Chapter-II
Performance Audit relating to Government Company

PERFORMANCE AUDIT ON THE FUNCTIONING OF ASSAM INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

Assam Industrial Development Corporation Limited (Company) was established (1965) with the primary objectives of promoting/developing of small, medium and large scale industries, promoting and operating the schemes for industrial development and providing financial assistance for industrial development in the State. The management of the Company is vested in the Board of Directors. The overall functioning of the Company is managed by the Managing Director who is assisted by General Managers, Financial Controller and Company Secretary. The present performance audit was conducted to assess the economy, efficiency and effectiveness of the Company in implementation and operation of industrial projects during the period 2009-14 and also to assess the recovery performance of the Company against the loans already disbursed and outstanding.

Highlights

The capital employed in the Company was completely eroded by the accumulated losses and it had been negative throughout the five years period 2009-10 to 2013-14. The Company was able to earn profits during the five years from 2009-10 to 2013-14 (excepting 2012-13) mainly due to significant interest income earned against investment of project funds.

(Paragraph 2.7.1 and 2.7.2)

The Company does not prepare any long or short-term plan of its own to achieve the objective of promoting/developing of small, medium and large scale industries in the State. The Company prepares *adhoc* project proposals as per directives of GOA for incorporation in State's Five Year Plan and submits the same to GOA for approval and allocation of funds. The proposals for centrally sponsored schemes are prepared as per scheme guidelines and submitted to GOI for approval.

(Paragraph 2.8)

The Company had not formulated any mechanism for fixing completion time for pre-award activities. All the five projects undertaken by the Company during 2009-14 were delayed for periods ranging from 37 to 129 months mainly on account of excessive time taken in preparation of cost estimates and issue of work orders, post work-award changes in the work specifications, slow progress of works by the contractors, *etc*. These delays led to cost

overrun ranging from ₹ 0.60 crore to ₹ 4.22 crore in completion of four out of said five projects.

(Paragraph 2.9 and 2.9.1)

The Company has been operating 9 industrial infrastructure projects with a total area of 49.25 lakh sqm (allocable area of 34.72 lakh sqm); of which, the Company could allocate only 12.49 lakh sqm (35.97 *per cent*) to the 107 industrial units. The low occupancy of developed land was broadly attributable to inadequate power facilities and poor maintenance of the projects. There were delays ranging from 25 to 1,514 days on the part of the Company in allotment of land in 19 out of 107 cases after receipt of application from the industrial entrepreneurs. Instances of non collection of service tax, unauthorised occupation of land by the entrepreneurs and additional expenditure due to deviation from DPR by the Company were also observed during the performance audit.

(Paragraph 2.10)

The Company provided (upto March 1993) financial assistance to 78 entrepreneurs and stopped providing the assistance thereafter. As against total 43 loan cases (₹ 24.24 crore) pending for settlement as on 1 April 2009, the Company could settle another 24 loan cases (₹ 14.69 crore) during 2009-14. Non-recovery of outstanding loans against 19 loan cases (₹ 9.55 crore) disbursed prior to March 1993 was indicative of poor performance in debt management by the Company.

(Paragraph 2.11)

Introduction

2.1 Assam Industrial Development Corporation Limited (Company) was established in 1965 under the aegis of Department of Industries and Commerce, Government of Assam (GOA). The Company was formed with the objectives of:

(a) promoting/developing small, medium and large-scale industries in the State of Assam;

(b) promoting and operating the schemes for industrial development of Assam; and

(c) providing financial assistance to any industrial undertaking, project or enterprise.

The GOA formulated (May 2009) Assam Industrial Policy, 2008 (State Industrial Policy) and the Company was entrusted with the responsibility of implementing the same in the State. The State Industrial Policy had the following main focus areas:

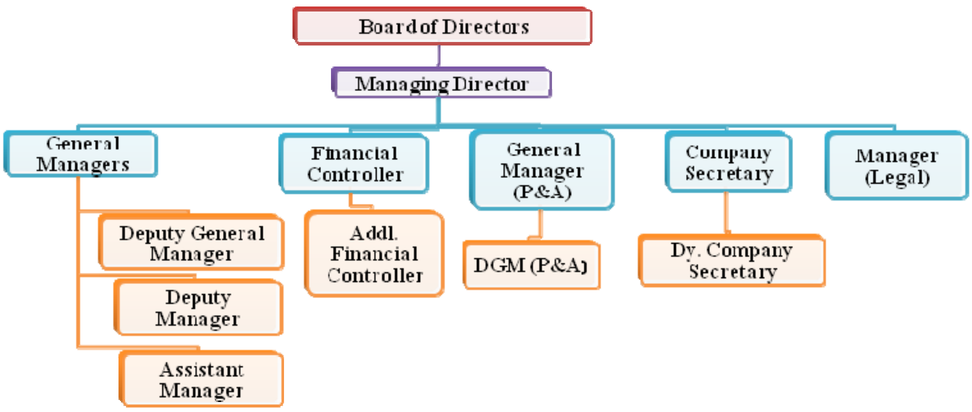
- To generate economic development by accelerating the process of industrialisation;
- To generate employment by encouraging the establishment of micro enterprises and increase share of the industrial sector in the State Domestic Product (SDP); and
- To focus on Agro and rural area linked industrial investment.

The present activities of the Company are, however, confined merely to construction/development of industrial infrastructure and operation/maintenance of the industrial infrastructure already developed.

Organisation Structure

2.1.1 The organisational structure of the Company is depicted in ***Chart-2.1.***

Chart-2.1



The management of the Company is vested with the Board of Directors (BoD) which consists of 10 directors (4 executive directors and 6 non-executive directors). The Chairman of the Board presides over all the meetings of the BoD. The overall functioning of the Company is managed by the Managing Director of the Company. The Managing Director is assisted by General Managers, Financial Controller and Company Secretary in day-to-day activities of the Company. The General Managers of respective wings are responsible for planning of Company's future activities, preparation of DPR, monitoring the implementation of the projects and appraising of the status of Company's activities to the top management, etc. The Financial Controller is responsible for budgeting, preparation of accounts, processing of bills, assisting the management in taking investment decisions, monitoring the recoveries of the Company.

