

Chapter IV

4. Compliance Audit Observations

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

Government Companies

Andhra Pradesh Industrial Infrastructure Corporation Limited

4.1 Irregularities in construction of Corporate Office building

APIIC obtained land allotment from the Government in a prime locality for construction of Corporate Office but resorted to unauthorised construction of arts theatre and commercial space. The incomplete building even after incurring ₹ 9.61 crore was kept idle for the past one year pending decision by the Government on its utilisation.

Government of Andhra Pradesh (GoAP) handed over (August 1991) and alienated (December 1994) 2033 square meters of land, in Banjara Hills, valuing ₹19.45 lakh, for construction of a new Corporate Office (CO) for Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC). The Board of Directors (Board) approved (March 1993) construction of the CO building at a cost of ₹ 3.15 crore (plinth area 49,795 sq. ft.). Though the plans of the building were approved (June 2003), it was decided (July 2003) to defer the development of site in view of a pending court case over the title of the land. After clearance of the court case (September 2006), it was proposed to recast the earlier estimates and take up the work. However, the then Vice Chairman & Managing Director (VC&MD) directed (December 2006) a fresh design for the building through another architect, who submitted (September 2007) the same, without any contract/agreement. The design comprised commercial space, coffee shop, an art gallery, theatre space dedicated to stage drama, dormitory space for visiting performers, theatre support areas, and two basements for car parking. This was totally in deviation from the objective of construction of APIIC's CO, for which GoAP allotted the land.

We observed that there were no recorded reasons for the change in usage of the building from CO to an arts theatre and commercial space. Further, APIIC concluded (June 2008) an agreement with the architect with a fee of 2.75 per cent of the estimated cost based on a letter of the architect (9 December 2007) received by APIIC (7 May 2008), though the work was already started by the architect.

The architect prepared the layout plan for the building with a total plinth area of 75,454 sq. ft. for which administrative sanction was accorded (August 2008) by the VC&MD for ₹ 23.10 crore based on incomplete and abstract estimate⁷⁸ furnished by the architect.

We observed that the approval of the Board for the increased cost of building was not obtained. After calling for tenders, the contract for construction work

⁷⁸ Lack of rate analysis and quotations.

was awarded (October 2008) to BPR Infrastructure Ltd., Hyderabad for a contractual value of ₹ 12.36 crore (with tender premium of 3.69 per cent). The construction commenced on 17 November 2008 and was scheduled to be completed by 16 November 2009.

While the construction work was in progress, three cultural organizations⁷⁹ requested (September/November 2009) for allotment of space and auditorium on lease basis. APIIC accepted all the three requests, without following any procedures, and leased out (December 2009) 43,996 sq. ft. (including common area), leaving only 556 sq. ft. with APIIC.

As against the scheduled completion date of November 2009, the construction of the building has not yet been completed (November 2012). The delay in completion was due to non-furnishing of complete construction drawings by the architect even after 21 months of awarding the work, coupled with problems encountered in executing the construction work viz., excavation of hard rock, heavy seepage of water in lower cellar, etc. APIIC has so far incurred ₹ 9.61 crore on the building.

The Board decided (May 2011) to refer the matter to GoAP and not to incur further expenditure till the GoAP direction was received. We observed that the issue of construction of cultural centre instead of a CO was raised by the Board only in May 2011, while the construction of this building had already commenced in November 2008. In August 2011, the Board resolved that the building be taken over for utilization of Cultural/Tourism Department or any other Department/Company as decided by GoAP and the expenditure incurred by APIIC be reimbursed by the concerned Department/Company. However, GoAP had not taken any decision on the request of APIIC (July 2012).

Thus, 2033 Sq. Mtrs. of land in a prime area, which was allotted by GoAP for construction of CO, was misutilised by APIIC, at the instance of the then VC&MD, for constructing an arts and cultural centre and the floor space therein allotted (even before completion) to three organizations for 20 years period. The Board belatedly took up the matter only in May 2011 (more than 2½ years after the commencement of construction) and resolved to approach GoAP to take over the incomplete building and reimburse APIIC's expenditure of ₹ 9.61 crore already incurred, on which no decision has been taken by GoAP (November 2012).

The Government/Management stated (December 2012) that action was being taken to bring the building to useful and serviceable condition, except for the auditorium.

GoAP should fix responsibility for the violation of its orders for usage of allotted land for APIIC's CO and decide, in association with APIIC, on the completion and lease of unfinished building.

⁷⁹ (1) Alliance Francaise; (2) Goethe Zentrum – Association for German Culture; and (3) Qadir Ali Baig Theatre Foundation, Hyderabad.

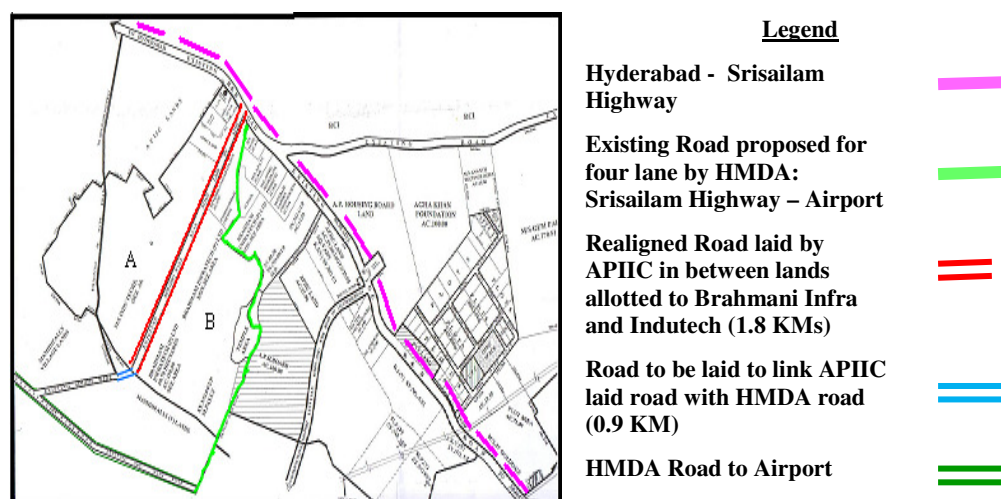
4.2 Undue benefit to the allottees

APIIC's decision to lay a road between lands allotted to two SEZs on its own without ensuring feasibility of the road for public use resulted in infructuous expenditure of ₹ 26.81 crore, besides extending undue benefit to the developers of these two SEZs.

Government of Andhra Pradesh (GoAP) entered into (May/July 2006) a Memorandum of Understanding (MoU) with Indu Techzone Private Limited (Developer 1) and Brahmani Infratech Private Limited (Developer 2) for development of IT/ ITES⁸⁰ product specific Special Economic Zones (SEZ) on international standards. Based on the MoU, APIIC issued (July 2006) Provisional Allotment Orders (PAO) allotting 250 acres of land each in Saroornagar and Maheswaram Mandals of Rangareddy District at a tentative cost of ₹ 20 lakh per acre. Both the Developers entered into agreement for Sale-cum-Power of Attorney (ASPAs) in November 2006 with APIIC. The MoU/ PAO/ ASPA stipulated *inter alia* that the Developers should:

- Commence construction of the Project within 12 months from the date of execution of ASPA or upon receiving all statutory approvals for the project, whichever was earlier.
- Develop and construct a minimum area of 4.5 million square feet (sq. ft.) of IT/ITES space over a period five years from the date of commencement of construction of project, out of which not less than 2 million sq. ft. should be constructed within three years.
- Ensure employment generation of not less than 45,000 persons for the entire project, of which 20,000 should be within three years.

