECV, for excavation and removal of 45 lakh M^3 (as against 40 lakh M^3 in earlier tender) of OB and 15 lakh MT of ROM.

After the receipt of quotations, the Company, in order to refer the case to the Commissioner of Tenders (CoT) to get their opinion on whether the lowest tender of ₹ 389.87 crore received from VLC-SCKC-JV* was reasonable, prepared (May 2008) the ECV. After obtaining the opinion of the CoT the Company awarded (June 2008) the work to VLC-SCKC-JV (contractor).

As against the agreed quantities for removal of ROM and OB cited above, the Company enhanced the quantity of ROM and OB to 19.45 lakh MT and 58.37 lakh M^3 respectively for first year and 22.5 lakh MT and 67.5 lakh M^3 per annum for the balance four year period with effect from 01 February 2009. Consequently, the value of contract increased from ₹ 389.87 crore to ₹ 592.41 crore including price escalation of ₹ 23.43 crore. The agreement, *inter-alia,* provided that in case the contractor did not maintain the ratio of ROM to OB at one MT to three M^3 the payment for the OB removed would be appropriate to the ROM removed. It also provided for release of the payment not made due to non-maintenance of the ratio, once contractor achieved the said ratio.

Scrutiny of the agreement with regard to award of work, extension and payment to contractor revealed the following:

3.6.1 Extra expenditure of ₹97.21 crore due to retendering

The Government of Andhra Pradesh (GoAP) streamlined (July 2003) tender procedures which provided for the following:

- Tender schedules should contain quantities, rates and total value of work. The tenderer should indicate his willingness to do the work at a percentage in excess or less than the estimated value.
- For all works the ceiling of tender premium should be 10 *per cent*.

In this regard, we observed the following irregularities/violations:

1. The Company did not prepare the ECV, as required, before tendering either in the first or in the second call.
2. As the L2 bid of first call was in excess only by eight *per cent*† over the existing contract rates and was well within the ceiling of 10 *per cent* tender premium, there was no justification for not awarding the work to L2 at his quoted rates.

* Vijay Leasing Company -Sri Chenna Keshava Constructions-Joint Venture.

† Value of the contract for 225 lakh M^3 of OB and 75 lakh MTs of ROM for five years i) At existing contract rates – ₹ 270.38 crore ii) As quoted by L2 tenderer ₹ 292.66 crore – Excess percentage: 8.

3. As against 20 *per cent* provided for in the agreement, the Company awarded 50 *per cent* additional work (with effect from 01 February 2009) valued ₹ 179.11 crore to the contractor, without any tender, which was irregular.
4. Either in the earlier (February 2005) tender for excavation or in a subsequent (June 2008) tender for sale of barytes there was no clause that L2 /H2 tenderer should match the rates of L1/H1 tenderer. Thus, inclusion of the clause that the L2 tenderer should match the rates of L1 tenderer, in these tenders, was unexplained/unjustified.

The Management stated (December 2009) that the contract awarded to the contractor was based on the opinion of CoT.

The Management was silent on the issue for not referring the first tender to CoT in which the rate of L2 was 8 *per cent* excess over the existing contract and was well within 10 *per cent* ceiling under tender procedure prescribed by the Government.

The Company should strictly adhere to the orders of Government in tendering to protect its financial interests.

3.6.2 Irregular payment of ₹ 24.72 crore for the excess overburden removed

We observed that the contractor, during the period August 2008 to March 2010 excavated and removed 32.10 lakh MT of ROM and 112.89 lakh M^3 of OB, the ratio of which worked out to 1:3.52, as against the agreed ratio of 1:3. Though the Company should have restricted the payment towards excavation of OB to 96.30 lakh M^3 taking into account the actual ROM excavated, it paid for the entire quantity of OB excavated resulting in excess payment of ₹ 24.72 crore with consequent loss of interest of ₹ 1.52 crore. We also observed that the endeavour of the contractor was more on removal of OB for which rate was high when compared to the rate for removal of ROM and there was no penalty clause for safeguarding against the excess removal of OB.

In reply, the Management stated (December 2009) that excess removal of OB was due to geological formation of ore bed resulting in steep dip and increase in depth of OB. It further stated that they could not withhold the payment to the contractor as they were asked to remove minimum of 45 lakh M^3 of OB and 15 lakh MT of ROM.

The Company had prior knowledge of geological formation of their mines. Further, payment for the OB removed was not in compliance with clause 27.2 of the agreement providing for payment terms in the ratio of ROM to OB. The contention that the agreement provided for removal of a minimum of 45 lakh M^3 of OB and 15 lakh MT of ROM was not relevant as the observation on the payment was made for the OB removed in excess of the 45 lakh M^3.

Thus, non-adherence to the agreement terms resulted in irregular payment of ₹ 24.72 crore for the excess OB removed during operation of lease upto March 2010 with consequential loss of interest of ₹ 1.52 crore.

The Company should pay according to the contractual provisions to safeguard its financial interests.

3.6.3 Avoidable payment of service tax ₹2.33 crore

Part-I and Part-II i.e., instructions to tenderers which formed part of the agreement, provided that the rates quoted should be all inclusive i.e., to include, *inter-alia*, payment of service tax (ST) which should be borne by the contractor at actuals from time to time. The estimated cost prepared by the Company both for OB and ROM included ST at the then prevailing rate of 12.36 *per cent* on the total cost. However, while framing the terms of the contract, the Company did not provide for reduction in value of contract consequent to the reduction of ST rate, if any, unlike the general practice followed by PSUs.

The ST rate was reduced (February 2009) from 12.36 *per cent* to 10.3 *per cent*. The Company paid the total contract price of ₹ 127.04 crore which included ST of ₹ 13.98 crore at pre-revised rate (12.36 *per cent*), instead of ₹ 11.65 crore at the reduced rate (10.3 *per cent*) during the period from March 2009 to March 2010. Thus, due to absence of specific clause regarding proportionate reduction in contract value consequent on reduction in ST rate, the Company paid an amount of ₹ 2.33 crore to the contractor towards ST which led to extension of undue benefit to the contractor.

Reply of the Management is awaited (September 2010).

The Company, while framing the terms and conditions of the agreement should take utmost care to safeguard its financial interests.

These matters were reported (April, May, September 2010) to the Government and their reply had not been received (September 2010).

Andhra Pradesh Power Generation Corporation Limited

3.7 Unfruitful expenditure of ₹1.48 crore

Unfruitful expenditure of ₹ 1.48 crore in the purchase of ball mill.