Approach to the Performance Audit

2.2 The Performance Audit (PA) on the workings of the Company was last included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial). The PA was, however, pending for discussion by the Committee of Public Undertakings (September 2014). The present audit has been conducted with the focus on Company's achievements/ performance against its objectives of developing of small/medium scale industries in the State as well as efficiency in operations of industrial development schemes. The Company had been providing financial assistance to State industrial units till March 1993 by availing loans from Industrial Development Bank of India (IDBI). Thereafter, no such financial assistance was extended by the Company to any industrial unit. As such the audit coverage against the Company's objective of providing financial assistance to industries is confined to analysing the recovery performance of the Company against the loans already disbursed (till March 1993) and remaining outstanding, during five years period covered in the PA.

Scope and Methodology of Audit

2.3 The present PA report covers the period from 2009-10 to 2013-14 and deals with various important aspects of Company's activities, *viz.* planning and project management for development of industrial infrastructure, operational management of the industrial infrastructure already developed, project monitoring and recovery performance of the Company against outstanding loans. The audit examination involved examination of records at Company's Head Office only as the Company had no other branch/units.

The methodology adopted for attaining the audit objective consisted of explaining audit objectives to top management in the Entry conference (23 February 2014), analysis of data/records with reference to audit criteria, examination of annual reports, internal reports, *etc*, of the Company as well as Agenda/Minutes of the BoD, interaction with the Company officials, raising of audit queries, issuing (August 2014) of draft audit report to the Management/GOA for comments. The draft Audit report was also discussed (2 September 2014) with the representatives of the Company/GOA in the Exit conference. The formal replies (5 September 2014) of the Company to the draft report as well as the views expressed by the representatives of the Company and GOA in the Exit conference have been taken into consideration while finalising the Report. Formal replies of GOA, however, had not been received (September 2014).

Sampling

2.4 Under the planning and project management, the PA covered all the 5 industrial infrastructure projects completed by the Company during 2009-14. As regards 12 ongoing projects (excluding one abandoned project), 9 of these projects involving more than 90 *per cent* of the aggregate sanctioned costs were at very initial stages of execution (*viz*. at the stage of land acquisition and preparation of detailed project reports) and hence, could not be covered in the PA. Further, aspects relating to the operational management of the Company were examined with reference to all the 11 projects completed by the Company as of 31 March 2014 (including the 5 projects completed during 2009-14). The recovery performance against loans by the Company has been assessed based on the examination of the 43 out of 78 loan cases which were disbursed by the Company prior to discontinuance (March 1993) of its financing activities and which remained outstanding during the five years period (2009-14) covered in the PA.

Audit Objectives

2.5 The objectives of the PA would be to assess whether:

- *the Company has properly planned its activities relating to industrial infrastructure development in the State;*
- *the industrial infrastructure projects were executed in an economic, efficient and effective manner by adhering to prescribed guidelines and relevant rules/regulations;*
- *the completed projects were made operational for the intended use within the scheduled time and operational revenue from the projects were efficiently recovered;*

- *the Company was able to recover its dues against the loans disbursed in an efficient and timely manner; and*
- *an effective monitoring system (including MIS) was in place to assess the implementation and operations of the projects and also to take timely corrective actions for overcoming the deficiencies noticed.*

Audit Criteria

2.6 The criteria for assessing the performance of the Company against the above audit objectives were derived from the following sources:

- *Assam Industrial Policy 2008;*
- *Directions/Guidelines issued by Government of India (GOI)/GOA/Department of Industries and Commerce, GOA and other funding agencies;*
- *Annual Plans and Detailed Project Reports (DPR) of the projects;*
- *Standard procedure for implementation of the projects with reference to principles of economy, efficiency and effectiveness;*
- *Land Allotment Rules framed by the Company:*
- *Memorandum and Articles of Association of the Company; and*
- *Agenda papers and minutes of meetings of Company's Board of Directors.*

Audit Findings

Financial Profile

2.7.1 Financial Position

The financial position of the Company during the period 2009-14 have been summarised in ***Table 2.1.***

Table 2.1

Particulars		2009-10	2010-11	2011-12	2012-13	2013-14 (Provisional)
(₹ in crore)						
Equities & Liabilities						
Shareholders Fund:						
Share Capital		93.09	93.09	93.09	93.09	93.09
Reserve and Surplus:						
Capital & Other Reserves		81.41	81.35	81.35	81.36	81.36
Accumulated Profit/(Loss)		(128.07)	(123.94)	(120.61)	(128.07)	(123.32)
Total Share holders Fund[1]		(34.98)	(30.85)	(27.52)	(34.98)	(30.23)
Share Application Money pending allotment		23.68	32.33	32.33	32.33	29.21
Non-current Liabilities	GOA Loan	18.16	18.35	18.35	18.35	21.35
	Other Non-Current Liabilities	4.11	15.82	18.52	15.46	19.05
Current Liabilities		63.13	58.95	67.02	103.97	139.87
Total (liabilities)		**155.51**	**175.95**	**190.05**	**216.49**	**260.61**
Assets						
Non-current Assets:						
Fixed Assets		42.20	44.56	44.76	44.50	45.30
Non-current Investment		26.24	24.69	23.15	22.75	27.33
Long term Loans and Advances		Nil	2.04	1.46	2.45	0.71
Other non-current Assets		Nil	0.22	0.58	Nil	Nil
Current Assets						
Inventories		Nil	Nil	Nil	Nil	Nil
Trade Receivables		Nil	Nil	Nil	Nil	0.15
Cash and Cash Equivalents		70.18	89.59	**103.82**	129.72	168.28
Short term Loans and Advances		14.95	11.94	9.30	11.49	13.45
Other Current Assets		1.94	2.91	6.98	5.58	5.39
Total (Assets)		**155.51**	**175.95**	**190.05**	**216.49**	**260.61**
Capital employed[2]		**(16.82)**	**(12.50)**	**(9.17)**	**(16.63)**	**(8.88)**
Debt Equity Ratio[3]		**0.24:1**	**0.37:1**	**0.40:1**	**0.36:1**	**0.43:1**

(Figures in the bracket indicate negative figures)

[1] Shareholders' fund include Share Capital *plus* Accumulated Profit/(Loss).

