

Chapter III

3. Transaction Audit Observations

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

Government Companies

Maharashtra State Electricity Distribution Company Limited

3.1. *Avoidable loss of interest*

The Company failed to avail the complete credit period for payment for energy purchased resulting in avoidable loss of interest of ` 8.91 crore on borrowings for payment.

The Company purchases power from Tarapur and Kakrapar plants of the Nuclear Power Corporation of India Limited (NPCIL). The Company entered into Power Purchase Agreements (PPA) with the plants of NPCIL since 2005 for purchase of power.

As per clause No.8.3 of the PPA, NPCIL allows rebate of 2.5 *per cent* on the amount of energy bill (excluding duties, levies *etc.*) negotiated through Letter of Credit (LC) on presentation of the bills by NPCIL to the bank within the last day of the calendar month in which date of issue of bill is recorded. The Company accordingly arranged separate LC in favour of NPCIL's Tarapur and Kakrapar plants.

We noticed that during the period 2005-06 to 2009-10, though the due date of monthly energy bill was the last day of the calendar month in which bill was issued, in majority of the bills, the due date mentioned on the energy bills was 26 or 30 of the respective month. The Company was paying bills through LC by operating bank overdrafts. Further, it was noticed in audit that during 2005-06 to 2009-10 (up to February 2010) the Company had made weekly payments of 25 *per cent* each against the monthly bill. The payments were made four to 27 days in advance of the due date. The reasons for not making the payment as per the terms of agreement on due date were not on record. Thus, the Company failed to avail the complete credit period allowed by NPCIL for making payment of bills.

Out of the total energy bills aggregating ` 2,931.63 crore, payments during the period 2005-06 to 2009-10 (up to February 2010) to the extent of ` 2,127.57 crore (72.57 *per cent* of total bills) were made four to 27 days before the due dates on which the interest burden at the rate of 11 *per cent* (average interest on bank overdrafts) worked out to ` 8.91 crore.

Since the payment was made through LC, the Company could have availed of the full credit period allowed for making payment of the energy bills and avoided the payment of interest on borrowings through bank overdrafts. Thus, the payment of bills in advance of the due dates was not in the best financial interest of the Company.

The Company accepted the audit observation (May 2010) and further stated that payment is now being made on the last day of the month in which bill is issued. In fact this reveals that due to delay in following the modified condition for payment of energy bills the Company suffered avoidable loss of interest of ` 8.91 crore.

It is, therefore, recommended that the Company enters into an agreement with the supply Company and its own bankers to debit the account only on the last day meant for payment.

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

Maharashtra Airport Development Company Limited

3.2 Undue favour to a private agency

The Company extended undue favour to an agency due to non cancellation of allotment and non forfeiture of the advance payment of ` 8.80 crore.

The award of public contract through open tender is to ensure transparency by giving wide and adequate publicity. Further, award of contracts on nomination basis, which is also called a single tender is to be resorted to only under exceptional circumstances such as natural calamities and emergencies or if there were no bids to repeated tenders or where only one supplier has been licensed for the work.

Maharashtra Airport Development Company Limited (Company) invited (7 June 2006) expression of interest (EoI) only through one newspaper, the Times of India, for sale of land for establishment of Health City in the Multi-modal International Passenger and Cargo Hub Airport (MIHAN) project at Nagpur. Of the eight parties who responded to EoI, seven were found eligible, to whom Request for Proposal (RFP) was circulated in August 2007 by e-mail. In response to RFP, offer was received only from Quality Care India Limited (QCIL), which led to a single tender situation which could have been avoided by re-tendering the same. However, the Evaluation Committee (EC) of the Company considered the single tender and accepted (6 December 2007) the offer of QCIL as the agency agreed to complete the project within 36 months after obtaining possession of the land.

Accordingly, the consortium of QCIL, John Hopkins Medicine International and Indu Projects Limited was allotted (June 2008) 74 acres of land on lease for a period of 66 years in MIHAN project for developing a Health City by setting up a 750 bedded Hospital at the rate of ` 60 lakh per acre amounting to

₹ 44.40 crore. As per the terms and conditions the lessee had to pay 20 *per cent* consideration as advance payment to indicate his confirmed interest in the land. The balance 80 *per cent* payment was payable within 30 days of confirmed allotment. In case of non-payment of balance consideration within the stipulated period, the advance payment (20 *per cent*) was to be forfeited. Accordingly, QCIL paid advance payment (20 *per cent* of consideration) of ₹ 8.80 crore in August and September 2008. The balance 80 *per cent* consideration of ₹ 35.60 crore had not been paid by QCIL so far (October 2010) *i.e.* even after a lapse of 23 months from the date of advance payment.

In this connection we observed the following:

- In the interest of transparency, the EoI should have been given wide and adequate publicity. However, this was not done as the EoI appeared only in the Times of India and not in the local vernacular newspapers.
- From the bidding documents, records were not available as to when RFP was sent by e-mail to QCIL. The receipt of offer only from QCIL was thus highly irregular, as it led to a single tender situation.
- The Company forwarded the RFP to bidders by e-mail. However, the Company should have also ensured that the RFP was circulated to all the eligible bidders by Registered Post to get competitive bids. Failure, to do so had resulted in poor response to RFP as offer was received from only QCIL which led to a single tender situation.
- Penalty clause as decided by the EC of ₹ five lakh per week beyond 36 months from the date of handing over of land was not included in the allotment letter.
- In spite of default, the Company did not cancel the allotment of land to QCIL as per the terms of land policy by forfeiting the amount of ₹ 8.80 crore even after a lapse of 23 months.

The Management stated (May 2010) that due to adverse economic condition investors had delayed their decision to invest funds in projects. Further, it stated that the cancellation of allotment and finding a new investor would result in loss of time.

We noticed that eleven other parties allotted land under the same project had made the payment during the year 2008-09 and therefore the excuse of adverse economic condition was not correct. Further, the very purpose of development of MIHAN project by the Company was defeated due to non-disposal of allotted land and non-taking of decision on the matter till date leading to an undue favour to a private agency by stale-mating the process.

It is, therefore, recommended that the Company should ensure compliance of the terms and conditions of allotment of land so that no undue benefits are extended to the allottees. Immediate steps should be taken to arrive at a decision on the allotment of land to QCIL.

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

3.3 Unfruitful expenditure

The Company incurred unfruitful expenditure of ` 52.80 lakh on Management Consultancy services.

The Maharashtra Airport Development Company Limited (Company) appointed (February 2008) the Matrix Technical Services Private Limited as Project Management Consultant (PMC) on lump-sum consultancy charges of ` 22 lakh for work of diversion of High Tension (HT) lines which was passing through the Multi-modal International Passenger and Cargo Hub Airport (MIHAN) project area of the Company. The work was to be completed by 30 November 2008. The scope of consultancy included preparation of bid documents, bid evaluation, design of towers and conductors to be installed on HT line. As per the terms of payment 15 *per cent* amount (` 3.30 lakh) was payable on issue of tender notice, 25 *per cent* (` 5.50 lakh) on finalisation of contract and the balance 60 *per cent* (` 13.20 lakh) in six monthly instalments of ` 2.20 lakh each.

The Company awarded (June 2008) the work of diversion of HT lines to Aster Teleservices Private Limited at a cost of ` 5.42 crore. However, due to change in the scope of work by Maharashtra State Electricity Transmission Company Limited, the Company invited a fresh tender and awarded the work (April 2010) to a new contractor Chadalavada Constructions (P) Limited at ` 8.96 crore.

In this connection, we observed (September 2009) that the Vice Chairman and Managing Director of the Company decided (February 2009) to pay consultancy fee at the rate of ` 2.20 lakh per month till the completion of work of diversion of HT line instead of as a percentage of work executed. The work of diversion of HT line had not started as of May 2010. Thus, there was an absence of a suitable clause in the contract with the PMC which prescribed a formula for payment of fees during an extension of time-frame and in case of change in scope of work. This resulted in the Company making a total payment of ` 61.60 lakh[@] to the PMC without any execution of diversion work. We assessed the unfruitful expenditure to be ` 52.80 lakh*.

The Management stated (May 2010) that the *post facto* approval of the Board was obtained on 13th May 2010 for continuance of the PMC on payment of ` 2.20 lakh per month. The reply was not acceptable as it did not address the absence of linkage of the payment of consultancy charges with any time frame and the progress of work. The fact remains that the Company had paid ` 61.60 lakh to the PMC when the work of diversion of HT lines had not even commenced.

[@] ` 2.20 lakh each from February 2008 to May 2010.

*Excluding payment already made towards 15 *per cent* amount (` 3.30 lakh) on issue of tender notice and 25 *per cent* (` 5.50 lakh) on finalisation of contract.

It is, therefore, recommended that a condition for regulating fees in case of extension of time and change in the scope of work should be suitably incorporated in future consultancy contracts.

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

Maharashtra State Road Development Corporation Limited

3.4 Deficient planning

Lack of proper planning led to a time overrun of more than five years in commissioning of Rail Under Bridge at RCF Junction, Chembur (Mumbai), unfruitful expenditure of ` 4.30 crore and additional liability of ` 5.90 crore.