Andhra Pradesh Power Generation Corporation Limited (Company) has a thermal power station consisting of Units I to VIII in Paloncha of Khammam district of Andhra Pradesh which is known as Kothagudem Thermal Power Station (KTPS) (Operation and Maintenance Complex) (Plant). Units V and VI of the Plant are provided with three numbers of ball mills each for pulverization of coal. During the overhaul of Unit V (December 2004), Company observed cracks in the drum 5A. Company temporarily rectified the crack in the presence of the original manufacturers Bharat Heavy Electricals Limited (BHEL) by welding it with special electrodes. BHEL advised the Company (February 2005) to replace the existing drum 5A.

Accordingly, Company placed a purchase order (PO) (June 2006) on BHEL for supply of two ball mill drums at a cost of ₹ 2.28 crore. While one drum

was earmarked for immediate replacement another was envisaged to be used as a spare drum. Purchase order, *inter-alia*, envisaged the following:

- ❖ BHEL to design, fabricate and supply the drum duly taking into consideration the approachability to work spot and the congestion of mill bay.
- ❖ BHEL to submit the relevant technical data sheets, drawings etc., for scrutiny and approval of the Company, within 30 days of the order.
- ❖ Company at all reasonable times, had the right to access to the works of BHEL and its sub-contractors to determine or assess compliance with the specifications stipulated and to witness the tests.
- ❖ Mill drums should perform satisfactorily for a period of 18 months from the date of their despatch to the site or 12 months from the date of putting them to use whichever was earlier.

Contrary to the conditions of the PO, BHEL without either considering the mill bay congestion or submitting requisite drawing went ahead with the fabrication of the drum in a single piece. The Company though continuously insisted on BHEL to submit necessary documents/specification but failed to evoke the clause of inspection provided in PO to assess the specifications. In February 2007, when BHEL representatives visited the plant, the Company requested BHEL to explore the possibility to send the drum in three pieces. The Company insisted on the supply of the ball mill drum in three pieces, as single piece mill drum would not permit its installation due to space constraints and such erection would also require dismantling and modifications which would affect operation of other units. However, BHEL rejected (February 2007) the Company's request stating that the cylindrical portion of the shell was already in the advanced stage of manufacture. It was also observed in audit that the management failed to link the terms of payment with satisfactory erection and commissioning of the ball mill drum.

In December 2007, the Company decided to stop the manufacture of the second mill drum till such time BHEL supplies and erects the first drum. Despite Company's continued reservation on erection of the mill drum in single piece, it accepted the first drum in January 2008 without even obtaining drawings etc., on BHEL's assurance of providing assistance at the time of erection. Meanwhile, the Company made (March 2008) a payment of ₹ 1.48 crore to BHEL for the supply of the drum i.e., without ensuring proper erection, testing and commissioning before making payment. Had the payment terms been linked with the satisfactory erection and commissioning of the equipment, this idle investment could have been avoided. The drum remained unutilized till June 2010 and in the absence of the drums the Company repaired mill drum 5A which was earlier rectified by welding and another mill drum 6B in Unit VI in January 2009 and January 2010 respectively at a cost of ₹ 0.19 crore.

The Company accepted the mill drum in single piece without either getting the drawings and specifications or testing and commissioning the drum which resulted in unfruitful expenditure of ₹ 1.48 crore and additional cost of ₹ 0.19 crore in repairing the existing mill drum.

In reply the Government stated (June 2010) that the existing ball mills were proprietary products of BHEL and hence the Company was totally dependent on it for spares support. Since the time for utilization of spares was indefinite, payments were not linked to utilization. Further BHEL had agreed to carry out modification of single piece mill drum already supplied, free of cost.

The reply is not acceptable as the Company procured the first ball mill for immediate use and the second one as spare. Also Company released payment without commissioning of ball mill. Meanwhile the warranty of the first drum supplied also expired in June 2009.

The Company while placing the PO should exercise right to access the manufacturer's premises to be satisfied about the specifications of the equipment being manufactured and the payment should be released after satisfactory erection and commissioning of the equipment.

3.8 Unfruitful expenditure of ₹ 1.11 crore in purchase of car puller

Failure of the Company to link up the payment terms with successful commissioning of a car puller resulted in unfruitful expenditure of ₹ 1.11 crore with consequential non-achievement of envisaged savings of ₹ 1.04 crore.

The Company was hauling wagons into the wagon tippler by using locomotives in its thermal power plant at Kothagudem. As hauling of wagons using locomotives was proving expensive, the Company decided (April 2003) to procure and install a car puller for wagon haulage works. By installing the car puller, the Company estimated a saving of ₹ 32.12 lakh per year. Though the Company while considering the quotations for supply and installation of the car puller ascertained the performance of the probable suppliers from other institutions where such car pullers were working, it failed to ascertain whether the car puller so supplied had a capacity to haul 20 wagons at a time. In March 2004, the Company placed two purchase orders (PO) on TRF Limited (contractor) for supply, erection, testing and commissioning of car puller at a total cost of ₹ 89.87 lakh (excluding taxes, duties etc.). We noticed that instead of incorporating a clause linking 100 *per cent* payment to the successful completion of erection, testing and commissioning of the car puller, the terms of payment of the PO specified 100 *per cent* payment within 30 days from the date of receipt of material subject to furnishing of 10 *per cent* Performance Bank Guarantee. It also specified that the car puller should haul 20 wagons of 90 tonnes gross weight.

In order to execute the associated civil works, the Company concluded (February 2006) a separate contract for ₹ 5.12 lakh. The works were completed in all respects and the equipment was installed in March 2007. However, the Company did not ensure proper erection, testing and commissioning before releasing (March 2005 to July 2005) 100 *per cent* payment (equipment cost of ₹ 98.31 lakh) to the supplier.

Subsequently, the Company observed (April 2008) that the haulage ropes became slack and were slipping and coming out of pulleys which were causing

sudden jerks, as a result of which the equipment could not be operated. The contractor attended to the problem in September 2008 and the car puller, during the trial runs, could not haul even eight wagons due to snapping of chain. The problem continues to persist till March 2010. The Company had incurred a sum of ₹ 1.11 crore till June 2010 for executing the works of the car puller. Meanwhile, the Company was shunting its wagons by using locomotives incurring ₹ 1.04 crore till June 2010.

Thus the case highlights the failure of the Company to ascertain the performance of the similar equipment supplied by the contractor which led to idling of the equipment which could have been avoided had the Company incorporated a clause envisaging 100 *per cent* payment towards cost of equipment only after its successful erection, testing and commissioning.