As per the MoU/PAO, GoAP/APIIC would provide support infrastructure such as roads, power, water and sewerage only up to the periphery of the Project Land. However, APIIC agreed and executed a 1.8 Km road within the allotted lands in contravention to the terms of MoU/PAO.



A: Indutech Zone land; B: Brahmani Infratech land

⁸⁰ Information Technology/ Information Technology Enabled Services.

As shown in the above map, the draft master plan of Hyderabad Airport Development Authority (HADA)/Hyderabad Metropolitan Development Authority (HMDA) proposed (October 2006) to widen an existing road to four lane/six lane to provide connectivity from Shamshabad Airport to the Srisailem Highway for the benefit of the public as well as various units coming up in the Hardware Park, etc., in the vicinity. However, Developer 1 and Developer 2 initiated a plea (18/20 October 2006) to, instead, lay the road from within their jointly held lands to support their endeavour of providing a world class IT Park. The Developers also furnished maps indicating the proposed road. Further, APIIC also received (28 October 2006) a letter from the State Government directing APIIC to take immediate action to improve and four-lane the road falling in APIIC's area.

The land, through which the Developers persuaded APIIC to align the road, begins on a slight altitude, dips into a low-lying area (valley) and again regains height to end abruptly with a steep slope downward. This geological diversity, added to the granite rock hills in the concerned land, necessitated construction of a culvert type bridge on a very high embankment (reinforced earth retaining wall) of about 12 Meters in the valley portion, besides huge amount of hard rock excavation/ cutting/ blasting of 3.46 lakh Cubic Meters (cost involved: ₹ 14.13 crore, including conveyance of excavated rock). APIIC laid (July 2007 to April 2008) the 1.8 KMs road up to the end of the hill at an exorbitant cost of ₹ 26.81 crore and finally built a wall across at the end as shown below:



Road closed at verge of the cliff



Road aligned through hard rock hillock



HMDA road visible down below

HADA/HMDA was entrusted with connecting this road to Jalpalli – Mamidipalli village crossing point 910 meters away down the hill, but they

expressed their inability (November 2007) to build this “link road”, citing funding problem. Though the documents and correspondence termed it as a “link road”, it is clear from the on-site inspection and the photographs above taken by audit that a flyover with huge capital cost, rather than a road, was necessary.

Though it was initially proposed (October 2006) by APIIC that the Developers would have to contribute the proportionate cost of the road formation passing through their lands, APIIC subsequently decided (May 2007) to take up the formation of road passing between the two SEZs of the Developers by itself with its own funds, without any recorded reasons. This decision was unwarranted, as APIIC/GoAP were obligated to provide approach road only up to the periphery of the Developers’ land.

Thus, the road constructed by APIIC with huge expenditure of ₹ 26.81 crore benefited only the two Developers, as the flyover linking HADA master plan road for public use has not been completed even after four years. Even after provision of such infrastructure by APIIC, the Developers failed to develop the SEZs⁸¹ and have not created even a single job after completion of more than five years from the date of ASPA. Consequently, APIIC requested (November 2011) GoAP to cancel the MoUs and permit them to cancel all consequential allotments, agreements, sale deeds, and any other acts and deeds that had been taken in pursuance of the MoUs. The decision of GoAP is pending.

The Management conceded (April 2012) that though APIIC completed the connecting road within its boundaries, the linking portion was not completed by HMDA for reasons not known, thereby rendering the amount spent by APIIC infructuous.

Thus, the action of APIIC in undue haste to lay the road through the lands allotted to Developer 1 and Developer 2 without ensuring feasibility of its linking to HMDA road, resulted in infructuous expenditure of ₹ 26.81 crore, besides extending undue benefit to the two Developers. The matter was reported to Government (September 2012); despite issue of a reminder, their reply had not been received (December 2012).

Andhra Pradesh Gas Infrastructure Corporation Limited

4.3 Unfruitful expenditure

APGIC incurred unfruitful expenditure of ₹ 1.05 crore towards consultancy charges without deriving any significant services.

Government of Andhra Pradesh (GoAP) decided (August 2009) to create a nodal agency for exploring possibilities in Oil Exploration and Production (E&P) activities. Consequently, Andhra Pradesh Gas Infrastructure Corporation Limited (APGIC) was incorporated (September 2009) with an

⁸¹ **Indu Tech Zone Private Limited:** Constructed two RCC frame structures without masonry work of 7.3 lakh sq. ft.; incubation centre of 0.50 lakh sq. ft.; laid 1.9 KM length of road and other small unfinished structures.

Brahmani Infratech Private Limited: Constructed incubation centre of 4294 Sq. Mtrs, formed 0.5 KM length of road and constructed compound wall for 7 KM.

initial equity base of ₹ one crore shared by Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) and Andhra Pradesh Power Generation Corporation Limited (APGENCO) in the ratio of 51:49. Before incorporation of APGIC, Ernst & Young (P) Limited (Consultant) was appointed (August 2009) by APIIC as independent advisor for the purpose of bidding for upstream E&P assets at Krishna Godavari (KG) Basin in Andhra Pradesh. The services to be extended by the consultant, *inter alia*, included finding strategic partners, assisting in finalization of proposed commercial and management arrangements with potential partner, preparation of financial model, co-ordination with technical advisors and assistance in the bidding process with respect to financial aspects and documentation and finalization of the bid to be submitted to Government. The remuneration payable was as follows:

- ₹ 10 lakh payable on the acceptance of terms and conditions of the contract;
- ₹ 15 lakh on signing Joint Venture agreement with strategic partner;
- ₹ 20 lakh for bidding the first block and ₹ 15 lakh for every subsequent block; and
- ₹ one crore on winning the first block and ₹ 75 lakh for each subsequent block as success fee.

We observed that APIIC had not followed an open competitive bidding process for selection of consultant, but obtained proposals from two consultants⁸². There was nothing on record to justify limiting the list of the consultants to two only. We further, observed that APIIC had not included any clause for termination of the contract, although the same was offered by the consultant in their offer letter. Appointment of the consultant was ratified (15 September 2008) in the first Board Meeting of APGIC, and an amount of ₹ 10 lakh was paid on acceptance of the contract.

Based on the request (19 September 2009) of GoAP to ONGC Ltd for allowing APGIC to participate in the bidding for E&P assets in the KG Basin under the New Exploration Licensing Policy (NELP) VIII, with a token equity share of 10 *per cent*, APGIC participated in the bidding for various oil and gas blocks by forming a consortium. Scrutiny of the records revealed that the entire process of bidding, preparation of bid documents and agreement was exclusively done by ONGC and other members of the consortium. However, upon award (October 2009) of four out of five blocks by Government of India to the consortium, the consultant submitted (October 2009) a claim for payment of ₹ 4.20 crore as fee payable towards the assistance extended in winning the bids, even though there was no role of the consultant. After repeated negotiations with the consultant, an amount of ₹ 0.95 crore was paid (April 2011) as per the agreement terms without deriving any consultancy services for the selection of strategic partner and bidding process, thus rendering the total expenditure of ₹ 1.05 crore unfruitful.