[2] Capital employed represents Shareholders fund and Long Term Borrowings.

[3] Debt Equity ratio represents Long Term Liabilities (under Non-current Liabilities) in proportion to Paid Up Capital

It can be noticed from the ***Table 2.1*** that during 2009-14, the capital employed of the Company was completely eroded by the accumulated losses and it had been negative all through the five years ending 31 March 2014. The overall positive growth in capital employed during 2009-14 from ₹ (-)16.82 crore (2009-10) to ₹ (-) 8.88 crore (2013-14) was mainly due to decrease (₹ 4.75 crore) in the accumulated losses from ₹ 128.07 crore (2009-10) to ₹ 123.32 crore (2013-14) and increase (₹ 3.19 crore) in the State Government Loan from ₹ 18.16 crore (2009-10) to ₹ 21.35 crore (2013-14). Further, increase in the debt-equity ratio from 0.24:1 (2009-10) to 0.43:1 (2013-14) was mainly on account of increase in non-current liabilities, which was indicative of increase in the Creditors' (primarily the GOA) stake in the business assets of the Company.

Working Results

2.7.2 The working result of the Company during the period 2009-14 have been summarised in ***Table 2.2.***

Table 2.2

Particulars	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14 (Provisional)**
	(₹ in crore)				
Income					
(i) Revenue from Operations	1.69	3.24	1.86	2.23	2.75
(ii) Other Income	13.56	8.76	10.53	6.46	15.25
(iii) Total Income (i+ii)	**15.25**	**12.00**	**12.39**	**8.69**	**18.00**
Expenses					
Employee Benefit Expanses	3.88	5.28	5.48	12.14	9.17
Depreciation and amortisation Expenses	0.11	0.17	0.21	0.23	0.24
Other Expenses	1.18	2.27	2.71	3.46	3.44
(iv) Total Expenses	**5.17**	**7.72**	**8.40**	**15.83**	**12.85**
(v) Profit before extra ordinary items and Taxes (iii-iv)	10.08	4.28	3.99	-7.14	5.15
(vi) Extraordinary items	0.03	Nil	Nil	-0.32	-0.40
(vii) Profit before tax (v+vi)	10.11	4.28	3.99	-7.46	4.75
(viii) Tax Expenses:					
(a) Current Tax	0.11	0.32	0.71	Nil[4]	Nil[4]
(b) Deferred Tax	Nil	Nil	Nil	Nil	Nil
(ix) Profit after taxes (vii-viii)	10.00	3.96	3.28	-7.46	4.75

Analysis of data under ***Table 2.2*** shows that the Company was able to make overall profits during five years from 2009-14 (excepting 2012-13) mainly on account of significant interest income earned against investment of project funds and booked under 'other income'. There was, however, an overall decrease of ₹ 4.93 crore in the 'profits before tax' during 2009-14 from ₹ 10.08 crore (2009-10) to ₹ 5.15 crore (2013-14) mainly on account of consistent increase in 'employee benefit expenses' during 2009-14 (excepting 2013-14). During fourth year (2012-13), the other income was at lowest (₹ 6.46 crore) while employees' benefit expenses were at highest (₹ 12.14 crore) in the five years period which led to overall 'negative working results' during this year.

Audit objective: To assess the Company's planning activities relating to industrial infrastructure development.

(Paragraph 2.8)

Planning

2.8 The Company, being one of the designated agencies responsible for overall industrial development of the State, is required to prepare long-term/ annual plans keeping in view the State specific needs in a manner that its prime objective of promoting and developing small, medium and large scale industries in the State is attained in a balanced and phased manner. The Company does not prepare any long or short-term plan of its own for implementation of the industrial infrastructure projects. It was observed that the Company actually prepares the *adhoc* project proposals as per directives of GOA for incorporation in the State's Five Year Plan and submits the same for approval and allocation of funds to GOA. As regards centrally sponsored projects, the Company studies the scheme guidelines and accordingly submits project proposals to GOI for approval and allocation of funds. The projects are implemented only on approval and allocation of funds by the GOI/GOA. Thus, even after almost 50 years of its formation, the Company merely acted as an implementing agency of GOI/GOA and remained solely dependent on Government funding for achieving its objectives.

Audit objective: To examine that the industrial infrastructure projects were executed in an economic, efficient and effective manner by adhering to prescribed guidelines and relevant rules/regulations.

(Paragraph 2.9)

Project Management

2.9 The project management is a process of managing the creation and execution of contracts for implementation of the approved projects in a systematic and efficient manner so as to maximise financial and operational performance with minimum risks. To ensure completion of project works within the targeted period, it is essential that all preparatory activities like, surveys, design, testing, processing for forest and other clearances, tendering activities, *etc.* are taken up in advance/ parallel to project appraisal/approval stage and the work orders are issued well in time after the approval of the DPRs. For timely completion of above activities, necessary mechanism was required to be evolved by fixing completion time for the pre-award activities. The Company however, had not formulated any policy in this regard.

During 2009-14, the Company received an aggregate amount of ₹ 55.29 crore from GOI/GOA from implementation of 18 industrial infrastructural projects under Central/State sponsored schemes. As against this, the Company could complete only 5 projects at a total project cost of ₹ 42.49 crore. Out of the remaining 13 projects, one project was abandoned. Of the remaining 12 ongoing projects, 3 projects involving aggregate project cost (sanctioned cost) of ₹ 45.97 crore were completed to the extent of 30 to 78 *per cent* while the works relating to remaining 8 projects (sanctioned cost: ₹ 362.54 crore) were at the very initial stages of execution due to non-acquisition of land (5 projects), and non-preparation of DPR (3 projects). As regards the remaining 1 project (sanctioned cost: ₹ 62.28 crore) to be implemented under Special Purpose Vehicle (SPV) mode, only land has been acquired by the Company.