The work of construction of Road Under Bridge (RUB) at RCF Junction, Chembur is one of the 50 flyover projects entrusted to Maharashtra State Road Development Corporation Limited (Company) by the Government of Maharashtra (September 1997) for improving the flow of traffic in Greater Mumbai. The Project Management Consultancy (PMC) work was awarded (May 2000) to Rail India Technical and Economical Services Limited (RITES) and the Company paid an amount of ` 38 lakh towards consultancy charges. The preparation of project report considering the site conditions was the responsibility of the consultants.

The contract for construction of RUB and civil works was awarded (May 2003) to J. Kumar & Company, who was the L1 bidder for ` 1.90 crore by pushing cement concrete boxes under the rail track. The work was scheduled to be completed by May 2005 (24 months) which was extended up to May 2007. The Company had incurred total expenditure of ` 4.30[#] crore on the project till the contractor had suspended work (January 2007).

It was noticed that the Company subsequently terminated (September 2007) the consultancy contract of RITES and the balance PMC work was awarded to another consultant S.N. Bhobe and Associates Private Limited on 16 August 2008. The reasons for cancellation of contract of RITES were not on record.

The Company decided to implement the new scheme of relieving girder for RUB as suggested (January 2008) by the Railways. Fresh tenders (September 2008) were invited for the balance work of RUB at the estimated cost of ` 9.75 crore after a delay of 21 months from the suspension of work (January 2007). In response, only one offer was received against the tender and the work was awarded (February 2009) to Manoj Sthaptya (contractor) at ` 12.12 crore on single tender basis. The work was scheduled to be completed in six months by August 2009.

[#] Payments to Railways-` 2.34 crore, Contractor-` 1.43 crore, Consultant-` 0.38 crore, MTNL-` 0.09 crore and HPCL-` 0.06 crore against the contract.

In June 2009, after obtaining permission for a 30 hours Mega Block (MB) from the Railways the concrete box was attempted to be pulled out as decided by the Company. However, it started tilting due to condition of soil and severe ground water condition with presence of weak marine clay. Thereafter, as suggested by the Railways (January 2008) the contractor submitted (December 2009) a new scheme involving dismantling of the pre-cast concrete boxes for RUB and implementing the work by using single span semi-through girder bridge. The scheme was approved by the Railway Authorities in February 2010 and the work was still incomplete (December 2010).

We observed (March 2010) from the records as follows:

- As per the bid document of the first contract MSRDC was to provide all effective assistance to the contractors in obtaining clearance from the Railways. But the Company pursued the matter with the Railways for obtaining clearance during February, June and December 2007 *i.e.* after a delay of more than three and a half years which clearly indicated lack of follow-up by the Company. Further, the Company failed to incorporate any contractual provision of sole responsibility of the contractor to get clearance from the Railways.
- The scheme submitted by RITES was found deficient by the Railways (June 2006). RITES clarified the deficiencies in September 2006 to the Company. Instead of acting on deficiencies pointed out by RITES the contract of RITES was cancelled without recording any reasons.
- The Company changed the consultant (August 2008) without considering the site condition as it had been noticed by RITES that the site had severe ground condition and coal ash filling material was noticed. Hence the boxes pulled in were tilted leading to time and cost overrun.
- The performance of the second contractor was also not good and only 40 *per cent* work was completed even after delay of one year from the scheduled date of completion. The reasons for not properly assessing the performance credentials of the contractor before award of work on single tender basis were not clear.
- The period of six months for completion of the incomplete work was unrealistic and the project slated to be completed in 24 months remained incomplete even after 84 months.

Thus, inadequate and deficient planning of the project and ineffective appraisal of defective site conditions inspite of recommendations made by the first PMC had resulted in time overrun of over five years after commencement of work with consequent cost overrun. The Company had to incur unfruitful expenditure of ` 4.30 crore by awarding the contract to the second contractor at quoted price of ` 12.12 crore. It also had to bear the additional liability of ` 5.90 crore towards additional supervision and maintenance charges payable to Railways.

The Management stated (October 2010) that civil works were started in 2003 in anticipation of getting permission from Central Railway. The Company admitted that the soil conditions were not favourable for box pushing and changes were made in technical specification and that the balance work would be completed within six months after receipt of necessary approvals from Railways.

The reply did not justify the delay in implementation of the scheme and was silent on lack of follow-up by the Company during 2003-05. The reasons for termination of contract of RITES instead of taking action on the technical flaws pointed out by RITES were also not addressed clearly.

It is therefore recommended that the infrastructure projects should be properly planned after considering all aspects with achievable attributes and bench-marks for its completion so as to avoid time overruns. The Company needs to co-ordinate its follow-up action and monitor timely and cost-effective progress of work. Performance evaluation of contractors should be rigorous prior to award of work.

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

3.5 Avoidable loss of revenue

The Company suffered loss of revenue of ` 63.43 lakh due to delay in finalisation of toll collection contract.

The Company collects toll revenue on roads constructed on Build, Operate and Transfer basis by awarding toll collection contracts on upfront payment basis to contractors through tendering process. The toll collection contract at Dusarbeed on Sultanpur-Sindkhedraja Road for 156 weeks from 21 February 2006 to 15 February 2009 was awarded to Jai Laxmi Construction (Contractor) at the monthly upfront payment of ` 12.86 lakh.

The Company was to ensure finalisation of the next toll collection contract before conclusion of the earlier contract for uninterrupted toll collection at appropriate rates to maximise revenue generation. The Company, two months prior to conclusion of the earlier contract, invited (9 December 2008) tenders for toll collection for 104 weeks from 16 February 2009 onwards with estimated toll revenue of ` 5.06 crore for the period of contract (` 25.30 lakh per month). However, the contract was awarded (6 June 2009) to Souvenir Developers (I) Private Limited who was the highest bidder at ` 7.37 crore (monthly upfront payment of ` 28.35 lakh) and the contract became operative from 15 June 2009. During the period 16th February to 14th June 2009 the toll collection work was given to the earlier contractor by issuing extension orders at the existing monthly upfront payment rate of ` 12.86 lakh.

Scrutiny of records in Audit revealed (August 2009) that though the proposal for tendering was initiated in August 2008, tenders were called for on 9 December 2008 after a delay of about four months and the last date of submission of tender was extended from 12 to 23 January 2009. The technical

bids of eight tenderers who had submitted offers were opened on 23 January 2009. However, the financial bids were opened after a delay of 44 days *i.e.* on 9 March 2009. Thus, there was a time lag of 133 and 44 days in issue of the work order after opening of the technical bids and price bids respectively. Before opening the price bid the Company granted (16 February 2009) extension of 28 days (four weeks) to the existing contractor. No efforts were made to finalise the new tender within this extended period and further extension was granted up to 14 June 2009.

Delay in finalisation of tender necessitated extension of the earlier contract at the lower rate resulting in loss of revenue of ` 63.43 lakh when compared to the estimated rate as per tender up to the date of opening of the price bids; and the highest rates received and accepted as per tender. The delay in finalisation of the tender was avoidable and continuation of the earlier contract at the lower rate was detrimental to the financial interest of the Company.

The Management stated (November 2010), which was also endorsed by the Government (December 2010) that delay in finalisation of toll collection contract up to 14 June 2009 was due to election code of conduct effective from 3 March 2009.

The reply is not convincing as the Company was aware that the earlier toll collection contract was expiring on 15 February 2009. The process should have been started well in advance so that the new contract became operative immediately after the expiry of the earlier contract. Failure to do so is indicative of flawed contract management process leading to non-safeguard to financial interest.

It is, therefore, recommended that the Company should take remedial measures to finalise the tenders before expiry of the toll collection contract to ensure protection of the financial interest of the Company. Besides, responsibility may also be fixed for delay in issue of tender advertisement, finalisation of tender and issue of work order which led to the loss of revenue.

Maharashtra Film, Stage and Cultural Development Corporation Limited

3.6 Short recovery of upfront cost

The Company suffered revenue loss of ` 4.21 crore due to short recovery of upfront cost from BOT operators.

The Company decided (June 2002) to construct three* studios and a Communication Centre at Filmcity, Goregaon by utilising the borrowed funds of ` 20 crore which were raised through issue of interest-bearing bonds. However, the Company incurred expenditure of ` 6.29 crore and diverted the remaining funds for other purposes. The project was abandoned (June 2003)

* Studio VII, VIII and IX.

due to non-availability of funds and other constraints. The Board of Directors then decided (February 2004) to execute the project on Build, Operate and Transfer (BOT) basis.

The Company estimated the project cost at ` 54.23 crore which included the following components:

- Expenditure incurred by the Company of ` 6.29 crore and additional cost of ` 3.33 crore being the present value of construction carried out by the Company and ` 4.03 crore towards consultancy.
- Other charges and ` 40.58 crore being the balance cost for completion of work by the private agencies.

Accordingly, tenders were invited for completing the project on BOT basis. The Company awarded (August 2007) the works towards completion of the studios to Adlab Limited and the work of completion of the Communication Centre to Mukta Arts Limited being the highest offers*.