We observed that:

⁸² 1) Ernst & Young (P) Ltd., and 2) Deloitte Touche Tohmatsu India (P) Ltd.

- APIIC failed to include important clauses like termination clause, even though the same was offered by the consultant, depriving it of an opportunity to terminate the agreement in case of necessity; and
- As APGIC/GoAP itself initiated action for selecting the strategic partner in the bidding under NELP-VIII, the services of the consultant could have been discontinued by terminating the agreement.

While we take note of APGIC's efforts in negotiating down the amount payable to the consultant, the failure of APGIC to ascertain the requirement of services of a consultant led to unfruitful expenditure of ₹ 1.05 crore without getting any significant assistance in the NELP bidding process.

The Management replied (September 2011) that the then CMD of APIIC was of the view that as the Company did not have any expertise in the field of oil and natural gas, the services of the consultant, who was a well experienced and established consultant in the field, was required for success of the new SPV; hence, no penal clause like termination of the contract was included. Accordingly, the then CMD of APIIC, while approving the draft conditions, had suggested the removal of the drop dead/no go fees clause proposed by the consultant.

The reply is not acceptable, as non-inclusion of any penal clause or termination of the agreement clause was not in the interest of APGIC.

In future, APGIC should carefully assess the need, if any, for consultants and follow proper procedure for selection and termination of consultancy services.

Krishnapatnam International Leather Complex Private Limited

4.4 Abnormal delay in implementation of International Leather Complex project

Lack of proper planning and failure to assess the site suitability for the project delayed the implementation of the Project defeating the envisaged objective.

Government of Andhra Pradesh (GoAP) decided (February 2005) to develop an International Leather Complex (ILC) at Nellore under 'Indian Leather Development Programme (ILDPP)' of the Government of India (GoI), during 10th Five year Plan with the objective of exploiting emerging global leather trade opportunities, boosting leather exports from India and generating sustainable employment (expected employment – 15000 persons), especially to the disadvantaged sections. GoI approved (March 2005) the ILC project with an estimated cost of ₹ 194 crore (including ₹ 50 crore for providing connecting roads and power supply) with central assistance of ₹ 29 crore. GoAP issued (April 2006) orders permitting Leather Industries Development Corporation of Andhra Pradesh Limited (LIDCAP) to register a Special Purpose Vehicle (SPV) for managing the ILC. GoAP also identified 412.41 acres of land in possession of Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC – 104.92 acres) and Andhra Pradesh Power Generation Corporation Limited (APGENCO – 307.57 acres). LIDCAP was directed to call for Expression of Interest and appoint a developer for implementing the project. However, no further action was taken for more than two years (June 2008), without any recorded reasons. Subsequently, GoAP issued

orders (June 2008), appointing APIIC as the developer for the ILC at Krishnapatnam in SPS Nellore district.

Krishnapatnam International Leather Complex Private Limited (KILCPL) was incorporated (August 2008) as an SPV for development of the ILC with the equity of LIDCAP (49 per cent) and APIIC (51 per cent). GoI released (October 2008) ₹ 15 crore as part of the grant for the development of the project, while GoAP released ₹ 10 crore for development of infrastructure (March 2011).

We observed that although the site was identified (at Krishnapatnam) as early as June 2006, however, site suitability study was not conducted till formation of the SPV in August 2008. Site suitability study conducted (2010) by the National Institute of Oceanography revealed that a substantial portion of the land (100 acres) fell under the Coastal Regulatory Zone. In addition, coal conveyors of power plants were passing through this land, rendering the land unsuitable for any project pertaining to leather industry. Further, without ensuring suitability of site and obtaining environmental clearance, KILCPL released (March 2009) ₹ 9.56 crore to APIIC for development of external infrastructure. APIIC incurred ₹ 4.09 crore for construction of roads in the old site, which remained unfruitful due to non-suitability of site.

KILCPL, after a further delay of two years, decided (June 2011) that an alternate site of 538 acres at Kothapatnam may be utilised for development of the ILC as the same was technically and environmentally suitable. The revised detailed project report for the Kothapatnam Project is still to be approved and environmental clearance has also not been obtained for the project so far (April 2012), even after a delay of seven years from approval of the project by GoI.

As KILCPL failed to implement the project even at the end of 11th Plan Period, GoI demanded (January 2012) that the whole grant of ₹ 15 crore should be refunded by the SPV with penal interest and the proposal to develop the project at new site would be treated as a new and different project. In reply, KILCPL requested GoI that since there was no change in content or parameters of the project and objectives were not overlapping, the alternate site for development of the ILC may not be treated as a new and different project. Final action by GoI on this issue is still awaited (November 2012).

GoAP stated (October 2012) that they had impressed upon GoI, Department of Industrial Promotion & Policy (DIPP) for not treating the alternate site at Kothapatnam as a new project, for which response from DIPP is awaited.

Thus, lack of planned approach in project implementation, coupled with unexplained delays in decision making, resulted in failure to implement the ILC project even after abnormal delay of seven years from the sanction, and defeated the envisaged objective of exploiting emerging global leather trade opportunities and creation of sustainable employment in the State.

KILCPL and the Government should strive to implement projects with better planning and initiate suitability studies before projects are sanctioned.

Indira Gandhi Centre for Advanced Research on Livestock Private Limited

4.5 Unfruitful expenditure

Government of Andhra Pradesh (GoAP) accorded (January 2008) approval for establishing the Indira Gandhi Centre for Advanced Research on Livestock (IGCARL) at Pulivendula, Kadapa District⁸³. IGCARL was envisaged as a world class institute for advanced research on livestock with nearly 650 acres of land. The project involved establishment of six research groups⁸⁴, laboratories for conducting research on bacteria and viruses and diseases caused by them.

By 2009-10, GoAP proposed to construct the institutional buildings etc. with Government funds (with a tentative budget of ₹ 386.24 crore), while selecting a suitable developer to run the institute under PPP (Public Private Partnership) mode. Consequently, IGCARL was incorporated (November 2008) as a Private Limited Company.

A brief chronology of events from the conception to current developments on activities of IGCARL given in **Annexure-4.1** clearly shows that the acquisition of land and entering into contracts for construction of buildings, JV agreements with PPP partners, etc. was not dovetailed with creation of basic amenities, providing institutional set-up and recruitment of envisaged manpower to kick-start the research work and co-ordinate with various PPP partners.

The following are the significant audit observations:

Site selection

APIIC appointed (January 2008) Ernst & Young Ltd. (E&Y) as a consultant for preparation of feasibility and project development report, but before the consultant's report was finalised a year later (23 January 2009), the MoU with the main PPP partner, IMAC Consortium, had already been signed. The E&Y report had indicated that, despite having certain favourable factors like availability of livestock, utilities etc., the site was not suitable for setting up a livestock based R&D hub, due to lack of direct connectivity to the metros; low quality of life in the region unattractive to skilled manpower; lack of social and recreational infrastructure required to attract residents/tenants to the site; and lack of organised livestock rearing farms and non-existence of livestock R&D activity in the region. The consultant, further, stated that sustained efforts by GoAP for promoting the region was required to make the location attractive, which was not done by GoAP as discussed in the succeeding paragraphs.