In reply Government stated (June 2010) that the observation of audit regarding linking payments to commissioning of equipment was noted and efforts would be made to follow the same in future. Further, the Company stated that the contractor agreed (March 2010) to incorporate certain modifications in the equipment and assured that the equipment would be put to use shortly.

Thus, incorporation of a defective clause led to unfruitful expenditure of ₹ 1.11 crore besides incurring an avoidable expenditure of ₹ 1.04 crore in shunting of wagons by using locomotives. Further, no modification was done by contractor till date (September 2010).

The Company should incorporate suitable clause in its purchase orders stating that 100 *per cent* payments towards cost of equipment would be made only 30 days after successful erection, testing and commissioning of the equipment and scrupulously enforce such clause.

Central Power Distribution Company of Andhra Pradesh Limited

3.9 Undue benefit of ₹ 2.28 crore to a supplier due to waiver of penalty

Company waived the penalty levied for delayed supply of electronic energy meters without valid reasons resulting in extending undue benefit to the supplier.

The Central Power Distribution Company of Andhra Pradesh Limited (Company) placed (between June 2006 and November 2007) seven purchase orders (POs) on HPL Socomec Private Limited, New Delhi (supplier) for procurement of 13.80 lakh single and three phase electronic energy meters at a total cost of ₹ 81.05 crore. The terms and conditions of POs stated, *inter-alia*, that (i) delivery of meters as per agreed schedule was deemed to be the essence of the contract, (ii) date of delivery would be the date on which stores officer certifies the receipt of materials i.e., issue of Form 13, (iii) in case of delay in delivery of material for whatever reason, the Company could demand and recover from the supplier penalty equivalent to half *per cent* per week of delay or part thereof on the undelivered portion, subject to a maximum of 5 *per cent* of the total contract value, and (iv) non-availability of transport

facility or such reasons would not be considered for delay in delivery of materials.

We observed that only 3.77 lakh meters (27 *per cent*) were supplied within the scheduled delivery period and balance quantity of 10.03 lakh meters (73 *per cent*) were supplied with delays ranging from one to 19 weeks for which the Company had recovered an amount of ₹ 2.28 crore as penalty. However, the supplier represented (March 2007- August 2008) for waiver of penalty on the grounds of non-availability of trucks, break-down in some of his test benches, shortage of funds, electronic components, raw material for boxes, packing material and delay in testing of samples by Central Power Research Institute. Though the reasons did not fall under the category of *force majeure* in two POs and no notice of occurrence of "circumstances beyond the control of supplier" was given by the supplier during the delivery period as required by POs, the Company extended the delivery schedule and waived entire penalty considering the reasons as *force majeure*/circumstances beyond the control of supplier. Further, none of these reasons merit consideration for extension and waiver of penalty as these are of routine nature related to the business carried out by the supplier and it was the responsibility of the supplier to plan and execute the order as per scheduled delivery dates.

In reply Management stated (February 2010) that there would be procedural delay in taking meters into stock, as sample meters were picked up from the offered lot and sent to National Accreditation Board for testing and Calibration Laboratories for conducting third party acceptance tests. It was further stated that only after receipt of the test reports that the meters were as per standards, they were taken into stock and therefore there would be a delay between receipt of meters from the firm and the issue of Form-13 (acceptance of lot). The Government stated (June 2010) that they agreed with the remarks of the Company.

The reply is not tenable since the reasons quoted by the supplier for the delay in supply of meters were different as indicated in para *supra* and the supplier never raised the issue of procedural delay in taking the meters into stock by the Company. The reply is also not acceptable as:

- the Company determined the lead time after considering all these factors, and
- it had earlier considered the same grounds for delayed supplies and rejected the contention of the supplier and levied the penalty.

It was also pertinent to note that the delivery schedule of the meters ranged from one month to six months which indicated the urgent requirement of the meters in the field. As the delay in supply of meters adversely affected the revenue earning capacity of the Company, levy of penalty as per terms of the POs was required to offset the revenue loss and waiver of penalty was not in the financial interests of the Company. Hence, waiver of penalty by extending the scheduled delivery dates resulted in undue benefit to the supplier by ₹ 2.28 crore.

The Company should frame policy of waiver of penalty only in *force majeure* cases.

3.10 Doubtful recovery of ₹1.83 crore

Failure of the Company to invoke the provisions of MoU against the defaulted agent led to a loss of ₹ 1.83 crore and undue benefit to the extent of ₹ 0.55 crore.

The Company entered (February 2006) into a Memorandum of Understanding (MoU) with Department of Electronically Deliverable Services (EDS), Government of Andhra Pradesh for collection of electricity bill payments through Rural eSeva[‡]. The MoU was in force up to December 2007. The collection of electricity bill payments of the Company through Rural eSeva was done by TIMES (Agency), a non-governmental organization, which is one of the Principal RAJiv partners for setting up of RAJiv centres. The Company entered (November 2008) into a MoU directly with the Agency as per the advice of EDS without following the usual procedure set for awarding contracts and verifying antecedents of the Agency. A scrutiny of the records relating to the transactions with the Agency revealed the following deficiencies:

- There was no valid MoU during the period January - November 2008 as the company failed to conclude MoU with the Agency with effect from January 2008 as advised by EDS.
- The Agency did not remit the daily collections promptly on the next day as per the contract and instead took 15 days for remitting the collections, which accumulated to ₹ 1.10 crore (November 2008). Despite this the Company entered into a new MoU in November 2008 (for the period from November 2008 to May 2009) with the Agency.
- Despite continued failure of the Agency to remit the dues in time and accumulated arrears of remittance (₹ 0.90 crore as of May 2009), the Company extended the MoU for a further period of four months (up to September 2009).
- As per the terms of the MoU the Agency was liable to pay interest for delay in remittance of collected amounts at 18 *per cent* per annum and for this purpose part of the month was to be treated as one month. But the Company levied interest only for the actual number of days of delay amounting to ₹ 0.27 crore, as against ₹ 0.82 crore (January 2008 to July 2009), which resulted in undue benefit of ₹ 0.55 crore to the Agency.
- The Company failed to obtain enhanced Bank Guarantee of ₹ 0.64 crore (worked out as per the terms of extended MoU of May 2009) from the Agency, which provided a Bank Guarantee of ₹ 0.14 crore, resulting in shortage of Bank Guarantee by ₹ 0.50 crore.

[‡] Rural eSeva is a delivery channel established by the Government of Andhra Pradesh under Rajiv Internet village programme (RAJiv) with the aims to make its services affordable, transparent and accessible to the rural population.