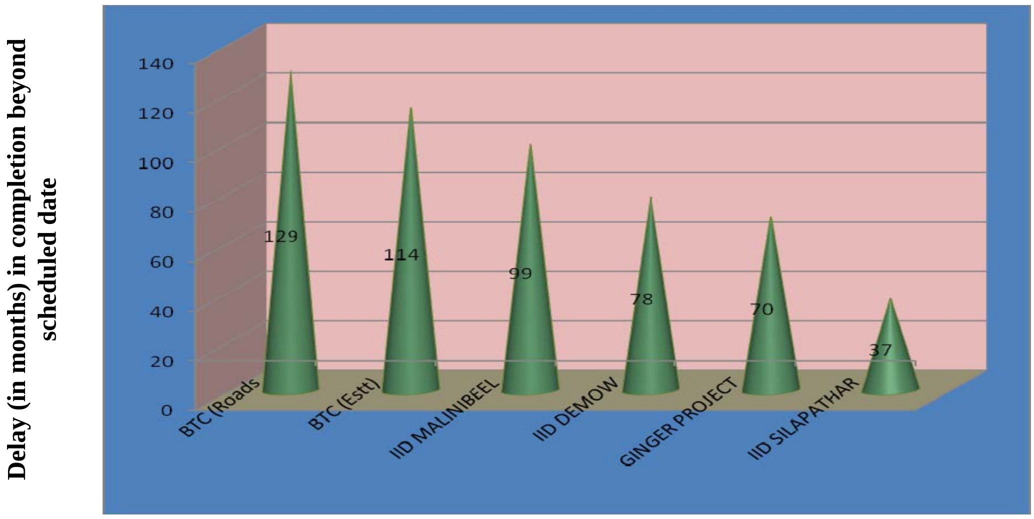
The details of the sanctioned vis-à-vis actual costs incurred, actual time taken in project completion with reference to the scheduled dates of completion and resultant time and cost overrun involved in respect of 5 projects undertaken and completed by the Company during 2009-14 are depicted in ***Table 2.3***.

Table 2.3

Sl. No.	Name of the project	Date of Sanction/ Approval of DPR	Scheduled date of completion	Actual date of Completion	Sanctioned Cost (₹ in crore)	Actual Cost (₹ in crore)	Time Overrun (Months)	Cost Overrun (₹ in crore)
1.	IID Demow	July 2002	June 2004	December 2010-	4.70	5.62	78	0.92
2.	IID Silapathar	December 2005	December 2007	January 2011	4.07	3.34	37	(-) 0.73
3.	Ginger Project (First Phase)[5]	August 2004	February 2005	December 2010	5.56	9.78	70	4.22
4.	IID Malinibeel	July 2002	June 2004	September 2012	5.10	8.36	99	3.26
5. (i)	BTC Mankachar (Establishment)	August 2001	January 2003	July 2012	4.26	4.86	114	0.60
5. (ii)	BTC (Roads)	August 2001	June 2002	March 2013	6.84	10.53	129	3.69
Total		**-**	**-**	**-**	**30.53**	**42.49**	**-**	**11.96**

From the ***Table 2.3*** it may be observed that the execution of all the 5 projects (including BTC projects completed in two phases *viz*. BTC Roads and BTC Establishment) was delayed by the Company for periods ranging between 37 and 129 months with reference to the scheduled dates of completion as depicted in the ***Chart 2.2.*** These delays were mainly on account of excessive time taken in completion of pre-award activities, delay in land acquisition, change in works specifications after work award, slow progress and sub-standard work executed by the contractors, *etc*, as discussed in the succeeding paragraphs.

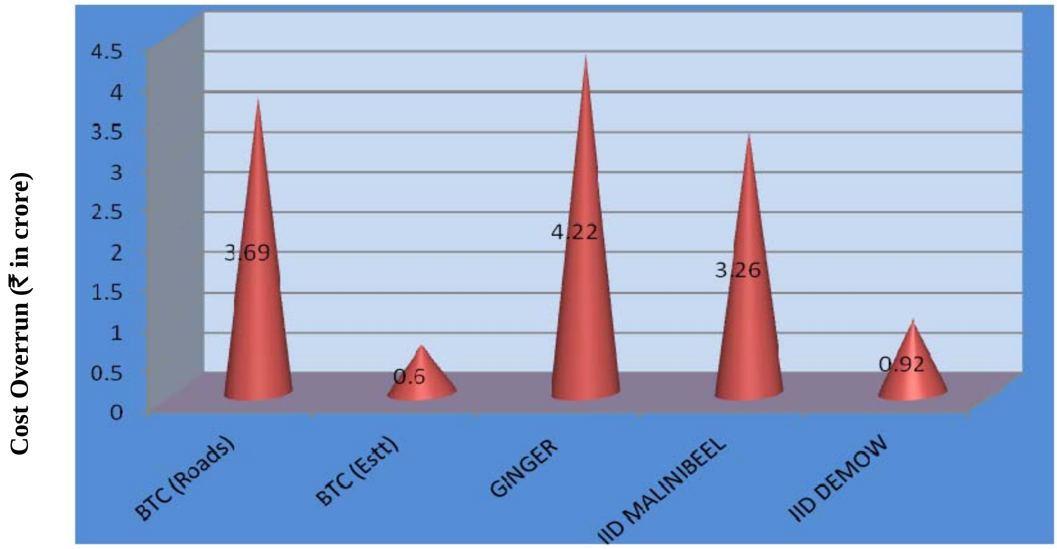
Chart 2.2



Completion of 5 Industrial Infrastructure Project undertaken/completed during 2009-14

The significant delays as shown above had the corresponding impact on the costs of the projects completed by the Company during 2009-14. It may be observed that 4 projects (including BTC projects completed in two phases *viz*. BTC Roads and BTC Establishment) out of 5 projects (excepting IID Silapathar) completed by the Company during five years period involved cost overrun ranging between ₹ 0.60 crore (BTC Establishment) and ₹ 4.22 crore (Ginger project) with reference to the sanctioned project costs as depicted in ***Chart 2.3***.

Chart 2.3



Completion of 5 Industrial Infrastructure Projects undertaken/completed during 2009-14

The analysis of implementation of the projects completed during 2009-14 was carried out and audit findings are discussed in succeeding paragraphs:

GINGER PROJECT (First phase)

2.9.1 Assam had been declared (2003) as Agri Export Zone of Ginger by GOI. In pursuance to this, GOA decided to establish a post-harvest infrastructure for ginger to facilitate export of Ginger from the State. The proposed project envisaged to have the following facilities:

- Ginger line consisting of sorting, washing and grading-line with capacity of 5 metric tonne (MT) per hour;
- Packing of the product; and

- Cold storage for the packaged stock.