Project Execution

APIIC was entrusted with the work of construction of the project buildings (Estimated cost: Phase I – ₹ 110 crore; Phase II – ₹ 124 crore, which was

⁸³ Since renamed as YSR Kadapa District.

⁸⁴ Molecular and cyto-genetics; reproduction and cryobiology; biotechnology and nano-biology; microbiology and immunology; animal nutrition; and quality control; four related centres; and Bio Safety/ Animal Bio Safety Level-3 (BSL-3 and ABSL-3).

increased (February 2011) by an aggregate amount of ₹ 29.66 crore due to change in designs and additional works taken up). Though APIIC completed⁸⁵ (September 2009) most of the building works (6.64 lakh sq. ft of floor area valued at ₹ 236.67 crore), these buildings could not be put to use due to lack of basic amenities viz., power, water, sewerage/effluent treatment plants etc., for which funds to the tune of ₹ 52.62 crore were required, but GoAP did not release the same. There were no recorded reasons for non-release of funds.

Out of the total project land of 647 acres, 79 acres was earmarked for a Biotech Special Economic Zone (SEZ). Though the Ministry of Commerce, GOI approved (October 2008) the proposal for a sector specific Biotech SEZ, for development within a period of three years, APIIC failed to develop the Biotech SEZ and unauthorisedly diverted ₹ 50 lakh released by GOI for development of roads and power supply in the Biotech SEZ to another project. There were no recorded reasons for non-development of the Biotech SEZ, and GoAP had not pursued the matter with APIIC for implementation of the SEZ.

Involvement of Private Partners in PPP mode for research activities

After release of global invitation of Expression of Interest (EOI) in July 2008, only one private party (IMAC (USA) – Dodla Dairy Consortium), out of nine parties who responded to the EOI invitation, remained in the fray and was issued LoI in November 2008. Accordingly, the JV Company (Global Vet Med Concepts India Pvt. Ltd) was formed. The JV Company had so far invested only ₹ 6.05 crore against the proposed investment of ₹ 100 crore (phase wise in five years) and established a laboratory and feed plant (which were found to be non-functional for lack of power connection during the site visit by the audit team) and dairy; however, no tangible research activity had been undertaken by the JV company due to non-creation of basic facilities by the developers (APIIC and IGCARL).

Indus Gene Expressions Inc. (USA) and Elbit India Agricultural Ventures, Israel approached GoAP (January/July 2009) for establishment of Research projects in IGCARL. On the recommendation of GoAP, IGCARL entered into JV agreements, made allotments and handed over land and built up area within three to four months. However, both the JV companies did not start any research activity and IGCARL was yet to terminate the JV agreements (September 2012).

Lack of institutional set up

Even after four years after incorporation, IGCARL does not have a full-time CEO, with additional charge being held by Director, Animal Husbandry.

There were no basic accounting records in IGCARL. In the absence of records, compilation of accounts and subsequent audit was pending since incorporation of the IGCARL.

In August 2011, the Board of Directors decided to - i) appoint a regular CEO; ii) call for fresh EOI inviting private companies on PPP mode; iii) take over completed buildings and provide protection, security measures; and iv) appoint minimum skeletal staff and provide budget for salaries thereof etc. In

⁸⁵ Except for a primary school and auditorium (not completed) and laboratory animal house (put on hold).

October 2012, IGCARL invited fresh bids for strategic partnership in advanced research and development on livestock.

Site visit by the audit team (March 2012) confirmed the unfruitfulness of the expenditure and non achievement of the targeted world class centre of excellence in advanced livestock research, as can be seen from the following photographs.



Animal house used for storing fodder

Unfinished auditorium

Vacant Laboratory Space

Conclusion

Despite expenditure of ₹ 236.67 crore till March 2012 on buildings, land acquisition and other pre-operative expenses, the objective of a functional world class livestock research centre could not be achieved. Basic amenities (viz. water, power, effluent/ sewerage treatment plants) required for such a research facility had not been made available; funds required for completion of outstanding works and provision of basic amenities were yet to be provided. The infrastructural assets created and largely completed with 6.64 lakh sq. ft. of floor area were being put to limited use only as a cattle diary and for cultivation of fodder crops, rather than for research on livestock. Also, the Bio-Tech SEZ was a non-starter.

Given the huge expenditure already incurred, GoAP should take immediate steps to ensure provision of basic requirements (water, electricity, sanitation) as well as minimum lifestyle amenities, release the balance fund requirements to APIIC for completing infrastructure creation, and make all out efforts to attract Indian and foreign parties to undertake partnerships in research, so that the objective of a centre for excellence in advanced livestock research could be achieved.

The matter was reported to the Management/ Government in June 2012; despite issue of a reminder in September 2012, their reply has not been received (December 2012).

Statutory Corporation

Andhra Pradesh State Road Transport Corporation

4.6 Deficiencies in regulation of pay & allowances and related expenditure

4.6.1 Introduction

Andhra Pradesh State Road Transport Corporation (APSRTC) has a fleet strength of 22,597 buses (18,843 own and 3,754 hired) and employee base of 1.27 lakh, and carries 1.48 crore passengers per day (May 2012). Of late, the performance of APSRTC has been deteriorating rapidly. While APSRTC registered accumulated loss of ₹ 1,151.84 crore during the period from 1957-58 to 2008-09, it incurred a loss of ₹ 1,417.26 crore during the last three years itself (2009-12), taking the total accumulated loss to ₹ 2,569.10 crore as of March 2012. To bridge the gap between income and expenditure, APSRTC resorted to heavy borrowings, increasing its debts from ₹ 1,299.74 crore in 2007-08 to ₹ 3,755.55 crore by 2011-12. In a short span of two years (2010-12), it borrowed ₹ 3,107.36 crore, out of which only ₹ 1301.14 crore (42 per cent) was capital expenditure, while ₹ 851 crore was spent towards repayment of loans and ₹ 955.22 crore towards revenue expenditure. APSRTC got into a debt trap (debt equity ratio is 18.66:1⁸⁶ as on 31 March 2012) due to indiscriminate borrowings with an interest burden of approximately ₹ one crore⁸⁷ per day (May 2012).

We observed that while APSRTC, without any fare hike during 2006-09, managed to register profits⁸⁸ (2007-09), however, during 2009-12, it incurred a loss of ₹ 1,417⁸⁹ crore despite two fare revisions (January 2010 and July 2011), indicating that there may not be much scope for further increase of fare to substantially improve its financial performance. Thus, the only alternative left was to control expenditure. Audit scrutiny revealed that the rapid deterioration in the financial position of APSRTC was mainly due to implementation of revised pay scales with effect from 1 April 2009 (RPS 2009) and financial indiscipline/lack of control over expenditure, especially personnel cost. During 2007-12, personnel cost increased from ₹ 1,645.10 crore in 2007-08 to ₹ 2,944.45 crore by 2011-12, which ranged between 36.06 and 41.93 per cent of the total expenditure of the organisation (although the number of employees increased by just 9.06⁹⁰ per cent over the same period). Irregularities in regulation of pay and allowances and related expenditure, which are partly responsible for the present precarious financial position of APSRTC, are discussed in the succeeding paragraphs.