As per the guidelines for upfront tariff setting for Public Private Partnership (PPP) Projects of Government of India, the major components in fixation of upfront cost of any project are to be capital cost and operating cost. The capital cost *inter alia* includes financing cost and interest during construction *etc.* As the Company had raised the funds through bond issue, the capital cost inclusive of interest on borrowing should have been considered while fixing the upfront cost. We noticed that while computing the upfront cost of ` 13.64 crore, the Company had not considered the interest of ` 4.21 crore (paid during the period April 2002 to March 2007) on the borrowings through bonds which resulted in short recovery of ` 4.21 crore from the BOT operators and consequential loss of revenue to the Company.

The Government/Management accepted the fact (June-September 2010) that the Company did not include interest in the upfront cost stating that it had already included 50 *per cent* additional cost over the actual expenditure incurred on the basis of 2001-02 District Scheduled Rates *plus* contractor premium and escalation up to July 2003.

The reply is not based on facts since the Company should have included the entire interest of ` 4.21 crore on the bond element while calculating the upfront cost.

It is, therefore, recommended that while executing contracts on BOT basis the upfront cost should be correctly worked out as per PPP guidelines. The funding cost for the project should be correctly estimated. Also, delays in awarding BOT contracts should be avoided to prevent time overrun and revenue loss to the organisation.

* The work was awarded to bidders on BOT basis who quoted highest upfront amount.

Maharashtra State Electricity Transmission Company Limited

3.7 Idle investment

Failure to obtain prior statutory permission for utilising forest land for construction of transmission line resulted in idle investment of ` 33.59 crore.

The erstwhile Maharashtra State Electricity Board (Board)* decided (June 2003) to construct a 55 kilometre 220 KV single circuit transmission line on double circuit towers from Boiser sub-station (400 KV) of Power Grid Corporation of India Limited to 220 KV Wada sub-station of the Board. The proposed line was expected to transmit power from the Tarapur Atomic Power Project (TAPP) to reduce the power shortage in Thane district. The joint inspection of the site was carried out with Forest Officers and it was revealed (June 2004) that land coming under tower location Nos.5 to 48 were in the forest area.

However, the Board even prior to site inspection and obtaining clearance from the Forest Department (FD) awarded (April-2004) the work of erection of 195 towers and stringing of 57 kilometre transmission line to B.N. Chaudhary (Contractor) for ` 3.28 crore which was revised (July 2006) to ` 3.93 crore by taking into account change in scope of work due to modification in route. The work was to be completed within a period of 16 months and the material was to be supplied by the Board. The contractor however, could not complete the work (value of completed work ` 3.56 crore) due to right of way[¥] problem. The work was reassessed by the Maharashtra State Electricity Transmission Company Limited (Company) which was formed (June 2005) after restructuring of the Board. In order to speed up the work, the construction of transmission line from location No. 81 to Wada sub station was awarded (May 2006) to another contractor *i.e.* M. N. Ghatge, Kolhapur for ` 1.52 crore with scheduled time of completion as 12 months. The contractor completed the work of ` 35.15 lakh and the remaining works were still pending due to non-clearance of site by FD (October 2010).

We observed that a total expenditure of ` 33.59 crore (including material) had been incurred up to April 2010 but the project was still (October 2010) incomplete. We further observed that there was a lack of planning and delays in taking up the issue with the FD. All the details of submission of proposal to the FD for No Objection Certificate were ready in May 2005. However, the final proposal was submitted to the FD only in March 2008 by taking a total of 44 months subsequent to inspection of the site. As a result funds amounting to ` 33.59[§] crore remained idle since January 2008. The purpose of the scheme

*Erstwhile MSEB (Board) was trifurcated into three Companies in June 2005 including the Company *i.e.* MSETCL.

[¥]Right of way means right to lay/construct the line and right to approach the line for operation and maintenance purpose.

[§]Material supplied during 2005-09 ` 29.65 crore, value of works executed ` 3.91 crore and expenditure on survey ` 0.03 crore.

of evacuating the power from TAPP to reduce the power shortage in Thane district was thereby defeated.

The Management/Government stated (July-November 2010) that while awarding (March-April 2004) the contract, the issue related to forest land was not on record. It also stated that during execution, forest officials had orally informed that the route of the line did not pass through the forest area. Further, due to stiff resistance from the land owners and delay in obtaining approval from FD the project had been abnormally delayed. The reply was not acceptable as the work of construction of the line was awarded before conducting the site survey. The execution of work on oral information of FD officials indicated a non-serious approach of the Company and deficient planning in undertaking work without requisite statutory clearances.

It is therefore recommended that the projects should be planned meticulously. Necessary and complete clearances should be obtained before commencement/execution of projects. Responsibility should be fixed on officials for casual approach in planning projects.

3.8 *Undue favour to a vendor*

The Company incurred irregular expenditure of ` 2.67 crore on repairs of a scrapped transformer without inviting competitive bids.

The erstwhile Maharashtra State Electricity Board (MSEB) procured (1989) a 200 MVA power transformer* at a cost of ` 2.43 crore which was commissioned at Apta Sub Station (ASS) on 15 May 1990. The said transformer failed thrice in October 1995, September 2000 and May 2002. The transformer was repaired at a cost of ` 43.76 lakh on two occasions (October 1995 and September 2000) from Tarapur Transformers Private Limited (TTPL). In May 2002 the transformer was repaired by Aditya Vidhyut Appliances Limited (AVAL) at a cost of ` 14.50 lakh. The transformer again failed on 22 December 2002 *i.e.* within four months of re-commissioning.

Due to frequent failure of the transformer and despite incurring expenditure on its repairs, the Board of Directors (BoD) of the Company resolved (November 2005) to scrap the transformer and dispose it by auction. However, the Company after lapse of 13 months (January 2007) decided to repair the scrapped transformer in disregard of the decision of the BoD. Accordingly, the Company awarded the work to the same vendor *i.e.* AVAL who had undertaken the earlier unfruitful repair in May 2002. The transformer was charged at Padghe Sub Station (PSS) on 30 December 2009.

In this connection we observed the following:

- The Company neither invoked the guarantee clause in December 2002 to repair the transformer at the cost of the vendor although it was within the scope of the contract, nor performance of the vendor was appraised in view of the failure of the repair undertaken in May 2002.

*200 MVA power 220/100 KV BHEL make transformer Sr. No.6004938.

- In January 2007 the decision to repair the transformer was taken in a review meeting in a non-transparent manner as the same was not minuted.
- The Company did not observe due diligence and transparency in award of work of repair of the transformer. Instead of inviting tenders by wide publicity it awarded the repair work to the same vendor, AVAL at a cost of ₹ 2.67 crore which was 53 per cent of the cost of a new transformer (₹ 5 crore as per cost data of 2006-07).
- The failed transformer was partially operationalised after a period of nearly seven years, as it was stated to be under charging only at PSS and not in active usage.

Thus, the Company extended undue favour to the vendor (AVAL) by relieving the vendor from obligation to comprehensive performance guarantee for the earlier repair work and by awarding the subsequent repairing work in a non-transparent manner and without inviting competitive bids.

The Management stated (July 2010) that decision to scrap was taken by erstwhile MSEB and the Company thought it prudent to repair the transformer after a review in January 2007.

The reply is misleading and contradictory as the formation of the Company was in June 2005 and the decision to scrap the transformer was taken by its BoD only in November 2005. The reply also fails to address the issue as to why undue favour was shown to a vendor repeatedly by not observing due diligence in calling for competitive bids and not benchmarking actual performance against contractual performance indicated in award of work.

It is therefore recommended that:

- The Company follows competitive bidding processes and improves contract management practices.
- Penalty clauses/Guarantee clauses should be inbuilt into contractual obligations of vendors and should be invoked to ensure accountability and desirable performance of vendors.

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

3.9 Wasteful expenditure

The Company incurred wasteful expenditure of ₹ 38.89 lakh on replacement of circuit breakers on idle feeders.

The Lonikand 400/220/22 KV receiving station of the Company was commissioned in 1986 by the erstwhile Maharashtra State Electricity Board (Board). The 220 KV feeder bays of the substation, through two express feeders viz. Sanaswadi I and II was providing power to Ispat Industries Limited (IIL), an extra high tension consumer. Since IIL had stopped

production activity the supply was temporarily disconnected in November 2000 and permanently in November 2001. Thus, the two express feeders were idle from November 2000 onwards. The Technical Director (CP-EHV) of the erstwhile Board submitted (September 2004) a proposal for renovation and modernisation of the 400 KV receiving station which included replacement of six circuit breakers. While submitting the proposal the Board authorities were aware of the fact of idling of the two express feeders due to stoppage of production activity by IIL. The Board, while approving the proposal (October 2004), directed that the Chief Engineer should re-examine these schemes for any necessary modifications and delegated powers to the Chairman to carry out modifications in consultation with the Technical Member and Accounts Member of the Company.

The Board was trifurcated in June 2005. The Company without ascertaining the requirement of circuit breakers for Sanaswadi I and II feeders replaced the same at the cost of ` 38.89 lakh in August 2007 after 34 months of the decision. There was no demand for power from these feeders and the circuit breakers were not at all in use. Thus, the expenditure of ` 38.89 lakh on fixing of circuit breakers on the two idle feeders was wasteful.

The Management in its reply (June 2010), which was also endorsed by the Government (July 2010), accepted the fact of idling of the two express feeders and stated that the replacement was done as it was sanctioned by the Board (October 2004) and considering the future prospective consumers and prospect of establishment of a new substation in Sanaswadi Area.