The DPR of the project was approved (August 2004) by the GOI for a capacity of 6000 MT of Ginger stock per annum at an aggregate cost of ₹ 10.43 crore. The project was scheduled for completion by February 2005. The project was to be completed in three phases (2000 MT each phase) and the approved cost for the first phase was ₹ 5.56 crore.

The Company received (November 2004 – April 2011) an amount of ₹ 10.47 crore for implementation of the first phase of the project. Accordingly, the work of construction of the project was awarded (July 2007) at ₹ 6.75 crore against the enhanced cost estimates of ₹ 6.05 crore as prepared (November 2006) by the project consultant. As on March 2014, an amount of ₹ 9.78 crore was incurred on the project. Analysis of the implementation of the project revealed the following:

Cost and time overrun

2.9.1.1 As per the DPR of the project, the first phase of the project was scheduled to be completed by February 2005 at an approved cost of ₹ 5.56 crore. The work order was awarded (July 2007) at a cost of ₹ 6.75 crore after inviting open tenders with stipulation to complete the work by February 2008. The work was, however, completed in December 2010 after a delay of 70 months from the original scheduled date of completion (February 2005) at a cost of ₹ 9.78 crore. Further, even after completion of the construction work, the project was pending for handing over (till March 2014) due to non-conducting of the trial-run operation by the contractor. The major reasons for delay in completion and increase in cost were:

(i) Excessive time of 27 months and 35 months taken in preparation of the detailed cost estimate (November 2006) and issue of work order (July 2007) by the Company after sanction (August 2004) of the project;

(ii) Delay of 15 months in submission (December 2008) of drawings by Company after handing over of site (August 2007) to the contractor;

(iii) Change in design/specification (March 2008) of the pile foundation work after issuing (July 2007) the work order. The piling work was completed on March 2008 at an additional cost of ₹ 2.13 crore;

(iv) Slow progress of the work by the contractor.

Deficient DPR

2.9.1.2 The original scope of pile foundation work as per DPR was for 'Open RCC Type' and accordingly work order was issued (July 2007). It was observed that while preparing the DPR for the project, the Company had not conducted the soil test for determining the specification of the pile foundation work. The soil-test was carried out (August 2007) after awarding the contract. Based on the test report, the specification of pile foundation was changed from 'Open RCC Type' to 'RCC under-reamed of 300 mm dia'. The load test conducted based on the revised specification of work failed (January 2008). Therefore, the specification of pile foundation had to be again revised (January 2008) to 'RCC under-reamed of 450 mm dia'. The Company submitted (20 March 2008) the drawings of the revised pile foundation to the contractor and the work was completed on 25 March 2008. The BoD also expressed (May 2010) dissatisfaction about the increase in cost of civil works (Pile foundation) and opined that all technical aspects should be appropriately factored while preparing DPR and cost estimates for the project so as to avoid delays and cost escalation. Thus, repeated revisions in the work specification after award of work were indicative of deficiencies in preparation of DPR which caused delay in execution of the project.

Slow progress of work

2.9.1.3 The work order was issued (July 2007) to the contractor with a completion time of 6 months from the date of handing over of the project site. The site was handed over (August 2007) to the contractor with the plan layout. The revised pile foundation drawings were, however, issued (20 March 2008) to the contractor as mentioned in ***paragraph 2.9.1.2*** *supra*. Thus, the contractor was required to complete the project in all respect within 6 months after issuing the revised drawings by the Company *viz*., by September 2008. The contractor, however, completed the project after a delay of 27 months in December 2010. Further, even after completion of the major works, the contractor was unable to complete various minor works *viz*., drains, plastering of outside wall of main building, repairing of laboratory leakage, *etc*, and also delayed in conducting the trial-run of the project. The project could be finally handed over to the Company after a delay of 66 months of the scheduled date (September 2008) only in March 2014. Despite apparent lapses on the part of the contractor in timely completion of the project, the Company did not invoke the liquidated damages clause to penalise the contractor for the delay.

The Management replied (September 2014) that delays occurred on account of various reasons, which included inadequate building design and subsequent design modification by the consultants, practically inadequate time (6 months) fixed by consultants for work completion, non-availability of skilled manpower for the work, *etc*. It was also stated that issue of imposing liquidated damages on contractor would be taken up at the time of settling final bills of the contractor.

The reply is not acceptable as the Company did not maintain any recorded reasons for delays. As a result, the Company could not recover the liquidated damages from the running bills of the contractor. The reply is also indicative of deficiency in preparation of DPR for the project.

Non-operation of completed project

2.9.1.4 The first phase of the Ginger Project completed (December 2010) at a total cost of ₹ 9.78 crore could not be handed over to the Company till March 2014 as trial-run operation of the project was not conducted by the contractor. Audit further observed that the trial-run could not be conducted as the Company could not make arrangements for supply of power for the purpose. The trial run was conducted and the project could be handed over only in March 2014. Thus, due to deficient planning on part of the Company in making timely arrangements for power, the investment (₹ 9.78 crore) in the project remained idle for more than 39 months after its completion (December 2010) till it was handed over (March 2014) to the Company.

The Management replied (September 2014) that due to saturation of the installed capacity of the proposed sub-station (EPIP project) from which power was planned to be drawn the project could not be commissioned and power could be drawn after up-gradation of the sub-station capacity.

The reply is not tenable as the Company should have assessed the existing capacity of the electrical sub-station in EPIP and planned its capacity up-gradation in line with the timeline fixed for completion of the project.

Excess payment

2.9.1.5 After inviting open tenders, the project work was awarded (July 2007) to the contractor at negotiated price of ₹ 6.75 crore against the revised approved cost estimates of ₹ 6.05 crore. The work order was issued on 'firm-price basis' and did not stipulate for any price escalation in the agreed works costs. While examining the details of the payments made to the contractor, it was observed that there were variations in the price of different items of materials considered for payment with reference to the item-wise negotiated rates stipulated in the work order. The Company, however, released the payments without issuing a revised work order for the price variation. The overall excess payments made to the contractor on this account was to the tune of ₹ 0.19 crore.