⁸⁶ Equity and debt as on 31 March 2012 were ₹ 201.27 crore and ₹ 3,755.55 crore respectively.

⁸⁷ Interest payment per day increased from ₹ 0.25 crore in 2007-08 to ₹ 1 crore in 2011-12.

⁸⁸ Profits earned during 2007-08 and 2008-09 were ₹ 135.67 crore and ₹ 110.79 crore respectively.

⁸⁹ Losses incurred during 2009-10, 2010-11 and 2011-12 were ₹ 514.55 crore, ₹ 317.40 crore and ₹ 585.31 crore, respectively.

⁹⁰ Number of Employees increased from 1,13,340 in 2007-08 to 1,23,615 in 2011-12.

4.6.2 Revision of pay scales from 1 April 2009 – Fitment benefit

APSRTC revises the pay scales of its employees after every four years, and the latest revision was from 1 April 2009 (RPS 2009). We observed that, while revising (January 2007) the pay scales with effect from 1 April 2005 (RPS 2005), a “fitment benefit” of only 12 *per cent* was allowed at that time; then APSRTC had an accumulated loss of ₹ 1,191.03 crore and debts of ₹ 1,095.69 crore. By the time of implementation of RPS 2009 (February 2010), accumulated loss increased to ₹ 1295.97 crore and debt to ₹ 1486.46 crore. In spite of this, fitment benefit of 24 *per cent* was allowed by APSRTC. The Management failed to convince the union that higher fitment benefit might be attractive in the short term, but the same would be detrimental to the future of all the stake holders involved especially the employees. Had the fitment benefit been restricted to 15 *per cent*, APSRTC could have avoided additional burden to the tune of ₹ 165 crore per annum.

Post RPS 2009, the financial position of APSRTC deteriorated rapidly as it incurred losses of ₹ 514.55 crore, ₹ 317.38 crore and ₹ 585.31 crore during 2009-10, 2010-11 and 2011-12 respectively, threatening its very existence. Further, APSRTC informed the Government that the additional burden of RPS 2009 (₹ 475 crore) would be met from internal accruals. The fact, however remained, that APSRTC failed to generate internal resources as assured, and, instead, the burden of RPS 2009 was met through heavy borrowings.

4.6.3 Revision of allowances without Government’s approval

As part of RPS 2009, various allowances to the officers/staff were revised upwards only on the basis of negotiation with the union and without any study. Audit scrutiny revealed that increase in allowances to officers ranged between 33 *per cent* and 483 *per cent*, and was without the approval of the Government. The financial impact projected due to revision of allowances as informed to the Board was ₹ 5.79 crore per annum, but the break up for the same was not furnished to us in spite of a request (September 2011). Audit scrutiny, however, revealed that the actual impact of the revision of allowances was ₹ 8.02 crore per annum.

The Management replied (September 2012) that allowances were revised with the approval of the Board and except night duty allowance to doctors, all other allowances witnessed an increase of 33 to 100 *per cent*. It also stated that the additional impact for the years 2010-11 and 2011-12 was ₹ 1.40 crore and ₹ 1.45 crore respectively, which is far below the additional impact informed to the Board. Reply is not convincing, as the same is silent about the reasons for revision of allowances without approval of the Government. Reply that the actual impact is much less than the projected impact is also factually incorrect, as the additional financial impact of the newly introduced Professional Development Allowance alone was more than ₹ 1.50 crore per annum.

4.6.4 Payment of HRA arrears

It is a general practice, whether in the State Government (whose House Rent Allowance (HRA) pattern was adopted by APSRTC) or Government of India/Central Public Sector Undertakings that consequent to revision of pay scales, arrears of basic pay and dearness allowance only shall be paid from the effective date and allowances, including HRA, on the revised scales shall be

paid from a prospective date. However, APSRTC, consequent to RPS 2009, without approval of the Board/Government, paid HRA arrears retrospectively from April 2009 along with basic pay and dearness allowance even though other revised allowances were paid from February 2010 only, which resulted in additional burden of ₹ 57.06 crore.

The Management replied (September 2012) that whenever revision of pay scales was done, basic pay and HRA on revised pay was paid with effect from the date of implementation of revised pay scales and this was followed from RPS 1976 as per Memorandum of Settlement (MoS) entered into with the union. Reply is not tenable as nowhere in the MoS was it mentioned that HRA on the revised pay shall be paid from the date of implementation of RPS. Further, payment of HRA arrears was not brought to the notice of the Board/Government. This is not in consensus with the procedures followed by State/ Central Government and its organisations.

4.6.5 Avoidable expenditure due to payment of HRA without ceiling limit

APSRTC was following a ceiling limit⁹¹ for payment of HRA as per the limits fixed by the Government. However, while issuing orders for implementation of RPS 2009, the wording relating to HRA ceiling limit was removed without prior approval of the Board/Government, which was stated (August 2011) to have been removed as per the MoS reached with the union. This was factually incorrect, as it was mentioned in the MoS that in case the State Government notified any changes in the rates of HRA to any specific place in future, the same would be modified accordingly, indicating that the HRA pattern of the State Government was followed. Thus, the Government prescribed ceiling limit⁹² for payment of HRA to its employees should have been adopted.

After we pointed this out, the Board ratified (November 2011) payment of HRA without ceiling limit on the basis of misinformation that the ceiling limit was removed as per the MoS. Due to removal of HRA ceiling limit, APSRTC had already been put to an additional burden of ₹ 1.35 crore up to June 2012. As APSRTC is paying HRA as part of earned leave encashment, there was also an additional burden due to removal of HRA ceiling limit, which is not ascertainable in the absence of details.

The Management replied (September 2012) that the State Government had enhanced the HRA ceiling limit for its employees by 100 *per cent* in March 2010 and the HRA for employees up to senior scale level would not exceed the ceiling limit of the Government; in respect of few officers, it was exceeding ₹ 15,000, and therefore the additional impact due to removal of ceiling limit was also a part of the pay package approved by the State Government.

The reply is not convincing as we have worked out the above loss over and above the enhanced ceiling limits as prescribed by the Government.

⁹¹ HRA ceiling limit per month in Greater Hyderabad Municipal Corporation (GHMC) limits (officers-₹ 10,000 & staff-₹ 6,000) and at places other than GHMC limits (officers-₹ 7,000 & staff-₹ 4,500).

⁹² Ceiling limit specified by GoAP was ₹ 12,000 (GHMC limits) and ₹ 8,000 (other places).