The reply itself indicated a casual approach in implementing projects. The wasteful expenditure could have been avoided if the requirement had been reassessed and the same was apprised to BoD before replacement.

It is therefore recommended that action for replacement/renovation should be considered after ascertaining the requirement and reviewing the decision if so warranted before implementation. The lax approach in implementation of repairs and replacement should be avoided to protect the financial interest of the Company.

Shivshahi Punarvasan Prkalp Limited

3.10 Undue benefit to a private agency

The Company incurred extra expenditure of ` 1.45 crore due to undue benefit in award of contract to a private agency without calling for competitive bids and in violation of Government of Maharashtra advertising policy.

In order to speed up slum rehabilitation programmes and meet the shelter needs of economically weaker sections of the society, the Shivshahi Punarvasan Prkalp Limited (Company) is engaged in implementation of housing schemes including redevelopment of slums in urban areas of the Mumbai Metropolitan Region.

The Company publishes tender notices in newspapers for the work of construction and repairs to rehabilitation buildings, sale of flats, shops and sale of Transferable Development Rights. Between March 2002 and 2010 the Company had released 33 tender notices for advertisement in 160 daily newspapers. All the tender notices were issued through a private advertising agency viz. Tristar Communications Private Limited (TCPL) on the basis of open quotations and the Company incurred a total expenditure of ` 1.59 crore on the advertisements.

Scrutiny of records (August 2009) for award of work for advertisement of tender notices revealed the following irregularities:

- There was no stipulation of the eligibility and qualification criteria for vendors which would also indicate the minimal past working experience required.
- There was no transparent bidding procedure for the entire period. On 26 occasions three quotations were collected and on seven occasions no quotations were called for and the work was awarded on single quotation basis to TCPL.
- On every occasion the Company collected quotations from TCPL and two other agencies. We noticed that every time the rates quoted by the three agencies were the same but as TCPL offered two *per cent* discount on offered rates, the offer of TCPL was always found to be the lowest.
- No comparative statements were prepared and the work was awarded to TCPL without properly ascertaining the reasonability of rates.
- Audit scrutiny of quotations collected by the Company between March 2002 and 2010 from 12 agencies on 26 occasions further revealed that the Service Tax registration number and the name of the proprietor were mentioned only on the quotation of TCPL and nothing was mentioned in the other quotations. We also observed several other irregularities/incompleteness* in the vendor information placed on record which calls into question the veracity of the same.
- As per the Government of Maharashtra (GoM) Advertisement Policy (May 2001) Public Sector Undertakings (PSU), were empowered to give advertisements directly to the approved newspapers at approved rates. It was observed by GoM that the policy was not being observed by PSUs and therefore GoM modified the policy in August 2009 taking into consideration the advancement in the newspaper arena and the increased cost of inputs. The highest rates for advertisements stipulated (March 2010)

*Non-existence/duplication of addresses and phone-numbers in two cases (Kino Sign Trucks Private Limited and Zenith Outdoors Private Limited), non-matching of telephone numbers with purported agencies in seven cases (Global Advertising, Hans Publicity, Reflections Advertising, Amit Enterprises, Harsh Publicity, Deepak Publicity and Aniruth Advertising) and recording of same phone/fax numbers in four cases (Kino Sign Trucks Private Limited, Zenith Outdoors Private Limited, The Art Advertising Bureau and Jyoti Publicity).

were ` 125 per column centimetre and ` 31 per square centimetre. The policy was strictly to be followed by all PSUs and a declaration to that effect was to be furnished to the authorities.

The Company violated the Government policy by consistently awarding the advertisement work to TCPL at very high rates compared to the Government approved highest rates. Had the Government approved highest rates been followed the Company would have incurred expenditure of ` 0.14 crore. Instead, the Company incurred a total expenditure of ` 1.59 crore which has resulted in extra expenditure of ` 1.45 crore due to passing on an undue benefit to a private agency.

The Company's reply was awaited. Government of Maharashtra, accepted (November 2010) the audit point and further stated that the instructions have been given to the Company to follow the competitive bidding process henceforth.

It is therefore recommended that the Company should formulate a transparent and competitive bidding procedure to ascertain the reasonability of the rates and observe due diligence in bidding processes.

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

City and Industrial Development Corporation of Maharashtra Limited

3.11 Non-recovery of differential lease premium

Lack of co-ordination in internal control and monitoring resulted in non-recovery of differential lease premium of ` 49.75 lakh on the additional compensation paid for land acquisition.

The City and Industrial Development Corporation of Maharashtra Limited (Company) established in 1970 is the Special Planning Authority for the Navi Mumbai Project. For implementation of the project, the State Government had decided in March 1990 to allot 12.5 *per cent* of the land acquired from the Project Affected Persons (PAPs). Accordingly, PAPs were entitled to allotment of land equivalent to 8.75 *per cent* (after deducting 3.75 *per cent* for common facilities) of the land acquired. The lease premium to be collected from the PAPs for allotment of land under this scheme is double the rate of compensation paid (including interest) per square metre *plus* development charges of ` five per square metre. In order to recover the differential lease premium in respect of the land allotted, in the event of enhancement in the amount of compensation paid to the land owner by the appropriate authority/Court, the Company incorporated an enabling clause in the lease agreement in May 2008. As per the clause in the agreement, additional lease premium was to be remitted within 15 days from the date of receipt of demand notice from the Company. In case of failure to pay the amount, the Company

was entitled to terminate the lease agreement and resume the land alongwith standing structure, if any.

We noticed that the Company allotted (May 2008) land measuring 3,298.84 square metres (under the 12.5 *per cent* Scheme) to Shri Rajesh Dharmaji Jitekar at plot No.95 in Sector-9, Ulwe against 37,620 square metres of the total land acquired from them at Dapoli. This allotment included the entitlement of 2,750 square metres against 31,490 square metres land acquired at survey No.108/3 at Dapoli. The compensation paid for 31,490 square metres land acquired was ` 14.14 lakh as per the original award (July 1986). This was enhanced by the Court subsequently by ` 2.83 crore and the total compensation of ` 2.97 crore was paid to them (July 1986 and January 2009).

We observed (February 2010) that at the time of allotment of plot, the Company recovered the lease premium of ` 2.25 lakh (at the rate of ` 82 per square metre) from the PAP on the basis of original compensation paid. However, it failed to collect the differential/additional lease premium of ` 49.75 lakh* on the basis of enhanced compensation.

It was noticed that the differential lease premium of ` 49.75 lakh recoverable on the enhanced compensation paid was neither adjusted from the compensation paid nor were any effective efforts made to recover the amount by the Management.

We further observed that the Company did not maintain any records/data-base to ascertain the details of allotment of land, payment of enhanced compensation if any, to the Special Land Acquisition Officer (SLAO) and final payment to the lessee by SLAO. Failure, to enforce the clause as per the agreement in the event of additional compensation paid to the lessee was indicative of lack of co-ordination in internal control and monitoring system. Thus, the present internal control system is inadequate to the extent that it failed to detect the non-collection of additional lease premium.

The Management accepted (August 2010) the audit observation and stated that remedial action has been initiated by issuing demand notices to the concerned persons in February 2010 for recovery of additional lease premium. The Government stated (September 2010) that additional compensation was paid after allotment and hence it was not recovered. The action for recovery of differential amount was being taken by the Company. However, the amount has not been recovered so far (December 2010).

It is therefore recommended that the Company:

- Maintains proper records/data-base to ascertain whether additional compensation was paid and additional lease premium has been demanded/received from PAPs.

*` 2.97 crore paid as compensation ÷ 31,490 square metres = ` 943 per square metre x 2 + 5 = ` 1,891 - ` 82 per square metre received = ` 1,809 per square metre x 2,750 square metre = ` 49.75 lakh.

- Fixes responsibility for the non-recovery of differential lease premium on the concerned officials.
- Institutes strong internal control and monitoring mechanisms to ensure recovery of differential lease premium in all cases of additional compensation payments.

Maharashtra Agro Industries Development Corporation Limited

3.12 Idle machinery

Fodder block machinery installed in May 2008 at a cost of ` 38.62 lakh was lying idle for want of demand for fodder blocks.

Government of India (GoI) decided (August 2006) to implement a special livestock and fisheries sector package for 31 suicide prone districts in four* States with a view to provide supplementary sources of income to the farming population in these States. Government of Maharashtra (GoM) forwarded (February 2007) a proposal submitted by Maharashtra Agro Industries Development Corporation Limited (Company) to the GoI for the establishment of a fodder block manufacturing unit which was one of the approved items in the package. The project envisaged *inter alia* productive utilisation of crop residues to prevent wastage and their simultaneous utilisation for livestock feeding by conversion into feed blocks. The Company received subsidy of ` 74.37 lakh (Central Government-` 42.50 lakh and State Government-` 31.87 lakh) in July 2007 and May 2008 for setting up a fodder block manufacturing unit at Yavatmal in Vidarbha Region.