- ❖ The Company failed to take immediate action to notify the fact of termination of MoU with the Agency beyond 30 September 2009 and disconnection of access to the server with effect from 27 October 2009 to the public to avoid unauthorized collections by the Agency. After a lapse of 45 days beyond disconnection of access to the server, the Company on 12 December 2009 issued a Press Notification appealing the consumers not to pay the bills to the Agency. In the meantime the Agency had un-authorisedly made off-line collections amounting to ₹ 2.05 crore. After setting off the remittances made by the Agency (November 2009) and encashment of Bank Guarantee, a balance of ₹ 1.83 crore was to be recovered from the Agency (June 2010).

Thus, due to failure of the Company to i) conclude MoU with the Agency for the period between January and November 2008, ii) terminate the MoU in time, keeping in view the persistent failure by the Agency to remit collected amounts, iii) obtain enhanced bank guarantee and iv) issue notification immediately on termination of MoU, resulted in non-recovery of funds of ₹ 1.83 crore, the recovery of which is doubtful. Further, non-levy of penal charges as per the contract led to undue benefit of ₹ 0.55 crore to the Agency.

The Management stated (May 2010) that a criminal complaint was lodged with Police against the Agency for the committed offences and would be pursued closely to realize the amount.

The Company should follow the standard procedure prescribed for entering into contracts with private parties including verification of antecedents of the Agency and should take timely and prudent decisions to implement the terms of MoU to safeguard its financial interests. The Company should also take immediate action for notifying the consumers through news papers in case the services of the Agency are terminated.

The matter was reported (May 2010) to the Government; their reply had not been received (September 2010).

Southern Power Distribution Company of Andhra Pradesh Limited

3.11 Undue benefit of ₹ 5.78 crore to the contractors by extending interest free mobilization advance

Failure of the Company to incorporate a suitable clause in the agreement for charging interest on mobilization advance for executing the HVDS works, for which the Company borrowed funds from REC, resulted in non-recovery of interest of ₹ 5.78 crore besides extending undue favour to the contractors to that extent.

Government of Andhra Pradesh (GoAP) while streamlining (July 2003) the tender procedure, extended to the contractors the facility of obtaining mobilization advance up to 10 *per cent* of contract value on works costing more than ₹ one crore against Bank Guarantee which would attract suitable rate of interest. Further, the Central Vigilance Commission (CVC) stipulated (October 1997 and June 2004) that if an advance is to be given to a Contractor,

it should be expressly stated in the notice inviting tender (NIT)/bid documents indicating the amount and rate of interest. Despite such clear instructions from the GoAP/CVC to charge interest on mobilization advance, Southern Power Distribution Company of Andhra Pradesh Limited (Company) extended interest free mobilization advance to its contractors. The details of the case are as follows:

The Company proposed (August 2006) system improvement project works for conversion of existing Low Tension net work into High Voltage Distribution System (HVDS) in Chittoor and Kadapa districts at an estimated cost of ₹ 556.50 crore. The Company planned to execute the work with loan funds obtained from Rural Electrification Corporation Limited (REC) at interest rates ranging between 9.60 and 11.25 *per cent*.

Accordingly, the Company awarded HVDS works (April to August 2007) to eight contractors, splitting the work into 16 packages at a total contract price of ₹ 515 crore with a scheduled date of completion of 12 months. The general conditions of contract did not indicate the purpose of release of any advance but indicated that advance payments would be adjusted pro-rata from the progressive payments made against the works actually executed/items supplied under the agreements. However, the Company failed to incorporate any clause levying interest on advances so paid. Considering that this was a deviation from the generally followed practice by PSUs and not in line with the GoAP instructions, the matter was not submitted to the Board either.

We observed that despite specific orders of GoAP and guidelines of CVC, the Company paid ₹ 43.83 crore to the eight contractors and also failed to levy interest on the advances since there was no safeguarding provision. The Company extended such interest free advance in spite of the fact that the works were being executed out of loan fund from REC with interest ranging from 9.60 to 11.25 *per cent*. The Company recovered ₹ 37.93 crore leaving a balance of ₹ 5.90 crore to be recovered as on date (March 2010) from six contractors.

The Management stated (April 2010) that the clause regarding mobilization advance of REC loan sanction order specified giving advance of 10 *per cent* of contract amount and charging of interest was not specified; hence the clause was made in contract as interest free advance. Government endorsed the reply of the Company. The reply is not acceptable as the terms of the contract were vague with regard to charging of interest on the advance. Moreover the decision relating to charging of interest on advance was a commercial matter internal to the Company and REC had no role in this matter. Further, not charging interest on advances made out of borrowed funds was detrimental to the financial interests of the Company.

Thus, failure of the Company to incorporate a suitable clause in the agreement for charging interest on mobilization advance, especially when the Company borrowed funds from REC for executing the HVDS works, resulted in non-recovery of interest of ₹ 5.78 crore on the funds advanced to the contractors besides extending undue favour to the contractors to that extent.

The Company while awarding any works where it contemplates granting of mobilization advance to the contractors should include a clause for levy of interest for the advances drawn by the contractors.

3.12 Unrealistic work estimates and undue benefit of ₹ 0.75 crore to contractor

Failure to firm up additional work required resulted not only in losing opportunity to obtain competitive rates for works worth ₹ 4.14 crore but also resulted in extending undue benefit of ₹ 0.75 crore to the contractor.

The Company awarded (November 2003) the work of construction of their Corporate Office building at Tirupati to Sagar Constructions (Contractor) for ₹ 1.74 crore, who quoted 11 *per cent* less than the estimated cost (₹ 1.96 crore).

The estimates did not consider all related aspects viz., seismic effect, soil conditions, actual requirement of infrastructure, etc. As a result, the final value of work had increased by ₹ 4.14 crore (increase in quantities due to provision for seismic effect and soil conditions: ₹ 0.18 crore; increase due to supplemental and new items[§] of work: ₹ 3.96 crore) as against the originally estimated value of ₹ 1.96 crore. The construction period also was extended to four and half years as against the originally stipulated period of six months.