The Management replied (September 2014) that it had issued (November 2007) revised Bill of Quantities (BOQ) and the billing was done accordingly.

The reply is not tenable as the revision in BOQ is normally carried out to adjust the quantities of material items only on the basis of the actual requirement and revision in BOQ does not involve any changes in the price of the material already fixed in the work order. On the contrary, the Company issued the revised BOQ by changing the item-wise rates of materials without making any changes in the quantity of material.

INTEGRATED INFRASTRUCTURE DEVELOPMENT CENTRE, SILAPATHAR

2.9.2 With a view to promote small and tiny industries in the area, the GOI approved (December 2005) the DPR of the project for development of an IID Centre at Silapathar (Dhemaji district) at an estimated project cost of ₹ 4.07 crore. The project was proposed considering the rich agricultural resources of the district as well as the ongoing Subansari Hydel Project of Government of Arunachal Pradesh located within 70 km of the district. The project envisaged promoting the storage linkage between agriculture and industry in line with the main objective of IID scheme of the GOI. The cost of the project was to be contributed by the GOI (₹ 3.25 crore) and GOA (₹ 0.82 crore) in the form of grants.

The Company received (April 2006-February 2012) funds amounting to ₹ 3.68 crore from GOI/GOA. After inviting open tenders, the work orders were issued (July 2006 to March 2012) for implementation of the project at a total cost of ₹ 3.25 crore. The project was finally completed (January 2011) at a total cost of ₹ 3.34 crore.

Delay in completion of project

2.9.2.1 As per the approved DPR for the project, all project works were scheduled to be completed by December 2007. The Company could, however, complete the project after a delay of 37 months only in January 2011. It was observed that although the Company had completed (January 2011) the project, the work component relating to water supply (awarded in March 2012) was pending for completion (September 2014). The reasons attributable to delay in completion of the project were as follows:

(i) As per the approved work schedule, land development work was to be started within 4 months of release (April 2006) of funds, *viz*., by August 2006. The Company, however, had taken 17 months in preparation (September 2007) of detailed cost estimate of work from the date of release of fund and another 6 months in issuing (March 2008) the work order for land development work;

(ii) As per the approved DPR the work of construction of boundary wall was to be taken up within 4 months of the release (April 2006) of funds (*viz*., latest by August 2006). The Company, however, issued (June 2007) the work order after a delay of 9 months. There was further delay of 5 months in handing over (November 2007) of site to the contractor; and

(iii) The detailed cost estimate for external electrification of the project was submitted to the Company by the consultant in March 2009. The Company, however, had taken a period of 5 months in according technical approval (September 2009) for the work and the work order was issued (November 2009) after another 2 months. Thus, the Company took a total period of 7 months in issuing (November 2009) the work order after submission (March 2009) of the detailed cost estimates of the work.

The Management replied (September 2014) that the delay was due to encroachment of the project land and time taken by the district administration in eviction of the encroached land. Further, the difficult approach to the project site due to floods in rainy season was also stated to be a reason for the delay.

The reply is not acceptable as the responsibility to safeguard the project land after its allotment by the State Government lies with the Company. While appreciating the management’s plea regarding locational disadvantage of the project, it may be stated that this aspect should be appropriately factored by the Company at the planning stage and the completion schedule fixed accordingly. Further, considering the completion period of 2 years, the delay of 37 months is quite excessive and does not corroborate with the reply of the Management.

Non-operation of completed project

2.9.2.2 The DPR of the project envisaged to allot the entire allocable area under the project to the industrial entrepreneurs by the end of 4th year after the scheduled date of completion (December 2007). As such the total area of allocable land (0.60 lakh sqm) should have been allotted to the industrial entrepreneurs by December 2011. The Company, however, could complete the project only in January 2011 after a delay of 37 months. Even after a period of 38 months from the actual date (January 2011) of completion of the project, the Company could not allot a single plot of land to the industrial entrepreneurs (September 2014). Failure of the Company in allotting not even a single plot of the project land for more than 3 years after its completion was indicative of unrealistic projections made in the DPR on project feasibility. Thus, investment (₹ 3.25 crore) in the project could not be put to its intended purpose in the absence of proper feasibility study for the project.

The Management replied (September 2014) that though several enquiries were made by the entrepreneurs, but finally none have come up for allotment. The Company also stated that it had experienced that after four to five years from completion, IIDs tend to get fully occupied. It was further stated that after completion of the rail-cum-road at Bogibeel Bridge, the project land shall be fully allotted.

The reply of the Management establishes the fact that the project was developed without conducting proper feasibility study at the planning stage of the project. Further, Company's anticipation of full occupancy of the project after completion of Bogibeel Bridge may also not materialise in the near future as the said rail-cum-road bridge is likely to be completed only after 3 years, in June 2017.

Administrative expenditure out of project fund

2.9.2.3 According to the sanction letter, the Company was not supposed to incur any administrative expenditure out of the project fund. Contrary to the conditions of the project funding, however, the Company had diverted an amount of ₹ 0.13 crore towards administrative expenditure (₹ 0.12 crore) and partly financing (₹ 0.01 crore) the purchase of vehicle, which was irregular.

The Management replied (September 2014) that the project is situated in remote area and therefore it had to incur administrative expenditure out of project fund for better monitoring.

The reply of the Management confirms the observations made by Audit.

Deviation from approved DPR

2.9.2.4 As per Assam Industrial Policy 2008, all industrial estates/parks promoted by the Government should ensure that quality power is available through dedicated feeders from the grid sub-station. The approved DPR of the project had the provision of a dedicated power line (33/11 KV line) along with sub-station for one mega volt ampere (MVA) uninterrupted power supply at a cost of ₹ 0.32 crore. It was observed that the above work was excluded from the work scope while executing the project. Consequently, the Company had obtained 80 KW power connection from the common feeder, which was not suitable for running industrial units. Thus, the project was developed without the facility of uninterrupted power supply despite having adequate fund provisions in the DPR.