The Company after receipt of subsidy from GoM, decided (November 2007) to install a fodder block unit. The Company expected to sell 60,000 blocks per year in a three year period and recover the investment of ` 15 lakh over a period of about five years. We noticed that the estimation of sales was not based on any context-specific survey or feedback from the targeted groups of farmers in the area for viability of the new product proposed to be manufactured. This was in clear deviation from the project guidelines which stressed upon a proper assessment of project viability including co-ordination with National Bank for Agriculture and Rural Development (NABARD)/Commercial Banks and involvement of Self-Help Groups (SHGs) for the purpose. The Company invited tenders in November 2007 for supply and erection of fodder block machinery and awarded the work in February 2008 to Poshak Feeds India Private Limited for ` 38.62 lakh. The supplier supplied and erected the machinery in May 2008 and the trial run of the machinery was also under-taken in October 2008. The Company did not undertake any production till date and the plant was lying idle since erection.

Out of the total subsidy of ` 74.37 lakh received, the Company had spent only ` 38.62 lakh for erection of fodder block machinery and the balance amount of ` 35.75 lakh was not utilised so far (December 2010).

* Andhra Pradesh (16), Karnataka (6), Kerala (3) and Maharashtra (6).

Thus, failure of the Company to assess project operationalisation as per guidelines and incorrect estimation of the actual demand for fodder blocks before installation of the machinery resulted in its remaining idle. The intended benefits of the project, therefore, could not be delivered to the target group of distressed farmers.

The Management accepted (June 2010) the fact that the machinery remained idle since its erection in May 2008. It stated that there was no demand for the product because of the availability of compounded cattle-feed at subsidised rates in the area. The reply indicates that the pre-operational estimation and project assessment in November 2007 was faulty as it did not address actual contextual realities. The management admission that efforts were not made to convince farmers to adopt to fodder block technology again indicated inadequacies in project implementation.

It is therefore recommended that:

- Project implementation should be preceded by detailed context-specific feasibility survey.
- Such survey should closely factor in detailed project guidelines.
- Stakeholder inputs/feedback on technology change-over from farmers groups/SHGs *etc.* should form a vital component of these surveys.

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

Maharashtra State Mining Corporation Limited

3.13 *Unfruitful expenditure*

The Company incurred unfruitful expenditure of ` 27.90 lakh on the construction of a lime-kiln.

Maharashtra State Mining Corporation Limited (Company) owns a limestone mine at Gaurala, District Yavatmal. There are many private agencies engaged in the mining of limestone in the area with traditionally operated lime-kilns. In order to diversify its activities the Company decided (June 1999) to install a lime-kiln unit based on updated technology for development of lime-kiln-based value-added products. The Company referred the project for consultancy to Central Building and Research Institute (CBRI), Roorkee and based on the Project Report given (December 2000) by CBRI, Roorkee, the Company after a period of four years constructed (March 2004) the lime-kiln at a total cost of ` 27.90 lakh.

The Company decided (April 2004) to operate the lime-kiln unit on contract basis through an appropriate agency. In spite of taking a decision to outsource the operation, the Company had arranged training about use of this technology to its Mining Manager in June 2004. After a delay of 21 months from the date

of decision to outsource, the Company invited (December 2005-January 2006) tenders to operate the lime-kiln for five years to which there was no response. The Company again invited tender (August 2008) and awarded (February 2009) the work to SDS Forge who was the highest bidder. The work of running the lime-kiln was awarded on a monthly rent of ` 2,500. The contractor had paid ` 7,500 towards the lime-kiln rent for three months only and had withdrawn the machinery and labourers from the mine. The efforts of the Company for operating the lime-kiln through outsourcing the mining activity was also not successful.

In this connection we observed the following:

- There were no clear-cut Terms of Reference (ToR) to CBRI as to what components of updated technology needed to be studied by it for preparation of Project Report. This was all the more essential as the project was designated for implementation and was not intended to be a Research and Development (R&D) project.
- Availability of water was not considered in the Project Report prepared by the CBRI. This was a critical lapse in planning as during implementation, the project was impeded because water supply required for operating the gadgets for environmental protection in the area was not available. Power back-up facility and storage shed of adequate size were also not available at the site of the project.
- The Company's own records shows that there were many lime-kilns in the area based on old design. Agencies with requisite experience to operate a lime-kiln which was constructed by the Company on specific modern design were not available.
- The Company constructed the lime-kiln in March 2004 *i.e.* after a delay of four years from the date of receipt of project report. After construction, the Company decided (April 2004) to operate the lime-kiln unit on contract basis through an appropriate agency. However, after a delay of 22 months the Company invited tender in December 2005-January 2006 for which no response was received. The Company again delayed the re-tendering process and after a delay of more than two and half years the Company invited tenders in August 2008.

The planning of the project was deficient and without in-depth ascertaining of the basic infrastructure facilities and suitability of the updated technology for the specific location. This ultimately resulted in an unfruitful investment of ` 27.90 lakh by the Company on construction of a lime-kiln which was not operated since its construction apart for a period of three months.

The Management accepted (July 2010) that the lime-kiln was not in use and further stated that the agency which was awarded the contract for running the lime-kiln had challenged the termination notice served (May 2010) by the Company for poor performance in the Court. It stated that fresh bids would be invited after the case is decided. The Management reply is however silent on the lack of clear-cut ToR inputs to CBRI for formulation of the Project Report

and the inconsistencies in planning the project including the sudden decision to outsource operations as well as incurring delays in inviting bids. The fact also remains that the investment of ` 27.90 lakh proved unfruitful as the machinery had not been used since its construction in 2004.

It is, therefore, recommended that the Company undertakes proper assessment of site specifications including its infrastructural facilities and their suitability to new technology prior to launch of the same.

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

**Maharashtra Rajya Itar Magas Vargiya Vitta Ani Vikas
Mahamandal Limited**

3.14 Unfruitful expenditure

The Company incurred unfruitful expenditure of ` 23.32 lakh on providing of Accounts and MIS software.

The district-level management work of Maharashtra State Handicapped Finance and Development Corporation (MSHFDC) was outsourced to the Maharashtra Rajya Itar Magas Vargiys Vitta Ani Vikas Mahamandal Limited (Company) as per the Government of Maharashtra decision (April 2005). The Company decided (September 2006) to develop accounts and MIS software and based on the tenders invited, (March 2007), the work for design, development, testing and installation of Accounts software was awarded (May 2007) to Smartlink, Mumbai (Firm 'A') for ` 26.40 lakh. The agreement was signed on 16 May 2007.

As per terms of the agreement, Firm 'A' was required to complete the work within three months from the date of signing of the agreement and in case of delay in completion of work, penalty at the rate of ` 200 per day was to be imposed. As per the terms of payment 60 *per cent* advance *i.e.* ` 15.84 lakh was paid to Firm 'A' on 16 May 2007. As of March 2010 the work had not been completed by the Firm.

Similarly, the work of development of web-based intra-net application and MIS software for extracting data from district offices of MSHFDC was decided to be carried out. The work was awarded (May 2007) to Mechatronics System Private Limited, Pune (Firm 'B') for ` 24.92 lakh and the agreement was signed on 16 June 2007. As per the terms of agreement, 30 *per cent* advance of ` 7.48 lakh was paid to Firm 'B' in June 2007. The work was to be completed within four months and in case of delay in completion of work, penalty at the rate of ` 500 per day was leviable.

We observed (March 2009) the following irregularities in these cases:

- The tenders for accounts and MIS software were to be called on two-bid basis. However, the Company did not collect technical bids and evaluate

the tender. It only considered financial bids and deviated from tendering conditions.

- The Company was aware that the Firm 'A' was a defaulter in earlier software work allotted (March 2006) by the Company and advance of ₹ 7.55 lakh was outstanding with the firm. In spite of this, work was awarded to the Firm 'A' in May 2007. The fact was not specifically brought to the notice of BoDs while awarding the work in May 2007.
- The Company released (16 May 2007) the advance payment to Firm 'A' without insisting on a bank guarantee or security deposit. The Company neither imposed penalty as per the terms of the agreement (₹ 200 per day delay) with Firm 'A' nor took any remedial action for the recovery of advance from the defaulting Firm.
- The work of web-based intra-net application and MIS software was also not completed by the Firm 'B'. The payment made to the contractor in June 2007 was ₹ 7.48 lakh (30 per cent). As of June 2010, 70 per cent of the work was stated to have been completed. In the absence of data from the accounts software, the intra-net and MIS software could not be utilised.

Thus, non-completion of the work as per the terms of the agreement by Firm 'A' and failure of the Company to take proper safeguards in contractual provisions led to incurring of unfruitful expenditure of ₹ 15.84 lakh.

Similarly, hasty decision to award work to Firm 'B' without adequately planning the availability of data inputs in a time-bound manner from Firm 'A' resulted in an unfruitful expenditure of ₹ 7.48 lakh.

The Management stated (August 2010) that action to appoint the arbitrator would be taken in due course since as per the terms of agreement, without arbitration, legal action can not be taken. Management also stated that the advance paid to Firm 'B' has not been demanded by the Company as the agency was ready to complete the balance work; but the work was affected due to non-completion of work by Firm 'A'.

It was however noticed that the reply of the Company was not convincing as the Company had neither taken any action for appointment of arbitrator so far (December 2010), nor had it ensured proper safeguards in formulating contractual provisions. The advances against both the agencies were outstanding without a collateral security and penalties were also not levied for delayed execution as per the terms of agreements. It was further noticed that in the absence of software MSHFDC was implementing the accounting work through an internal auditor manually. The work was submitted by the internal auditor to the same Firm 'A'. This was extremely irregular and showed the lack of co-ordination between the Company and MSHFDC in performance information about vendors.