Awarding of works valued ₹ 4.14 crore, which were not in accordance with the original tender specifications had the effect of awarding works without obtaining competitive rates and therefore it was irregular. The Company awarded all the supplemental and new works to the same contractor at the same terms and conditions of the original contract and the main reason for awarding all the connected works to the same contractor (without inviting fresh tenders) was to get the benefit of 11 *per cent* discount over estimated rates. However, we observed that the Company decided (October 2008) to allow price variation/escalation for the additional items of work based on applicable Standard Schedule of Rates (SSR) or market rates (for items not covered by SSR) for the relevant period and not to give effect to tender percentage for payments relating to supplemental/ new works. Thus, while the contractor was compensated for price escalations, the Company failed to safeguard its own financial interests since the decision not to apply 11 *per cent* discount on value of supplemental/ new works was not based on any recorded and valid reasons, which tantamounts to extending undue benefit of ₹ 0.45 crore to the contractor. Further, the Company supplied cement and steel departmentally, which also was not in accordance with the tender specifications. The Company agreed to supply cement and steel at a fixed cost, where as the prices of cement and steel increased subsequently, which led to extra expenditure of ₹ 0.30 crore as the recovery of material cost from

[§] Construction of parking sheds & first floor over them and change of flooring from mosaic to marble (₹ 1.04 crore); MDF doors and steel windows (₹ 17.42 lakh); Laying of WBM roads and CC roads (₹ 19.67 lakh); Interior works along with IT infrastructure works (₹ 77.61 lakh); Change in specifications of flooring, windows, wall painting, pipes and hand rails (₹ 99.26 lakh); Interior items, LAN Cabling and Electrical Items (₹ 25.99 lakh); Work stations (₹ 49.62 lakh); etc.

contractor was less than the actual procurement cost incurred by the Company.

The Company, while giving (April 2010) reasons for delay in the works, accepted the fact that the site handing over till construction of building along with the additional works were not planned ahead and decisions were taken as per the requirement.

Thus, due to improper planning and estimation and improper decision taken to supply material at fixed cost, the Company lost opportunity to obtain competitive rates for works worth ₹ 4.14 crore and extended undue benefit to the contractor to the extent of ₹ 0.75 crore due to non-application of overall tender percentage to the supplemental and new items of work (₹ 0.45 crore) and supply of cement and steel to the contractor, which was not contemplated in the contract (₹ 0.30 crore).

The Company should take utmost care in preparation of estimates for major works so as to ensure that the estimates are realistic and complete. The Company should adhere to the terms and conditions of contract to avoid extension of undue benefit to the contractors and to safeguard its financial interests.

The matter was reported to the Government (May 2010); their reply had not been received so far (September 2010).

Southern Power Distribution Company of Andhra Pradesh Limited

Northern Power Distribution Company of Andhra Pradesh Limited

Eastern Power Distribution Company of Andhra Pradesh Limited

3.13 Unfruitful expenditure of ₹ 24.18 crore in procurement of energy meters

Failure of the Companies to make suitable provision for adequate security in case of defective supplies, resulted in unfruitful expenditure of ₹ 24.18 crore in procurement of energy meters.

The Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) and the Northern Power Distribution Company of Andhra Pradesh Limited (APNPDCL) placed nine purchase orders (POs) on Avenir Power Technologies (P) Limited, Hyderabad (supplier), a local small scale industrial (SSI) supplier, for supply of 13.95 lakh liquid crystal display (LCD) type meters (APSPDCL: 8.95 lakh meters; APNPDCL: 5 lakh meters) and 3.50 lakh Counter type meters (APSPDCL) valued ₹ 81.80 crore between June 2004 and March 2008. The terms and conditions provided for guaranteed satisfactory operation for a period of 10 years (APSPDCL) and five years (APNPDCL) from the date of receipt at stores by the consignees and the supplier was responsible for replacement of defective meters free of cost during the guarantee period. The supplier was required to furnish performance security to the extent of 10 *per cent* of contract value for proper fulfillment of

contract including the warranty period; alternatively permanent performance security (PPS) of ₹ 2.00 lakh in the form of Bank Guarantee (BG) had to be furnished in case of local SSI suppliers.

We observed that though performance of the meters was found to be satisfactory during pre-tender evaluation, pre-despatch inspection by third party (RITES[**]) and tests conducted on randomly selected samples by the Company, after receipt of meters at stores, a large number of meters became defective after one year since installation as detailed below:

Particulars		Ordered Qty (meters in lakh)	Value (₹ in crore)	Supplied (meters in lakh)	Defective (meters in lakh)	Value (₹ in crore)	*Per cent*
APSPDCL	LCD	8.95	44.67	9.75*	3.23	16.05	33
	Counter	3.50	12.38	3.50	0.64	2.27	18
APNPDCL (LCD)		5.00	24.75	3.05	0.84	4.14	28
APEPDCL (LCD)		--	--	0.50	0.36	1.72	72
TOTAL	LCD	13.95	69.42	13.30	4.42	21.91	33
	Counter	3.50	12.38	3.50	0.64	2.27	18
GRAND TOTAL		17.45	81.80	16.80	5.06	24.18	30

* Net quantity including 1.60 lakh meters received from APNPDCL, 0.50 lakh meters sent to APEPDCL and 0.30 lakh meters sent to APNPDCL.

It can be seen from the above table that the percentage of defective LCD and Counter type meters to supplied quantity ranged between 18 and 72 in respect of three APDISCOMs. Out of the total quantity of 16.80 lakh meters supplied to the three APDISCOMs, 5.06 lakh meters (30 *per cent*) were found to be defective up to March 2010. As the supplier had not replaced the defective meters even after issue of show cause notices (February 2009 - March 2010) by the three companies, APSPDCL and APNPDCL black listed the supplier (September 2009/June 2010). While APSPDCL forfeited the BG of ₹ 2.00 lakh, APNPDCL failed to invoke the nominal BG, which expired in February 2009.

Though the purchase manual provided for nominal amount of performance security for local small scale industries, the companies failed to take a conscious decision to include suitable clause in the contract providing for adequate performance security to safeguard the financial interests keeping in view the long guarantee period stipulated in the contract. Failure to do so resulted in default by the supplier in replacing the defective meters and the companies were left unguarded to enforce the provisions of contract with regard to performance guarantee.

Thus, due to non-replacement/ rectification of 5.06 lakh defective meters by the supplier, in spite of the fact that the meters were under guarantee for 5/10 years period, the expenditure of ₹ 24.18 crore being the procurement cost of the defective meters turned out to be unfruitful.

[**] Rail India Technical and Economic Services Limited.

In reply APNPDCL stated (June 2010) that 10 *per cent* value of the PO amount would be collected towards performance security even from SSI units in future. APSPDCL and APEPDCL also replied (June 2010) that the facility of PPS of ₹ 2 lakh for SSI unit has been withdrawn and performance security deposit of 10 *per cent* of the contract value is being insisted for proper fulfillment of contract including warranty obligations. Government replied that they agreed with the above remarks.