INTEGRATED INFRASTRUCTURE DEVELOPMENT CENTRE, DEMOW

2.9.3 With a view to promote and strengthen small and tiny industries in the area under the IID scheme, the project for development of an IID Centre at Demow (District: Sibsagar) was sanctioned (July 2002) by GOI at an estimated project cost of ₹ 4.70 crore. The project was proposed taking into account the rich agricultural resources of the district and also considering various drilling projects of ONGC presently operational in the district as well as the Gas Cracker project of Central Public Sector Undertakings situated in neighbouring area at Dibrugarh. The project envisaged development of an industrial centre over an area of 111 bighas to cater the needs of Consumers Goods and Engineering sectors considering its locational advantages. The cost of the project (₹ 4.70 crore) was to be borne by GOI (₹ 3.76 crore) and GOA (₹ 0.94 crore) in the form of grants. The project was completed (December 2010) at a total cost of ₹ 5.62 crore. Examination of records relating to implementation of the project revealed the following:

Time Overrun

2.9.3.1 As per the approved DPR, the project was scheduled for completion within two years of its sanction (July 2002), *viz*. by June 2004. The project was, however, completed (December 2010) after a delay of 78 months. A comparative data of timeline prescribed under the DPR for issuing work orders and completing the related works of the project *vis-a-vis* the actual time taken by the Company in the process has been summarised in the ***Table 2.4***.

Table 2.4

Name of the Work	Scheduled Dates		Actual Dates		Delay in months	
	Issue of Work order	Completion Date	Issue of work Orders	Completion	Issue of work Orders	Completion of Work
Soil testing/ Traverse Survey	November 2002	November 2002	January 2003	February 2003	2 months	3 months
Earth Filling	February 2003	September 2003	November 2005	May 2007	33 months	44 months
Boundary Wall	January 2003	September 2003	July 2004	May 2008	18 months	56 months
Water Supply	April 2003	June 2003	March 2009	August 2009	71 months	74 months
Roads	June 2003	February 2004	September 2004	November 2006	15 months	33 months
Drainage	June 2003	February 2004	October 2008	May 2009	64 months	63 months
Substation	August 2003	February 2004	April 2010	September 2012[6]	80 months	103 months
Street Light	December 2003	May 2004	March 2009	September 2009	63 months	64 months

The analysis of the records indicate that the work orders for all 8 segments of works were issued with delays ranging from 2 to 80 months mainly due to delay in completing pre-tendering activities and indecisiveness in finalising the action plan by the Company. Further, the subsequent delays ranging from 3 to 103 months in execution of the works were on account of illegal encroachment on project land after taking over physical possession by the Company as discussed in the succeeding paragraphs.

Deviation from approved DPR

2.9.3.2 With a view to ensure uninterrupted supply of power to the IID centre, the approved project cost included the provision of ₹ 0.63 crore for facilities like 33/11 KV electrical sub-station, street lighting, *etc*, in addition to the provision (₹ 0.45 crore) for meeting contingencies and cost escalations. It was, however, observed that despite availability of funds, the Company did not take any action for construction of the electrical sub-station till November 2004, when it approached Assam State Electricity Board (ASEB) for providing the cost estimates for the work. In response, ASEB provided (November 2005) an estimate of ₹ 0.47 crore for the sub-station work. The Company, however, delayed in taking decision and finally issued (April 2010) work order on ASEB at revised (December 2009) cost of ₹ 1.24 crore. The sub-station was finally constructed and installed (September 2012) at a cost of ₹ 1.24 crore. Thus, due to indecisive approach of the Company in awarding the work order for construction of the dedicated sub-station as per the approved DPR, the work was completed (September 2012) with a delay of 103 months from the original scheduled date of completion (February 2004) leading to cost overrun of ₹ 0.77 crore.

The Management replied (September 2014) that 33/11 KV substation could not be constructed as the capacity of the then Demow Electrical sub-station was not enough to meet the power demand of the project. The Company also stated that the expenditure on power system was not within the project cost and was met from Assistance to State for Developing Export Infrastructure and Allied activities (ASIDE) fund.

The reply is not tenable in view of the fact that while providing cost estimates for the work, ASEB had also accorded (November 2005) technical sanction for construction of 33/11 KV sub-station along with approval for supply of 2 MW power to project site. The Company had taken a period of 53 months in awarding (April 2010) the work to ASEB which was avoidable. Further, the plea of the Company of meeting the cost of the work from ASIDE funds does not justify the cost overrun caused due to the abnormal delay in awarding the work by the Company.

Loss of project land

2.9.3.3 The GOA had handed over (January 2004) physical possession of 111 bighas of land to the Company for implementation of the project. After taking possession (January 2004) of the land, however, the Company did not take any initiative for construction of Boundary Wall/Fencing so as to protect the site from encroachments. During execution of the works of boundary wall, it was found (January 2005) that 19 bighas of land had already been encroached. The Company did not intimate the Government about the encroachment and the project was executed only in the remaining area (92 bighas) of land. By not protecting the site with boundary wall, Government land measuring 19 bighas (17,348 sqm of allocable area) was lost. As a result the Company was also deprived of the potential revenue of ₹ 0.52 crore on the encroached portion of land against Land Development Charges (LDC).

The Management replied (September 2014) that the GOA provided physical possession of only 92 bighas of land free from encroachment.

The reply is not correct as the Company had taken over physical possession of total 111 bighas of land as per land handing over documents issued (January 2004) by GOA and thus, the responsibility of safeguarding the property lies with the Company.

INTEGRATED INFRASTRUCTURE DEVELOPMENT CENTRE, MALINIBEEL

2.9.4 The project was sanctioned (July 2002) under IID scheme of GOI for development of a IID Centre at Malinibeel (District Cachar) covering an area of 90 bighas at an estimated cost of ₹ 5.10 crore. The project aimed to promote and strengthen small and tiny industries in Malinibeel area considering the rich agricultural resources of the district. The Company was selected as the implementing agency for the project by GOA. As against total project funds of ₹ 8.59 crore received (January 2003 to March 2010) by the Company, the project was completed (September 2012) at a total cost of ₹ 8.36 crore. The following observations are made on implementation of the project:

Delay in completion

2.9.4.1 As per the approved DPR, the project was scheduled for completion within 2 years of its sanction (July 2002), *i.e.*, by June 2004. The Company could, however, complete the project only in September 2012, *i.e.*, after a delay of 99 months. The broad reasons for delays have been discussed in succeeding paragraphs:

(a) The Company took possession (February 2001) of 90 bighas of the project land from GOA with some encroachment. Based on the request (March 2001) of the Company, the Deputy Commissioner (DC) got the encroachment removed (March 2002). After a joint survey of land by DC and the representatives of the Company, the land was handed over (May 2002) to the Company by the DC. After taking physical possession of the project land, however, Company failed to take necessary steps like, construction of boundary wall and taking up the site development activities to protect the land from further encroachment. As a result, the land was again encroached (January 2004) and the Company had to get the land cleared (February 2005) with the assistance of the DC. Thus, repeated failure on the part of the Company to protect the project site from encroachment led to delay of 33 months (May 2002 to February 2005) in acquisition and handing over of land to contractors for implementation of the project.