It is therefore recommended that the:

- Contract conditions should be formulated with due diligence to financial prudence and safeguard to the Company's interests.
- Advance payments to vendors should not be released without obtaining proper security and collateral from them.
- The Government needs to assess the control risks inherent in out-sourcing the critical work components of MSHFDC to the Company.

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

MAFCO Limited

3.15 *Inadequate arrangements for safeguarding movable and immovable assets*

Inadequate maintenance of asset records and delay in disposal of idle assets was noticed and physical verification of assets was not carried out.

MAFCO Limited (Company) was incorporated on 29 December 1970 with the main objectives to aid, assist, initiate, promote, expedite and accelerate the development of agriculture and agricultural operation in all its fields in an economic and scientific manner *etc.* The Company became non-functional from August 2006 on account of continuous/huge losses. The accounts of the Company have been finalised and audited up to the year 2008-09. Latest finalised accounts (2008-09) of the Company depicted that the Company had total assets of ` 10.29 crore (immovable assets: ` 3.74 crore and movable assets: ` 6.55 crore).

In order to have better control over assets, the Company should maintain complete and up-to-date records of each asset, making essential arrangements such as periodic physical verification, arrangements for watch and ward of the assets *etc.* The deficiencies noticed in maintenance of records and taking adequate measures in safeguarding the movable and immovable properties by the Company are summarised as under:

Inadequate maintenance of asset records

We noticed that the Company did not maintain proper and up-to-date records regarding location, original cost, accumulated depreciation, technical and engineering specifications of machinery, identification number, *etc.* of assets, which constituted vital information. The "Assets records" maintained by the Company were last updated during November 2006 and not updated thereafter.

Physical verification of assets

The physical verification of assets was done in November 2006 and thereafter the Company did not carry out physical verification of the assets. The Company did not have adequate information of movable and immovable assets located at various units.

The Management in its reply (April 2010), which was endorsed by the Government (June 2010), stated that as the materials and implements were old, additional expenditure on physical verification through private agencies would not be economical. The reply is not acceptable as in the absence of maintenance of assets records and physical verification, audit was unable to ensure that all the assets shown in the financial statement were actually in the physical possession of the Company.

Occupation of quarters by ex-employees

There were 15 ex-employees who continued to occupy the Company's residential quarters, even after their being relieved from service. Government in November 2008 had communicated to the Company that aggregate sale price of these 15 tenements was ` 2.31 crore. The Company had not taken any action except issuing of three notices in January 2009, April 2009 and March 2010. The Company had neither realized the sale price nor got the tenements vacated.

The Management in its reply (April 2010), which was endorsed by the Government (June 2010), stated that eviction process of ex-employees had been initiated and was in progress.

Disuse of assets

The Company needs to make adequate arrangements for proper maintenance and upkeep of the assets (*e.g.* plant and machinery, *etc.*) not in use. However, there was no arrangement for maintenance and upkeep of the assets not in use. As already mentioned, no physical verification of the plant and machinery was carried out after November 2006. In the absence of the same, no remedial measures were taken for preventing the plant and machinery from further deterioration.

The High Powered Committee (HPC)* of Government of Maharashtra had taken a decision (August 2006) for disinvestment of the Company and SICOM was appointed as nodal agency for disposal of assets. However, despite a period of nearly four years having elapsed the process of disinvestment was yet to be completed (October 2010).

*High Powered Committee constituted for sale of assets, liquidation action and privatisation comprising of Chief Secretary as Chairman; Additional Chief Secretary (Finance), Principal Secretaries (Planning, Revenue, Law and Justice Department) and Managing Director (SICOM) as members; and Principal Secretary (Reforms), Finance Department as Member Secretary.

The Management in its reply (April 2010), which was endorsed by the Government (June 2010), stated that most of the machinery was more than 30 years old and had already become obsolete and were likely to be sold as scrap. The reply reinforces the audit observation that no measures were taken to prevent the assets from obsolescence and deterioration. The reply is also silent on the action taken by SICOM for disposal of the assets.

The Company was spending annually approximately ` 10.05 lakh for watch and ward and ` 14.58 lakh towards wages for employees on contract. This could have been avoided by taking steps for early disposal of the assets.

It is recommended that:

- The Company take effective steps to realise the sale value of the 15 tenements occupied by the ex-employees or dispose of the same after taking over vacant possession; expedite the action to dispose off the assets; and
- Government needs to expedite the winding up of the Company.

Statutory Corporations

Maharashtra State Financial Corporation

3.16 Financial loss due to delayed action

The Corporation suffered loss of ` 1.31 crore owing to delay in action for encashment of the available security for recovery of dues.

Mardia Extrusion Limited (Firm), Mumbai a manufacturer of various types of non-ferrous metal requested (7 November 1995) the Maharashtra State Financial Corporation (Corporation) for sanction of temporary Short-Term Loan (STL) of ` 2.40 crore for meeting the working capital requirement for its expansion programme.

The Corporation sanctioned (November 1995) and disbursed (December 1995) STL of ` two crore to the firm to meet its additional working capital requirements. The loan was repayable in 11 monthly instalments including moratorium period of three months and carried interest at the rate of 23 *per cent* per annum. The STL was secured by pledging of the shares of the firm and its associated concerns (24.74 lakh shares) of market value of ` four crore and personal guarantee of two directors was also obtained.

The firm was a defaulter since the beginning and the post dated cheque (20 July 1996) of ` 25 lakh was dishonoured by the bank on 24 July 1996. The firm had repaid only ` 8.98 lakh towards principal up to March 1997. Thereafter no payment was made and the outstanding dues as on 31 December 2006 were ` 4.23 crore (principal: ` 1.91 crore, and interest: ` 2.32 crore).

It was noticed in Audit (April 2009) that the Corporation neither took action under Section 138 of the Negotiable Instruments Act, 1881 on dishonour of the cheque in July 1996 by the bank nor encashed the security of shares for recovery of dues. The Corporation also failed to initiate prompt action to recover the dues by invoking the personal guarantee given by the directors. Delayed action facilitated the two directors of the firm to transfer their properties in the name of their spouse/firm of spouse in 1998.

The Corporation filed (1997) winding up petition in the High Court, Bombay and a petition under Section 31(1)(aa) of the State Finance Corporations Act in the District Court, Thane in 1999.

The actions initiated by the Corporation in the Court of Law were stayed 'sine die' as the firm had made repeated references during 2001-2004 to Hon'ble Board for Industrial and Financial Reconstruction (BIFR). The Corporation (after a lapse of over 11 years since 1997) on 18 July 2008, advertised for the sale of the shares available with the Corporation as security. There was no response and the share value was nil. Thus, due to initial laxity in encashment of the security, the Corporation had to accept (August 2008) the One Time Settlement (OTS) of dues of ` 60 lakh offered by the firm as distress value and thus suffered financial loss of ` 1.31 crore towards principal apart from interest loss amounting to ` 2.32 crore.

The Management in its reply (May 2010), which was also endorsed by the Government (August 2010) stated, that being a STL no security except shares of the firm were taken. The firm was a listed Public Limited Company but due to various reasons went into loss and its case was referred to BIFR. After taking into account the securities and guarantee available, the best decision under the set of circumstances was taken by the Board. The reply was silent about the reasons for lack of prompt action on dishonouring of the cheque and a delay of over ten years in initiating action to sell the shares when its value had already been reduced to nil. Thus, the Corporation had no option but to accept the OTS of ` 60 lakh.

It is, therefore, recommended that the Corporation should be vigilant and ensure prompt action for recovery of outstanding dues by invoking available security and guarantees given by the loanee to avoid financial loss.

Maharashtra State Road Transport Corporation

3.17 Short recovery of service tax

The Corporation incorrectly availed excess abatement from the charges collected for providing buses on casual contracts resulting in short recovery of service tax of ` 1.09 crore.

Maharashtra State Road Transport Corporation (Corporation) provides its buses on Casual Contract (CC) to various interested parties such as individuals, schools, colleges, semi-Government organisations for carriage of passengers *etc.* As per Section 65 (115) of the Finance Act, 1994 as amended

in 2008 the definition of ‘tour operator’ includes services provided in relation to a journey from one place to another. Accordingly, the divisions of the Corporation were covered under the definition of tour operator and liable to pay Service Tax (ST) and education cess at the prescribed rate of 12.36 *per cent*. Such payments were to be levied on the charges collected after permissible abatement (as provided in the exemption notification) in respect of CCs for carriage of passengers entered by it with various parties. Further, as per Government of India (GoI) notification of 23 August 2007 abatement of 75 *per cent* of the charges collected was available for the services provided or to be provided to any person by a tour operator in relation to a ‘Package Tour[¥]’ subject to the condition that bills issued for the purpose indicated that it was inclusive of charges for such a tour. In cases where only transportation was provided, abatement to the extent of 60 *per cent* of the charges collected was permissible and tax at the rate of 12.36[@] *per cent* was payable. From March 2009, the rate of ST was reduced to 10 *per cent* from 12 *per cent*.