However, we observed that GoAP is yet to revoke the order directing PSUs to accept ₹ 2 lakh in place of 10 *per cent* PPS from SSI units.

The companies should review their provisions relating to the performance guarantee to be provided by the suppliers and revise periodically to ensure that adequate security is obtained for the guarantee/warranty provided in the POs.

Andhra Pradesh State Civil Supplies Corporation Limited

3.14 Improper procurement and utilisation of gunny bags resulted in loss of ₹ 3.12 crore

Failure to utilise new gunnies and procurement of poor quality gunnies resulted in a loss of ₹ 3.12 crore.

Andhra Pradesh State Civil Supplies Corporation Limited (Company) procures paddy from farmers both in new and once used gunnies (OUGs). New gunnies in which paddy is delivered to rice millers by the Company for custom milling would be treated as new gunnies for the purpose of delivery of custom milled rice[††] (CMR) to Food Corporation of India (FCI) and in case of shortage, new gunnies were to be provided by the millers. The Company and the rice millers get the cost of new gunnies reimbursed by FCI at ₹ 24.10 per gunny.

The Company purchased eight lakh new gunnies through DGS&D and 46.15 lakh new gunnies from private jute mills (PJM) in the State for Rabi 2006-07. The gunnies were ordered by three district offices[‡‡] and were delivered in eight district offices[§§]. We examined the usage of 38.72 lakh new gunnies (including 36.52 lakh new gunnies procured) at two district offices viz., Karimnagar and Nalgonda which constitute 71 *per cent* of the total gunnies.

Analysis of data on gunnies received from different sources (procurement, transfer/loan from other districts and Markfed) and used, number of bags for which payment was realized and the balance gunnies for which payment was not received revealed the instances of receipt of defective gunnies which led to

[††] CMR means the paddy converted into rice as per the specifications of FCI.
[‡‡] Eluru, Visakhapatnam and Vizianagaram.
[§§] Karimnagar, Nalgonda, Medak, Warangal, Mahboobnagar, Nizamabad, Eluru and Adilabad.

loss of ₹ 3.12 crore. Details are as under:

(No. of bags)

Details	Karimnagar	Nalgonda
A. PJM	22,45,000	11,46,225
B. DGS&D	4,36,762	-
C. Markfed	43,642	-
Total gunnies received and used	27,25,404	11,46,225
A. PJM	9,25,589	1,64,472
B. DGS&D	1,80,603	-
C. Markfed	22,575	-
Total gunnies for which cost realized	11,28,767	1,64,472
A. PJM	13,19,411	9,81,753*
B. DGS&D	2,56,159	-
C. Markfed	21,067	-
Total gunnies for which cost not realized	15,96,637	9,81,753*

*Including 4,56,345 gunnies for which an amount of ₹ 1.10 crore withheld by FCI.

In Karimnagar 66,97,985 gunnies including 27,25,404 new gunnies procured at a cost of ₹ 6.13 crore[***] were used for delivering 2,67,919.40 metric tonnes (MTs) of paddy to millers (40 Kgs per gunny). Millers used 36,40,491 new gunnies (50 Kgs per gunny) for delivering CMR (68 *per cent* of paddy) to FCI. The millers should have used 27,25,404 new gunnies of the Company and for balance, new gunnies of their own should have been used by them since only new gunnies were permissible for delivering CMR to FCI. The Company received ₹ 2.72 crore for 11,28,767 new gunnies only and for the balance 15,96,637 new gunnies, millers claimed that they delivered CMR to FCI in new gunnies of their own, as the gunnies in which paddy was delivered to them lost their texture due to storage of paddy filled gunnies in open areas. These weak gunnies were treated as OUGs whose value at the Company's procurement cost of ₹ 12.55 per gunny worked out to ₹ 2.00 crore. This resulted in a loss of ₹ 1.41 crore.

Similarly, in Nalgonda a total of 27,38,308 gunnies including 11,46,225 new gunnies procured at a cost of ₹ 2.55 crore[†††] were used for delivering 1,09,532.32 MTs of paddy to millers. Millers used 14,84,979 new gunnies for delivering CMR to FCI. The millers should have used 11,46,225 new gunnies of the Company and for balance, new gunnies of their own should have been used by them. However, the Company received ₹ 0.40 crore for 1,64,472 new gunnies only. An amount of ₹ 1.10 crore, being the cost of 4,56,345 new gunnies is withheld since 2007-08 by FCI stating that the gunnies were OUGs. For the balance 5,25,408 new gunnies, millers claimed that they delivered CMR to FCI in new gunnies of their own, as the gunnies in which paddy was delivered to them were weak in structure. However, these weak new gunnies were sold to the rice millers along with other OUGs at the rate of ₹ 8.50 per gunny as against procurement cost of ₹ 22.28 per new gunny. Thus, the Company received an amount of ₹ 0.85 crore [‡‡‡]against

[***] 27,25,404 x ₹ 22.50 per gunny=₹ 6.13 crore.
[†††] 11,46,225x ₹ 22.28 per gunny= ₹ 2.55 crore.
[‡‡‡] (11,46,225-1,64,472-4,56,345 = 5,25,408) x ₹ 8.50 = ₹ 0.45 crore + ₹ 0.40 crore = ₹ 0.85 crore.

procurement cost of ₹ 2.55 crore saddling the company with a further loss of ₹ 1.71 crore.

While in respect of Karimnagar the Company stated (June 2010) that the CMR resulting from paddy procured in four gunny bags would be delivered in two bags for which it received cost from FCI and two bags would become surplus, in respect of Nalgonda it stated that the difference between ₹ 24.10 and ₹ 8.50 (sale price) per gunny (disposed) would be recovered from concerned millers.

The reply is not acceptable as the observation of audit is regarding non receipt of cost of new gunnies. Since 27,25,404 new gunnies were used in Karimnagar, the Company was entitled to receive cost in respect of all these new gunnies. In respect of Nalgonda, the Company accepted our observation (September 2010).

Thus the systemic defects in procurement of gunnies viz., questionable pre-despatch quality inspection and storage of paddy gunnies in open areas without proper protection (Karimnagar) and sale of new gunnies as OUGs (Nalgonda) resulted in a loss of ₹ 3.12 crore[§§§]. The Company did not fix responsibility for the irregularities so far (September 2010). Also it had not taken up with suppliers for quality defects in their supplies of new gunny bags.

Company should follow Government orders on procurement and also ensure proper documentation of pre-despatch inspection of quality of bags. Further proper protection may be arranged at the procurement points to avoid damage of gunnies.