4.6.6 Irregular payment of professional development allowance

As part of revision of allowances post RPS 2009, APSRTC introduced (February 2010) a new allowance called Professional Development Allowance⁹³ (PDA) to its officers with the stated objective of increasing their professional skills by subscribing to periodicals/ journals, attending seminars etc. While seeking approval of the Board for the PDA, neither the necessity for introduction of the same nor the individual financial impact was brought out in the approval note and the Board accorded its approval without considering these vital aspects. APSRTC did not frame any guidelines for utilisation of PDA and the same was paid every month (based on self certification by the officers that the amount has been incurred for official purpose) in a routine manner without obtaining proof of incurring such expenditure which was against the accepted standards of financial propriety. Though, APSRTC was already incurring expenditure on its employees for purchase of newspapers, periodicals and journals (₹ 3.62 crore); purchase of books and periodicals (₹ 0.47 crore) and on training (₹ 4.30 crore) during 2007-12, yet it paid ₹ 4.07 crore towards PDA to its officers in addition to continued expenditure on the above items. Thus, payment of PDA for the purposes already provisioned for, without proof of incurring such expenditure, was irregular and resulted in additional burden on APSRTC and may have become a source of profit to the officers.

The Management replied (September 2012) that no specific guidelines were framed for utilisation of PDA, as this was provided to individual officers to develop their skills/ proficiency in individual parameters. It was also stated that PDA was reimbursed to the extent spent, as it was not possible to draft all the officers for trainings. Reply is not tenable as PDA was paid routinely, without any evidence of incurring the same. Further, as per the Guidelines issued (January 2002) by the Public Enterprises Department of GoAP, all new perquisites and allowances should be paid only with the prior approval of the Administrative Department, which was not obtained, and thus, the introduction of PDA is irregular.

Further, APSRTC also failed to deduct income tax on the PDA, merely terming it as reimbursement (based on self certification), which was also irregular and resulted in loss to the exchequer by ₹ 73.86 lakh⁹⁴ up to March 2012. The Management replied (May 2012) that as per Section 10(14) of the Income Tax Act, any allowance granted for encouraging academic, research and other professional pursuits is not taxable. The reply is not tenable, as Section 10(14), read with Rule 2BB of the Act, provides that such exemption is available for the allowances paid in educational and research institutions.

4.6.7 Fixation of minimum scale to Executive Directors' cadre at higher level resulted in additional burden

As part of RPS 2009, "fitment benefit" of 24 per cent was allowed to all the cadres. Accordingly, minimum of the pay scale in RPS 2009 in case of Executive Directors' (ED) cadre worked out to ₹ 51,100 including grade pay

⁹³ PDA is paid at ₹ 2000 per month to the Junior/ Senior Scale Officers and at ₹ 2500 per month to Heads of the Department / Executive Directors.

⁹⁴ ₹ 358.54 lakh x 20 per cent + 3 per cent cess.

of ₹ 6800. However, minimum of the scale for the EDs' cadre was fixed at ₹ 68,000 on the plea that an officer reached the post of ED cadre after putting in hard work of more than 25 years. This was not justified, as it is not just the senior officers who had put in 25 years or more service, but all the other employees (staff/ officers) were also expected to work hard and discharge their duties, irrespective of their cadre. Unjustified fixation of minimum scale by the top executives for their benefit, ignoring the precarious financial position of APSRTC, was highly irregular and resulted in additional burden to the tune of ₹ 1.31 crore on regular monthly payments and on retirement benefits up to June 2012.

The Management replied (September 2012) that there were 12 posts of EDs in APSRTC which was employing more than 1.25 lakh employees and keeping in view the salaries drawn by the policy makers of various organisations, the Board accorded approval for fixing scale of the EDs at a higher level. The reply is not tenable. With more number of officers due to get proforma promotion to ED's cadre under Career Advancement Scheme on completion of 26 years service, there would be substantial additional burden on APSRTC due to fixation of minimum scale of ED's cadre at higher level, which is unacceptable considering its precarious financial position.

4.6.8 Introduction of Career Advancement Scheme to officers without approval of the Government

As part of RPS 2009, APSRTC intended to introduce Career Advancement Scheme (CAS) to its officers, replacing the existing Stagnation Grade System (SGS). It was submitted to the Board that CAS was proposed to mitigate the hardship of delayed promotions to officers, the modalities of which were to be worked out. The Board approved (February 2010) the implementation of RPS 2009, pending sanction from the Government, and resolved that CAS be implemented after getting sanction from the Government. Accordingly, APSRTC requested (February 2010) the Government for sanction for implementation of RPS 2009 and also CAS, without mentioning the modalities/financial impact. Government conveyed (October 2010) its approval for implementation of RPS 2009, but remained silent about CAS. The management, however, misinformed the Board that Government had approved the CAS; the modalities of the scheme were approved (November 2011) and the scheme is under implementation. In this regard, the following was observed.

- Modalities of the scheme together with the financial impact were never brought to the notice of Government, and hence, approval of CAS by the Government does not arise. Further, in the letter received from the Government approving implementation of RPS 2009, no mention of CAS was made. Thus, implementation of CAS without approval of the Government is irregular and any financial benefit extended under the scheme would be tantamount to unauthorised payment.
- In the notes submitted to the Board (February 2010/ November 2011/ April 2012), financial impact due to implementation of CAS was not brought out, yet the Board approved the proposals.

The Management replied (September 2012) that the Government's approval of RPS 2009 shall be construed as approval of CAS. Reply is not acceptable as CAS required specific approval of the Government, which was not received. Further, as per the Guidelines issued (January 2002) by the Public Enterprises Department of Government, State Level Public Enterprises (SLPEs) should not sanction automatic time-bound promotions without reference to the performance of the SLPEs or needs of the organisation or availability of vacancies and any violation of these orders would be viewed seriously, including recovery of amounts sanctioned from the responsible officials.

4.6.9 Payment of gratuity in excess of the ceiling limits without approval of the Board/Government

The payment of gratuity to the employees of APSRTC is regulated by the Gratuity Act 1972 subject to various ceiling limits⁹⁵ prescribed from time to time under the Act.

Further, as per the Guidelines issued (January 2002) by the Public Enterprises Department of Government, SLPEs are permitted to enhance the maximum gratuity limit to their employees as and when enhancement is announced by GoI after obtaining the Board's approval. For any deviation from the GoI announcement, the SLPE should obtain prior approval of the State Government.

Disregarding the Act's provisions and Government orders, APSRTC, without approval of the Board, paid gratuity to its employees in excess of the ceiling limit. As per records made available, APSRTC paid gratuity upto ₹ 18.03 lakh as against the prescribed ceiling limit of ₹ 10 lakh,⁹⁶ which resulted in total excess payment of ₹ 5.13 crore during 2007-12 in respect of Head Office, Greater Hyderabad Zone and three regions viz. Hyderabad, Secunderabad and Rangareddy. Particulars of gratuity paid in respect of the remaining 5 zones and 20 regions were not furnished, in spite of repeated requests. Consequently, the total excess payment of gratuity during 2007-12 was not ascertainable.

The Management replied (September 2012) that APSRTC had not specifically appraised the Board regarding the amendments in the Act, and this matter would be placed before the Board for information and its approval.

The reply of Management confirms the fact that the amendments to the Gratuity Act, fixing ceiling limits, were not brought to the notice of the Board, indicating a serious lapse on the part of APSRTC. Further, continued payment of gratuity, without applying the statutory ceiling limit, even after being pointed out in audit, shows lack of financial propriety and prudence. The reply is also silent on ignoring the specific orders of the Government that any deviations in the gratuity ceiling limits shall be with its prior approval only.