Audit scrutiny revealed (August 2009) that incorrect instructions were issued on 4 June 2008 to all the Regional Managers and Divisional Controllers to levy tax at the rate of 12.36 *per cent* on 25 *per cent* of the bill after availing abatement of 75 *per cent* instead of on 40 *per cent* after availment of abatement of 60 *per cent* as was admissible. The instructions were revised on 5 March 2009 directing that ST and cess on 40 *per cent* of the bill amount be charged instead of on 25 *per cent* as directed earlier (June 2008).

Further, information collected from the 31 divisions of the Corporation revealed that during the period from April 2008 to February 2009, the divisions had collected amounts aggregating ` 54.16 crore on CCs entered with various parties for providing buses for carriage of passengers. However, ST and education cess amounting to ` 1.52 crore was recovered and paid considering 25 *per cent* of charges collected after availing abatement of 75 *per cent* of the collection. The amount payable considering 40 *per cent* of charges collected after availment of 60 *per cent* abatement as was admissible was ` 2.61 crore. This resulted in short collection of ST and cess amounting to ` 1.09 crore on CCs during the year 2008-09.

The Management confirmed (June 2010) the short recovery of ST and cess for the period 2008-09. Further, it was stated that units of the Corporation were instructed to recover the amounts from the concerned parties. The Government (November 2010) endorsed the replies and instructed the Corporation to recover the amount of ST involved in CCs. The chances of recovery are however, remote as in most of the cases the CCs had already been settled as also admitted by the management.

It is, therefore, recommended that in addition to fixing responsibility for issuance of incorrect instructions, the Corporation should recover ST and cess

[¥]Package tour means a tour wherein transportation, accommodation for stay, food, tourist guide, entry to monuments and other similar services in relation to tour are provided by the tour operator as part of the package tour to the person undertaking the tour.

[@]12 *per cent* service tax and education cess at two *per cent* and secondary and higher education cess of one *per cent* thereon.

thereon in respect of CCs at appropriate rate so that cases of short recovery do not recur in future.

Maharashtra Industrial Development Corporation

3.18 Loss of revenue

The Corporation extended undue benefit of ` 1.05 crore due to allotment of land at industrial rates though the allottees agreed for commercial rates.

Mediplast Packaging Nagpur Private Limited (MPNPL) and Bhagyashri Home Appliance Private Limited (BHAPL) requested in August 2007 to the Maharashtra Industrial Development Corporation (Corporation) for allotment of land at Hingna Industrial Area at commercial rate. Both were project affected persons (PAP) as their 8,200 and 1,075 square metres plots were acquired by Maharashtra Airport Development Company Limited (MADCL) for the MIHAN[@] project. As per the policy of the Corporation, only 15 *per cent* of acquired land was to be returned to the PAPs. However, the Corporation accepted the allotment of approximately 100 *per cent* land acquired on sympathetic ground.

After issue of offer letters on 10 December 2007 by the Corporation for allotment of 6,200 square metres of land to MPNPL and 3,000 square metres of land to BHAPL at the commercial rate of ` 2,213.75 per square metre, both the applicants refused to deposit the amount and requested for allotment at the industrial rate of ` 700 per square metre being PAPs. While considering the above request it was decided (January 2008) by the Board of Directors (BoD) of the Corporation that the commercial rate would be applicable and the difference in rates (` 1,513.75 per square metre) should be recovered by the applicants from MADCL who had acquired the land. Accordingly, land measuring 6,200 and 3,000 square metres was allotted (April 2008) to MPNPL and BHAPL respectively at the commercial rate of ` 2,213.75 per square metre (` 1,750 per square metre *plus* 10 *per cent* additional premium in Hingna Industrial Area *plus* 15 *per cent* additional premium for road frontage). The prevailing industrial rate in the area was ` 1,150 per square metre (` 1,000 per square metre *plus* 15 *per cent* additional premium for road frontage).

After receipt of allotment letters, both the allottees (MPNPL and BHAPL) requested (May 2008) the Corporation for allotment of land either at the industrial rate or at the commercial rate by removing 10 *per cent* additional premium applicable to the industrial area. Though the second alternative was beneficial, the Corporation accepted the first alternative of allotment at the industrial rate. This was detrimental to the financial interest of the Corporation.

[@]Multi-modal International Passenger and Cargo Hub Airport (MIHAN) project at Nagpur.

On the basis of oral orders (September 2008) of the Deputy Chief Executive Officer, the Regional Manager, Nagpur allotted (November 2008) land measuring 6,200 square metres to MPNPL and 1,075 square metres to BHAPL at the industrial rate of ` 1,150 per square metre by carving out the plots from the amenity area. The Corporation received land premium of ` 71.30 lakh and ` 12.36 lakh respectively and handed over possession of land in December 2008. The post facto approval of the Chairman for this allotment was obtained in June 2009. In addition, the Corporation allotted in July 2009 additional land measuring 1,000 square metres to BHAPL at the industrial rate of ` 1,100 per square metre and handed over possession of the land in July 2010 with the approval of the Chairman (June 2009).

The decision of the Chairman of the Corporation was in deviation from its own BoD decision of allotment of land to the two parties in Hingna Industrial Area at commercial rates. Thus, allotment of plots measuring 8,275 square metres at industrial rates instead of the prevailing commercial rate of ` 2,415 per square metre (effective from 08 August 2008) resulted in loss of lease premium of ` 1.05 crore*.

The Management stated (February 2010) that the land was allotted at the industrial rate considering the request of the allottees and the allotment was also approved (June 2009) by the Chairman of the Corporation. The reply was not acceptable as it was silent as to why the land was allotted at the industrial rate when the allottees had themselves offered to buy at the commercial rate. Further, the Chairman's decision was also in contravention of Board's decision and led to extending undue favour to them which was not in the financial interest of the Corporation.

It is, therefore, recommended that the Corporation should avoid imprudent decisions in contravention of its own policies on the categorisation of plots and rates thereof.

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

3.19 *Avoidable expenditure*

The Corporation executed work valued at ` 72.53 lakh not required to be done as per Request for Proposal resulting in undue benefit to the private agency.

The Corporation invited Request for Proposal (RFP) in May 2009 for designing, developing, upgrading, operating, maintaining and managing five Airports at Baramati, Latur, Nanded, Osmanabad and Yavatmal for a period of 95 years on "as is where is basis" except for works identified to be completed. In the RFP, the Corporation disclosed the list of existing movable and

* $7,275 \text{ square metres} \times ` 1,265 (\text{` } 2,415 - \text{` } 1,150 \text{ per square metre}) + 1,000 \text{ square metres} \times ` 1,315 (\text{` } 2,415 - \text{` } 1,100 \text{ per square metre}) = ` 105.18 \text{ lakh.}$

immovable assets as well as ongoing works to be carried out by the Corporation at the four Airports* to be completed by December 2010.

In response to the RFP, three offers were received. The offer of Reliance Airport Developers Private Limited (RADPL) at ` 63 crore was the highest which was accepted with the approval of the High Powered Committee of the Government of Maharashtra. The Corporation issued letter of award in September 2009. It entered into five agreements (October and November 2009) with the five Special Purpose Vehicles created by RADPL for entering into lease agreements for the five Airports for a period of 95 years. The land of the Airports was handed over in October and November 2009.

Scrutiny of records (January 2010) revealed that, after invitation of RFP in May 2009, the Corporation had executed (May to November 2009) a work of "Extension of existing Airstrip at Osmanabad" through a contractor (Subhash Deshmukh and Company) valued at ` 72.53 lakh, which was not included in the RFP. Payment of ` 53.17 lakh was made (September 2009) to the contractor through the first Running Account bill. The balance for the measured and recorded work valuing ` 19.36 lakh was still to be paid to the contractor (July 2010).

As per the terms of the RFP and agreement, the leasing out of Airports was on "as is where is basis", which included existing assets and ongoing works. Thus, after invitation of RFP, incurring expenditure on work which was not included in RFP was highly irregular. This indicated a serious lapse in contract management which was detrimental to the financial interest of the Corporation.

The Management accepted (May 2010) the fact and stated that work was not included in the RFP and indicated that the work was stopped by the Corporation in January 2010.

The fact remains that the work was stopped only after being pointed out by audit and the responsibility of officials responsible for the lapse leading to an undue favour to RADPL had not been fixed.

It is, therefore, recommended that the Corporation should strengthen the monitoring of contract conditions to safeguard its financial interest and also initiate action against officials responsible for flawed contract management including granting undue favour to private agencies.

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

* Out of five Airports, at four Airports (Latur, Nanded, Osmanabad and Yavatmal) the ongoing works were to be carried out by the Corporation.

3.20 Avoidable expenditure

Failure of the Corporation to finalise the tender within the validity period resulted in award of work at higher rate and avoidable expenditure of ` 60 lakh.

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 delay in completion of work. As per the circular of the Corporation (17 June 2004) the validity of the tenders was to be obtained for a period of 180 days to avoid re-tendering.