The matter was reported (August 2010) to the Government; their reply had not been received (September 2010).

Andhra Pradesh Tourism Development Corporation Limited

3.15 Failure to safeguard the Government's interest – Loss of ₹ 1.26 crore

Company suffered loss of ₹ 1.26 crore due to leasing of land without ADP/lower lease rent.

The Government of Andhra Pradesh (GoAP) accorded sanction (May 2002) for awarding a project (cost - ₹ 4.15 crore) by Andhra Pradesh Tourism Development Corporation Limited (Company) to Palace Heights Hotels Limited (Licensee) for developing Food Courts at Necklace Road, Hyderabad on 2,012.85 square yards (SYs) of land. Sanction, *inter-alia*, provided for leasing of the land to the Licensee for a period of 33 years by:

[§§§] Loss of ₹ 3.12 crore would be reduced by the amount received from either concerned millers or release of full or partial amount withheld by FCI in respect of cost of 4,56,345 new gunny bags treated as OUGs.

- ❖ fixing license fee at five *per cent* of market value (₹ 11,000 per SY as per Sub-Registrar basic rate (SRBR)) with an annual escalation of five *per cent*, and
- ❖ fixing an annual Additional Development Premium (ADP) payable by the Licensee at ₹ 24.92 lakh for the first year of the operations and with escalations to reach ₹ 72.50 lakh for the 33rd year.

Accordingly, the Company entered (June 2002) into an agreement with the Licensee. The Licensee incorporated a separate Company named, "Café d' Lake Pvt. Ltd" (Developer) for execution of the project, as required by the agreement. Upon a request made by the Licensee, the Company, without obtaining sanction of the GoAP allotted (October 2003) another 370.76 SYs of land reportedly for free circulation and to avoid congestion. The licence fee was proportionately revised by entering into a supplementary agreement with respect to 370.76 SYs of land. However, the Company did not correspondingly increase ADP payable resulting in a loss of ₹ 0.54 crore between April 2004 (project completion) and August 2010 and would result in a loss of ₹ 2.94 crore for the balance period as per the agreement.

Further, the Company entered (January 2005) into a Memorandum of Understanding (MoU), with five years validity, with the Developer for development of children's play area and other facilities on 1,716 SYs of land adjacent to the Food Courts, on revenue sharing [60 (Developer) : 40 (Company)] basis. However, based on a request (May 2008) made by the Developer for change of compensation mechanism from revenue sharing to lease basis, the Company, before expiry of the existing MoU, entered (January 2009) into a fresh MoU for a period of 10 years for operation and maintenance of children's play area and other facilities. Annual lease rent was fixed adopting the SRBR of ₹ 33,550 per SY applicable for areas located on internal roads. However, we observed that the SRBR, as on the date of MoU, corresponding to the value approved by the GoAP for initial allotment of 2,012.85 SYs of land adjacent to the children's play area was ₹ 60,000 per SY (i.e., as applicable for areas located on main road). As such lease rent was not fixed as per the correct SRBR. The Company adopted the SRBR furnished by the Developer without proper verification. This resulted in a loss of ₹ 0.72 crore for the period up to August 2010 and would result in a loss of ₹ 4.99 crore for the balance lease period.

Government replied (June 2010) that ADP was a portion of commercial gain the Developer was prepared to share with Government and the Developer did not get any commercial benefit out of the additional land allotted as it was used for free circulation. As the project was located in sikham land there was no relevance for the market value and the Company was following only basic market value provided by the Sub-Registrar.

The Developer had to plan for free movement within the area provided for his project initially instead of utilizing the entire area for construction of the project. However, our observation was on adoption of SRBR applicable for internal roads instead of main road but not the market value as contended.

Thus, non-levy of ADP for 370.76 SYs of land and incorrect fixation of lease rents due to adoption of lower SRBR for children's play area resulted in a loss of ₹ 1.26 crore till August 2010 and would result in a loss of ₹ 7.93 crore for the balance period of agreement/MoU.

The Company should ensure levy of correct ADP on allotment of additional land and adopt correct SRBR in fixation of lease rents.

Statutory Corporation

Andhra Pradesh State Road Transport Corporation

3.16 Avoidable expenditure of ₹3.78 crore on procurement of tubes

Procurement of tubes for radial tyres at higher cost resulted in avoidable expenditure of ₹ 3.78 crore.

Andhra Pradesh State Road Transport Corporation (Corporation) procures tyres (both radial and nylon) on the basis of lowest cost per kilometre (CPK) as per the guidelines approved by its Board. While the Corporation procures tubes for the nylon tyres on the basis of lowest rates obtained through separate tenders, tubes for radial tyres were procured from the same tyre company at their quoted rates ignoring competitive rates.

We observed that the Corporation procured radial tyres with special quality tubes as a set upto 1998. In 1998, tubes procured for nylon tyres were used for three months and it continued after observing that there were no early failures. Owing to increased trend of early failures of radial tyres in the year 2000, the Corporation decided (May 2000) to procure tubes suitable for radial tyres as a set initially from the tyre companies and later on to try for source development[****]. However, the Corporation did not try for source development for procurement of tubes for radial tyres at competitive rates and instead, procured tubes for radial tyres at higher cost from the same companies from which tyres were procured without considering the economies.

The Corporation procured (between December 2006 and March 2010) 1.50 lakh radial tyres on the basis of the lowest CPK and 2.25 lakh tubes from the same tyre companies at their quoted rates. We observed that even though separate rates for tubes for radial tyres were called for and received, the Corporation procured tubes from the same company whose CPK was the lowest for radial tyres, without giving credence to the lowest rates obtained for tubes. As a result, the lowest rates obtained for tubes were ignored resulting in extra expenditure of ₹ 3.78 crore being the difference between the lowest quoted and respective ordered rates in respect of 1.98 lakh tubes, with a recurring effect on future procurements.

The Management stated (August 2010) that action was initiated for using tubes in different makes of tyres other than the same make for evaluating the

[****] Identifying various sources for supply (of tubes) of desired specifications.

performance. Reply confirmed the fact that tubes for radial tyres conforming to specifications could be procured from sources other than the company from which tyres were procured. As the Corporation procured tubes for radial tyres conforming to Association of State Road Transport Undertakings (ASRTU) specifications, ignorance of the lowest rates quoted by other companies and procurement of tubes at higher rates from the same company from which tyres were procured was not justified and the same resulted in extra expenditure of ₹ 3.78 crore.