⁹⁵ Ceiling limit from 1 October 1987 to 23 May 1994 (₹ 50,000), from 24 May 1994 to 23 September 1997 (₹ 1,00,000), from 24 September 1997 to 23 May 2010 (₹ 3,50,000) and from 24 May 2010 (₹ 10,00,000).

⁹⁶ ₹ 10 lakh is ceiling limit prescribed by GoI when GoAP has prescribed limit of ₹ 8 lakh only. Approval of Board for enhancement up to ₹ 10 lakh has also not been obtained.

4.6.10 Payment of HRA in excess of the rates notified by the Government resulted in excess payment

As per the agreement reached with the union in connection with RPS 2005, APSRTC shall pay HRA as per the classification of cities/towns notified by the State Government. Accordingly, whenever the State Government enhanced the HRA, the same was adopted. It was, however, observed, that at several places⁹⁷, APSRTC paid HRA at rates higher than the rates notified by the State Government, which was irregular and resulted in excess payment of ₹ 9.78 crore during 2007-12. Audit scrutiny also revealed that though orders were issued several times to restrict HRA as per State Government notified rates and also to recover the excess paid HRA, they were kept in abeyance time and again. Further, as APSRTC was allowing HRA component as part of earned leave encashment, there was excess payment on this account also, which was not ascertainable in the absence of details.

The Management replied (September 2012) that the reduced rates of HRA at some places had not been implemented due to representation of the union. It was further stated that APSRTC would once again review the case and propose for recovery. However, final recovery is awaited (November 2012).

4.6.11 Other observations

4.6.11.1 Heavy expenditure on light vehicles

Government imposed (January 1994, February 2004 and July 2005) a ban on purchase of light vehicles by any department or Government owned organisations, and directed hiring of vehicles in case of necessity. Also, it was stated that in exceptional circumstances like creation of post, departments etc., proposals may be sent to the State Government for consideration and all such proposals may be below ₹ 7 lakh per vehicle. During 2007-12, the expenditure on running and maintenance of vehicle for officers/staff increased from ₹ 14.11 crore during 2007-08 to ₹ 18.80 crore by 2011-12. In this regard, the following observations are made.

- During the period from May 2006 to April 2012, APSRTC purchased 106 light vehicles at a cost of ₹ 5.86 crore without prior approval of the Government. Out of them, 23 light vehicles exceeded the cost of ₹ 7 lakh (the costliest vehicle was ₹ 18.36 lakh). Further, APSRTC continued to purchase light vehicles without approval of the Government which was highly irregular, even though the ban was brought to its notice in audit (October 2011).
- Even though a significant number of light vehicles were provided to officers (534 as on 29 February 2011), APSRTC had not formulated any policy on allotment of light vehicles, except fixation of quota for fuel.
- Government repeatedly issued instructions for hiring of light vehicles, instead of purchase, in view of cost advantages. However, APSRTC ignored these orders, as out of a total of 534 light vehicles, only 24 were hired (4.49 per cent). Audit scrutiny revealed that had APSRTC hired

⁹⁷ BHEL, Mancherial, Medchal, Padugupadu (SPS Nellore), Rajendranagar, and Uppal.

light vehicles, instead of purchasing 106 vehicles as directed by the Government, it could have saved ₹ 1.19 crore during 2007-12.

The Management replied (September 2012) that cost of the vehicles proposed was included in the budget estimates, which was approved by the Government up to the year 2005-06 and approval for the remaining years up to 2011-12 was awaited. Reply is not acceptable. As per the Government's orders, specific approval of the Government is a must in each case. Reply is silent about purchase of light vehicles in excess of the ceiling limit prescribed by the Government, lack of vehicle allotment policy and extra expenditure due to not hiring light vehicles in spite of repeated instructions by the Government.

4.6.11.2 Extension of interest free furniture advance out of borrowed funds resulted in additional burden

APSRTC is extending the facility of interest free furniture advance⁹⁸ to its employees up to ₹ one lakh which is to be recovered in 60 monthly instalments. Once the advance taken earlier is cleared, the official is eligible for another advance. As APSRTC is borrowing heavily from banks etc., at interest rates ranging up to 13.75 *per cent*, it was not a prudent decision to extend interest free advance out of the borrowed funds, that too for an unlimited number of times. APSRTC had to bear interest burden of ₹ 2.98 crore during 2007-12 on the outstanding interest free furniture advance amount. APSRTC should desist from extending interest free advances, as the corporation itself is dependent on borrowed funds.

The Management replied (September 2012) that in view of the present financial position, APSRTC would review whether the advance could be extended as an interest bearing advance.

4.6.11.3 Additional burden due to non-revision of man hour rates in respect of workshops

APSRTC pays Productivity Incentive Bonus (PIB) to its employees working in the workshops. It engaged the services of Andhra Pradesh Productivity Council (APPC), an autonomous non-profit making body, to prepare a report on standard man hour rates of various activities of workshops based on which the PIB shall be paid and a report was submitted (2004). Audit scrutiny revealed that APPC proposed to reduce/increase various activities for overall reduction in man hours by 31.59 *per cent* for all activities put together in Tata area, and an overall reduction in man hours by 41.99 *per cent* in Leyland area. From this, it is clear that there was ample scope to improve the efficiency of activities in workshops and incentive payment of at least 25 *per cent* could have been avoided, had APSRTC implemented the APPC proposed man hour rates, instead of continuing to pay PIB on the existing norms fixed in 1995-96 i.e. 15 years back. In spite of this being pointed out (June 2008) in audit, APSRTC had not revised the rates on the plea that the union had not come forward to discuss the issue in spite of several reminders. Abnormal delay in implementation of revised man hour norms resulted in additional burden of

⁹⁸ Jr. scale/ Sr. scale officers (₹ 80,000) and Heads of the Department/ Executive Directors (₹ 1,00,000).

₹ 5.37 crore (₹ 21.49 crore x 25 per cent) towards payment of PIB during 2007-12.

The Management replied (September 2012) that action was being taken to revise the man hours in workshops and discussions were being held with the unions. However, reply is silent on the abnormal delay in implementation of the proposal for revised man hours.

4.6.11.4 Heavy expenditure on officers' Travelling/ Daily Allowance due to higher rates and lack of control

During 2007-12, APSRTC incurred ₹ 13.29 crore towards payment of Travelling/ Daily Allowance (TDA). A test check of bills relating to TDA in respect of 500 tours undertaken (July 2011 to April 2012) by various officers of Head Office revealed the following:

- Officers of APSRTC are entitled for fixed TDA ranging from ₹ 1800 to ₹ 3,600 (including lodging charges) for the visit to metro cities. Production of bills/ receipts is not mandatory whereas for similar tours, GoAP pays TDA ranging from ₹ 550 to ₹1,275 per day, subject to production of lodge rent receipt. Similar disparities in TDA rates for other places exist.
- Most of the tours performed in the field by the Regional/Depot Managers and other officers are in connection with meetings, route survey, checking illicit operations, routine inspections, site inspection etc., with period of absence from headquarters up to eight hours which do not involve night stay and journeys are performed mostly in staff cars/ jeeps. In spite of this, officers were paid TDA ranging from ₹ 600 to ₹ 1,200 per day for absence exceeding 8 hours and half of the TDA for absence between six to eight hours. Test check also revealed that officers boarding bus at 23.30/00.00 hours and reaching headquarters after 06.00 hours were also paid TDA up to ₹ 1,200. Audit scrutiny also revealed that field officers of the State Government were paid Fixed Travelling Allowance (FTA) ranging from ₹450 to ₹ 700 per month/₹ 550 to ₹ 800 per month, if the minimum number of days required to be on tour is up to 15 days/20 days respectively. From this, it is clear that FTA paid to the officers of APSRTC for a single day is more than the FTA received by the Government officials in a month. Paying TDA without insisting on proof of travel could lead to large scale misuse.