The Corporation invited tenders (July 2006) at an estimated cost of ` 1.16 crore to carry out the work of providing 50 mm thick BM and 25 mm thick SDBC* treatment to internal roads in Yavatmal Industrial Area. The tenders were rejected on the ground that the current or quick ratios as per financial position of all the four[§] contractors were below the prescribed percentage and hence were not qualified. Tenders were re-invited in November 2006 which were opened on 15 February 2007. In response to the tender, three offers were received from the same agencies (except one) who had quoted in response to the earlier tender of July 2006 and the offer of R.B. Construction of ` 1.56 crore (34.58 per cent above the estimated cost) was the lowest. There was delay in finalisation of tender at Head Office level. However, no recorded reasons for the delay were available on the records. The Corporation had sought (July 2007) extension of the validity period which was not accepted by the contractor (August 2007). As the tender could not be finalised within the validity period, tenders were re-invited for the third time in September 2007 without any change in the scope of work. In response to the tender, two offers were received (Chiddarwar Construction Company Private Limited and R.B. Construction Company Private Limited) and the work was awarded to the lowest tender of Chiddarwar Construction Company Private Limited at ` 2.16 crore (86.77 per cent above the estimated cost). The position of the quick ratio[•] of the firm was 1.08 as against the required 1.10. The offer of the same firm in 2006 was rejected on the ground that the quick ratio was below 1.10. However, the Corporation accepted the offer considering that the quick ratio was only marginally lower.

Thus, non-finalisation of the tender within the validity period and consequent award of work at higher rate on re-tendering, resulted in avoidable expenditure of ` 60 lakh. This indicated non-observance of the instructions regarding finalisation of tenders within validity period in the best financial interest of the Corporation.

* Semi devise bituminous compound.

§Chiddarwar Construction Company Private Limited, Jaswantsingh Oberoi, R.B. Construction Company Private Limited and Sai Construction.

•Current assets less inventory represents quick assets. This divided by current liabilities represents quick ratio which indicates immediate solvency/financial strength.

The Management in its reply which was endorsed (August 2010) by the Government stated that in the second call, tenders were cancelled as the agency laid down certain conditions for extension of validity period, the lowest offer of 34.58 *per cent* was not workable as the prices of asphalt, which was the main component of the work, were increasing and if the work had been allotted to said agency, it would have been difficult to get the work executed in time and as per required quality.

The reply is an after thought and is contradictory as there was a price variation clause in the tender which would have taken care of fluctuating prices of asphalt. The Corporation would have got the lowest rate if it had finalised the tender within validity period of 180 days from the date of submission of tender. The reply is silent on the reasons for the delay in the finalisation of tender.

It is, therefore, recommended that the Corporation should evolve a proper system of contract management for safeguarding the financial interest of the organisation. Accountability mechanism fixing responsibility for delays at all levels of decision making needs to be developed.

Maharashtra Electricity Regulatory Commission

3.21 Irregular award of consultancy work

Award of consultancy work at higher rates without undertaking a transparent bidding process resulted in an irregular expenditure of ₹ 9.66 crore on consultancy charges.

The Maharashtra Electricity Regulatory Commission (Commission) is tasked with rationalisation of electricity tariff, advising on matters relating to electricity generation, transmission and distribution in the State and issue of licences. The Commission had been appointing consultant firms from time to time on case to case basis. The Commission, however, decided (July 2005), to appoint a consultancy firm on retainer basis to cater to its day-to-day work. This was stated to be owing to a change in its nature of work.

As per regulation[#] of the Commission the proposal from bidders should be based on Request for Proposal (RFP) circulated and evaluated on the basis of quality as well as cost. The formal contract was also required to be entered into with the consultancy firm. However, the Commission did not give adequate publicity for calling the competitive bids in a transparent manner. Nor did it circulate any RFP to prospective bidders in a transparent and objective manner. The Commission chose to discuss (1 July 2005) its requirement for consultancy on retainer basis with two firms *viz.* Deloitte Touche Tohmatsu (DTT) and ICRA Management Consulting Services Limited (IMaCS) who had a long association with the Commission in rendering technical assistance on a case to case basis. Based, upon the discussions, both

[#]Maharashtra Electricity Regulatory Commission (Terms and Conditions Regulations 2004 of Appointment of Consultants.

firms submitted offers which were rejected by the Chairman of the Commission in July 2005. The offer of IMaCS was rejected on the ground that their hands will be full for Maharashtra State Electricity Distribution Company Limited/Annual Revenue Requirement (ARR). The offer^s of DTT was rejected on the ground that their professional manpower was limited.

After rejection of these offers, two members from each firm (IMaCS and DTT) quit their respective firms and formed a partnership firm on 12 August 2005 which was registered under Indian Partnership Act, 1932 on 29 November 2005. The firm was converted into a Private Limited Company (ABPSIA Private Limited (ABPSIA)) in September 2006. It had submitted its *suo-moto* technical and financial offer on 16 August 2005. The financial offer was valid up to 15 September 2005. The amount quoted by ABPSIA for three years worked out to ` 2.79 crore based on average per person man day rate. The offer of ABPSIA was costlier by ` 35.95 lakh compared to the offer of DTT. The Commission neither compared the rates of ABPSIA with the rates quoted by DTT nor negotiated the rates and asked the ABPSIA to match the rates with that of DTT. The rates of ABPSIA were justified as reasonable and the work was thus awarded without regard to the financial interest of the Commission and also lacked transparency as the work was awarded without inviting competitive bids and with adequate publicity.

The Commission extended the period of contract of ABPSIA for one year in October 2008 and for another one year in December 2009 with the increase in manpower.

Thus, the work of consultancy was outsourced to one firm (ABPSIA) for a period of five years at the rates quoted by it without ascertaining the reasonability of rates. The Commission incurred an expenditure of ` 9.66 crore on consultancy charges including service tax and education cess during the period between September 2005 to March 2010.

Audit scrutiny (July-August 2009) further revealed the following irregularities:

- The validity of offer of ABPSIA was up to 15 September 2005. However, the Commission accepted the offer on 19 September 2005 *i.e.* after expiry of validity. Though, the offer was accepted by the Commission on 19 September 2005, the ABPSIA started the work from 9 September 2005. The starting of work by the firm before acceptance of offer indicates that the Commission was pre-determined to award the work to ABPSIA.
- The performance of ABPSIA was not satisfactory. In December 2006 the Commission felt that ABPSIA would not be able to handle all jobs at the same time with their available manpower and the consultancy work related to determination of Annual Revenue Requirement of Brihan Mumbai Electric Supply and Transport Undertaking and Reliance Energy Limited was off-loaded to other firms *i.e.* M/s Ferguson and M/s Price Water House

^sRates quoted by DTT were ` 52,000, ` 56,500 and ` 62,200 per day during 2006-07, 2007-08 and 2008-09 respectively and ` 12.50 lakh per month by ICRA.

Coopers on case to case basis. The Commission paid consultancy charges of ` 42.91 lakh for the same. Thus, the objective of giving consultancy work on retainer basis to avoid case to case basis consultancy was not achieved.

The Commission (April 2010) accepted the fact of award of contract before registration of the firm and stated that the consultancy work was awarded to ABPSIA considering the exposure of key personnel working regularly in DTT and ImaCS who were associated with the Commission and had left their organisations and formed the new firm. The reply is not acceptable as it remains silent on why the reasonability of rates was not ascertained through a competitive and transparent bidding process with widespread publicity; considering the criticality of the work.

It is therefore recommended that consultancy contracts should be awarded only after inviting competitive bids to ensure transparency and to safeguard the financial interest of the organisation. The technical competence of the consultants should be thoroughly assessed at the pre-bid stage, and RFP should be structured accordingly.

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

General

Follow-up action on Audit Reports

3.22 Explanatory Notes outstanding

3.22.1 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 2007-08 containing three reviews and 21 paragraphs was presented to the State Legislature on 23rd December 2009, five Departments did not submit replies to 19 paragraphs/ reviews, as of 30th September 2010. Audit Report (Commercial) for the year 2008-09 containing two reviews and 21 paragraphs was presented to the State Legislature on 23 April 2010 but replies to paragraphs/reviews are yet to be received. Moreover, for the Audit Report (Commercial) for the year 2006-07 containing six reviews and 28 paragraphs which was presented to the State Legislature on 30th December 2008 three Departments did not submit replies to nine out of 34 paragraphs/reviews. In case of 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

3.22.2 Action Taken Notes (ATNs) to 92 recommendations contained in 14 Reports of the COPU presented to the State Legislature between April 1996 to September 2010 were still awaited as on September 2010 as indicated below:

Year of COPU Report	Total no. of Reports involved	No. of recommendations where ATNs were not received
1996-97	2	21
1997-98	1	2
2000-01	1	1
2005-06	3	22
2007-08	4	38
2008-09	3	8
Total	14	92

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

Response to inspection reports, draft paragraphs and reviews

3.22.3 Audit observations 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 2010 pertaining to 62 PSUs disclosed that 2,587 paragraphs relating to 569 Inspection Reports remained outstanding at the end of September 2010. The department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2010 is given in **Annexure-16**.

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 and June 2010 and included in the Audit Report, 12 draft paragraphs and one draft performance review as detailed in **Annexure-17**, were not replied to (December 2010).

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 JAJA)

Accountant General (Commercial Audit), Maharashtra

MUMBAI

The

27 January 2011

Countersigned



(VINOD RAI)

Comptroller and Auditor General of India

NEW DELHI

The

28 January 2011