The Corporation should develop sources for procurement of radial tubes conforming to the specifications of ASRTU to procure tubes for radial tyres at the lowest rates.

The matter was reported (April 2010) to the Government; their reply had not been received (September 2010).

3.17 Undue benefit of ₹ 2.37 crore to the contractor

Extension of project completion period without collecting additional premium as per the terms of authorization agreement led to undue benefit of ₹ 2.37 crore to a contractor.

The Corporation entered (21 August 2008) into an authorisation agreement (Agreement) with Soma City Centre Pvt Ltd & Soma SVEC Consortium (Authorisee) for commercial development of 9.14 acres of land at Mushirabad, Hyderabad under Build-Operate-Transfer (BOT) scheme. The Corporation, accordingly, handed over the possession of the land to the authorisee on 21 August 2008. The project components, *inter alia,* included development, operation and maintenance of commercial facilities and bus terminal during the license period of 33 years. The authorisee paid (August 2008 to March 2009) ₹ 95 crore towards upfront authorisation premium as quoted by them.

As per the agreement, authorisee shall complete the project within three years from the date of the agreement. Clause 6.2 (g) provided that project completion time could be extended under the provisions of the agreement or with the mutual agreement of the parties. However, clause 6.3 (c) of the agreement, provided for the Corporation to permit extension of time up to a maximum of 24 months upon payment of additional premium upto one *per cent*[††††] of the authorisation premium.

Even though the project is to be completed within three years i.e., by August 2011, the same was not commenced and the authorisee requested (February 2009) the Corporation for certain amendments in the agreement which *inter alia* include, extension of project completion period to six years on the plea that the prevailing global economic crisis had hit the real estate sector hard and funding of the project had been difficult. Request of the authorisee was considered (March 2009) and Corporation extended the project completion

[††††] First extension upto six months - 0 *per cent* of the total authorisation premium, second extension between 6 to 12 months - 0.50 *per cent* of the total authorisation premium and any other extension beyond 12 months – one *per cent* of total authorisation premium for 6 months.

period by two years with the approval of the Chairman. Subsequently (May 2009), this was ratified by the Board of the Corporation without any change in other terms and conditions of the agreement. However, the Corporation extended time extension by two years without collecting additional authorization premium of ₹ 2.37 crore as stipulated in clause 6.3 (c) of the agreement.

When the matter was brought (March 2010) to the notice of the management, it replied (April 2010) that time extension was granted as per clause 6.2 (g) of the agreement i.e., with the mutual agreement of the parties and in case if extension of time was considered under clause 6.3 (c) of the Agreement, there was no need for approval of the Board. It was further replied that the amended agreement dated 14 October 2009 was ratified by the Board.

Time extension allowed with the mutual consent of the parties was not incorporated in the agenda papers submitted to the Board. The Board, therefore, never deliberated on the issue of collection of additional authorisation premium. Further, the Board approved extension of time without any change in the existing conditions of the agreement which *inter alia* included levying of additional premium in case of granting extension of time. Hence, the Corporation should have collected additional premium as stipulated in clause 6.3 (c) of the Agreement.

The management should enforce all relevant provisions of the agreements / contracts to safeguard the interest of the Corporation and the Board of Directors of the company should be apprised of full facts of the contract/agreement deliberated upon in its meeting.

The matter was reported (September 2010) to the Government; their reply had not been received (September 2010).

General

3.18 Follow up action on Audit Reports

Explanatory Notes Outstanding

3.18.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of Government. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the Audit findings included in the Audit Reports. Finance Department, Government of Andhra Pradesh issued (June 2004) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1992-93 to 2008-09 were presented to the State Legislature between March 1994 and March 2010, 11 departments did not submit explanatory notes on 119 out of 408 paragraphs/ reviews as on September 2010 as indicated below:

Year of the Audit Report (Commercial)	Date of presentation to State Legislature	Total Paragraphs/ reviews in Audit Report	No of Paragraphs/ reviews for which explanatory notes were not received
(1)	**(2)**	**(3)**	**(4)**
1992-93	29-03-1994	36	1
1993-94	28-04-1995	25	2
1995-96	19-03-1997	28	6
1996-97	19-03-1998	29	2
1997-98	11-03-1999	29	10
1998-99	03-04-2000	29	7
1999-2000	31-03-2001	24	8
2000-01	30-03-2002	21	5
2001-02	31-03-2003	23	9
2002-03	24-07-2004	16	3
2003-04	31-03-2005	21	8
2004-05	27-03-2006	23	5
2005-06	31-03-2007	23	5
2006-07	28-03-2008	29	13
2007-08	05-12-2008	25	8
2008-09	30-03-2010	27	27
Total		**408**	**119**

Department-wise analysis of reviews/ paragraphs for which explanatory notes are awaited is given in **Annexure-12**. Majority of the cases of non-submission of explanatory notes relate to PSUs under the Departments of Energy and Industries and Commerce.

Compliance to Reports of Committee on Public Undertakings (COPU)

3.18.2 Action Taken Notes (ATNs) on recommendations of the Committee on Public Undertakings (COPU) are required to be furnished within six months from the date of presentation of the Report to the State Legislature. ATNs on 607 recommendations pertaining to 37 Reports of the COPU presented to the State Legislature between April 1991 and March 2010 had

not been received as of September 2010 are indicated below:

Year of COPU Report	Total number of Reports involved	No. of Recommendations where replies not received
1991-92	1	3
1992-93	6	239
1993-94	5	136
1995-96	1	30
1996-97	1	2
1997-98	2	38
1998-99	2	16
2000-01	8	72
2001-02	2	6
2004-05	3	23
2005-06	2	17
2006-07	4	25
Total:	**37**	**607**

The replies to recommendations were required to be furnished within six months from the date of presentation of the Reports to the State Legislature.

Response to inspection reports, draft paragraphs and reviews

3.18.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2010 pertaining to 37 PSUs disclosed that 2,670 paragraphs relating to 703 inspection reports remained outstanding at the end of September 2010. Of these, 141 inspection reports containing 1,079 paragraphs had not been replied to for one to five years. Department wise break-up of Inspection reports and audit paragraphs outstanding as on 30 September 2010 is given in **Annexure-13.** In order to expedite settlement of outstanding paragraphs, one Audit Committee meeting was held during 2009-10 wherein position of outstanding paragraphs was discussed with executive/administrative departments.

Similarly, draft paragraphs and reviews are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 11 draft paragraphs forwarded to various departments during April 2010 to September 2010 as detailed in **Annexure-14** had not been replied to so far (September 2010).

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

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