Further, we observed that Gazette Orders issued by the Government for regulation of travelling on tour/fixed travelling allowance were also forwarded to APSRTC, but APSRTC ignored these orders and continued with its TDA structure. Further, approval of the Government for the TDA structure adopted by APSRTC was not obtained.

The Management replied (September 2012) that APSRTC followed its own TA and DA rules as per the regulations, which was approved by the Government and the rate of DA applicable had always been different from the rates applicable as per the Government Gazette and therefore, the TDA structure as per the Gazette was not applicable to APSRTC. Reply is not tenable. As per the guidelines issued (January 2002) by the Public Enterprises Department of Government, SLPEs shall adopt TA/DA rates prescribed by Government from time to time subject to prior approval of the Administrative

Department which had to ensure that whenever a proposal is referred to it, only the prescribed rates were adopted and any deviation must be referred to Public Enterprises Department in Government. Gazette orders of the Government are thus applicable to APSRTC.

4.6.11.5 Surrender of privilege bus passes

APSRTC issues Privilege Bus Passes⁹⁹ (Passes) to its staff and officers to enable them to travel free of cost in APSRTCs' buses. However, instead of travelling in the buses of APSRTC, officers were allowed (May 1998) the facility of reimbursement of Leave Travel Concession (LTC) in lieu of surrender of passes at the rates¹⁰⁰ prescribed from time to time. This was stopped (August 2005), citing huge losses incurred by APSRTC. It was, however, restored (December 2007) on the plea that APSRTC made handsome surplus, disregarding the fact that APSRTC had accumulated loss of ₹ 1263.63 crore and debts of ₹ 1299.74 crore (March 2008).

Initially, LTC was allowed for travel anywhere in India, but it was extended (July 2008) to foreign trips, that too without approval of the Government. Further, APSRTC incurred heavy loss of ₹ 1417 crore (ranging from ₹ 317 crore to ₹ 585 crore) during 2009-12. In spite of this, there was no evidence of review of this facility and its stoppage. In fact, encashment of a third set was also permitted and rate of reimbursement was also increased (February 2010). Considering the accumulated losses of APSRTC, restoration (December 2007) of the facility of encashment of passes and continuation of the same in spite of heavy losses was not appropriate. Had the facility of passes to officers also been restricted to travel in APSRTCs' buses as was done in respect of staff, APSRTC could have avoided expenditure of ₹ 4.69 crore during 2007-12. We also observed that there were instances of payment of accommodation charges also, even though the facility was meant for journeys only. However, complete details of the claims settled were not made available for ascertaining the details of amounts reimbursed towards accommodation, food and other ineligible payments.

The Management replied (September 2012) that as per APSRTC (Bus Pass) Regulations, 1964, all the employees of APSRTC would be eligible for three sets of privilege passes per calendar year and the Bus Pass Regulations had the sanction of the Government. It was stated that the officers were allowed to avail of package tours subject to the financial limits notified from time to time. Reply is not tenable as the Bus Pass Regulations were approved by the Government and any amendments to the Regulations should be with the prior approval of the Government. Reply is silent about allowing LTC to foreign countries without Government's approval. Apart from this, as per the guidelines issued (January 2002) by the Government, SLPEs shall follow the LTC/Leave encashment rules provided or as applicable to Government employees and, in any case, not in excess of Government policy, without prior approval of the Administrative Department.

⁹⁹ Two sets of Passes up to November 2001 and three sets from December 2001.

¹⁰⁰ From February 1 2010, rate for reimbursement of cash in lieu of passes is at ₹ 15,000 per set (previous ₹ 11,000 per set) for Executive Directors/ Heads of the Departments and at ₹ 12,000 per set (previous ₹ 8,500 per set) to Senior/ Junior scale officers.

4.6.11.6 Reimbursement of expenditure on LTC to foreign countries

As per Section 10 (5) of the Act, the value of any travel concession or assistance received by an individual from his employer in connection with his proceeding on leave to any place in India is exempted from tax. In two instances noticed in audit, it was observed that ₹ 1.42 lakh LTC reimbursements were made in connection with foreign tours but the same was also exempted from income tax, which resulted in loss of ₹ 0.29 lakh (₹ 1.42 lakh x 20 per cent+ 3 per cent cess) to the exchequer. Details of similar cases called for (February 2012) were yet to be furnished.

The Management replied (May 2012) that transport facility provided by a transport undertaking is exempted from income tax under Section 17(2) of the Act. Reply is not relevant as the amount reimbursed on surrender of privilege passes for undertaking LTC to foreign countries does not come under Section 17(2) of the Act.

Conclusion

From the foregoing, it is clear that there is considerable scope for controlling the expenditure on personnel and related cost, but APSRTC failed to do so, which resulted in additional burden/avoidable expenditure to the tune of ₹ 92.93 crore. Financial indiscipline and lack of control over the personnel cost was one of the reasons for the present precarious financial position of APSRTC, which could adversely affect it and its employees unless drastic steps are taken. However, we are not against benefits being extended by APSRTC to its employees. The challenge lies in extending these benefits, without compromising the future of the entity and its employees. In our view, any benefit such as revision of pay scales/ allowances, introduction of new allowances, other benefits etc., should be in line with the provisions of various Acts/Schemes/Orders of Central/State Governments etc., and also keeping in mind the financial position of APSRTC.

Recommendations

- **Revision of pay scales and allowances and Career Advancement Scheme should be based on affordability and with the prior approval of the State Government;**
- **The provisions of various Acts, Schemes, Orders etc., of the Central/ State Governments should be strictly followed;**
- **With regard to pay and allowances, incentives etc., not specifically governed by orders of the Public Enterprises Department, the Board should consider the financial position also before sanctioning/ratifying any proposal.**
- **The TDA structure should be revised to remove the imbalances of abnormally higher TDA to officers and also to ensure that TDA may not lead to large scale misuse;**
- **Vehicle allotment policy may be formulated to control the expenditure on provision of light vehicles of officers;**

- *APSRTC should strictly avoid new proposals, interest free advances etc., out of borrowed funds, which would put additional burden on APSRTC, till improvement of its financial position; and*
- *APSRTC should restrict the facility of privilege passes for utilisation for travel in its own buses and stop its encashment.*



(K.R. SRIRAM)

Principal Accountant General
(Economic & Revenue Sector Audit)
Andhra Pradesh

Hyderabad
The 14 FEB 2013

Countersigned



(VINOD RAI)

Comptroller and Auditor General of India

New Delhi
The 15 FEB 2013