(b) Though the completion date of the project was envisaged as June 2004, it was observed that out of 36 components of the work of the project, the work orders in respect of only 6 components were issued before the schedule completion date. The work orders for remaining components of the project were, however, issued (October 2004-February 2010) *i.e.*, after periods ranging from 3 to 68 months from the scheduled date of completion of the project. It was further observed that the Company could complete (September 2012) the project after an overall delay of 99 months despite receipt of entire project cost (₹ 5.10 crore) as originally approved, during 2007-08 itself. This indicates that the delay in completion of the project was not account of any financial constraints but for inefficiency of the Company in project execution.

The Management replied (September 2014) that there was unintentional delay in completion of the project due to locational disadvantage causing huge water logging during summer season. It was further stated that due to abnormal rise in prices of construction materials, the contractors was not willing to take up the work, which also delayed the work completion.

The fact, however, remains that despite having sufficient fund for implementation of the project; the Company could not adhere to the time schedule of the project mainly due to lack of strategic planning.

Cost escalation

2.9.4.2 The Company incurred total expenditure of ₹ 8.36 crore against approved cost of ₹ 5.10 crore. Thus, there was an overall cost escalation of ₹ 3.26 crore in completion of the project. The cost of the project was met out of the funds received from GOI (₹ 4 crore), GOA (₹ 1.10 crore) and diversion of fund (₹ 3.49 crore) received under ASIDE scheme. The increase in cost was mainly due to significant time overrun of 99 months in completion of the project and corresponding increase in the cost of various components of the works including the land development (₹ 0.43 crore), roads (₹ 0.26 crore) *etc*.

BORDER TRADE CENTRE, MANKACHAR

2.9.5 With a view to open the Border Trade with Bangladesh, the GOA decided to set up a Border Trade Centre (BTC) at Mankachar in district Cachar. The project aimed at creation of necessary infrastructure for providing basic facilities like power, water, telecommunication, *etc.*, to the exporters. GOI sanctioned (August 2001) the proposal of GOA for creation of BTC, Mankachar at a cost of ₹ 11.10 crore under ASIDE scheme. The project was implemented in two phases namely, Establishment of BTC (Cost: ₹ 4.26 crore) and Construction of Roads (Cost: ₹ 6.84 crore). The project was scheduled for completion by January 2003 (Establishment of BTC) and June 2002 (Roads).

The cost of the project was to be borne by GOI (₹ 6.83 crore) and GOA (₹ 4.27 crore). The Company awarded (December 2002-November 2007) the entire project works under various components of works to different contractors. The work relating to Establishment of BTC was completed (July 2012) at a total cost of ₹ 4.86 crore while the work of Construction of Roads was completed (March 2013) at a cost of ₹ 10.53 crore. The following observations are made on implementation of the project:

Delay in completion

2.9.5.1 The two phases of the project, namely, Establishment of BTC and Construction of Roads were completed with delays of 114 months and 129 months from the scheduled dates of completion respectively. The broad reasons attributable for delays have been discussed in succeeding paragraphs.

(i) The BTC project was sanctioned in August 2001 at an estimated cost (consolidated) of ₹ 11.10 crore. It was observed that the Company took abnormally excessive periods ranging from 69 to 74 months in issuing (June 2007 to November 2007) the work orders relating to establishment of BTC from the date of sanction of the project. It was further observed that since the initial funding (₹ 2.73 crore) against the project cost was released (upto 2004-05) well in time, the delay was not attributable to non-availability of project funding. No recorded reasons were available for this unjustified delay.

(ii) Even after award of work (June 2007 to November 2007), the civil works relating to establishment of BTC were badly delayed with reference to the scheduled dates of completion stipulated in the work orders as can be observed from the position summarised in ***Table 2.5***.

Table 2.5

Sl. No.	Name of the contractor	Name of the work	Date of work order	Date of handing over of site	Schedule date of completion	Actual date of completion	Delay in months
1.	M/s Versha	Road and truck Parking	14.06.2007	23.06.2007	21.12.2007	11.05.2011	40

	Techno Pvt Ltd	yard compound wall including Internal Drain, Security House, Gate House, Hume Pipe culvert etc					
2.	M/s Versha Techno Pvt Ltd	Construction of Residential Building, Warehouse, External Electrification, Deep Tube Well etc	26.11.2007	07.12.2007	02.12.2008	05.07.2012	43
3.	Bilab Kumar Chetia	Construction of Administrative Building, Weigh Bridge Office, Generator House etc,	26.09.2007	08.11.2007	03.10.2008	01.07.2011	33
4.	Bilab Kumar Chetia	Construction of Group I for Site Development, Concrete Pavement, Compound Wall, Drain etc	14.06.2007	23.06.2007	21.12.2007	22.09.2010	33

It may be observed that all four components of work delayed considerably for periods ranging from 33 to 43 months after issue of the work orders. The delays were attributable on various lapses on the part of the contractors, including, slow progress of work, defective and sub-standard quality of work, *etc*. which was indicative of ineffective monitoring of project execution by the Company, as observed from the following instances:

(a) The site relating to works at Sl. No. 1 & 3 above were handed over to the contractors in June 2007 and November 2007 respectively. The contractors, however, brought the materials on site after 8 months (March 2008) and 2 months (February 2008) of handing over the site for two works respectively.

(b) On inspection, the Company noticed (August 2010 & April 2009) various defects in the works executed by the contractors (Sl. No. 1 & 2 above). The contractors were asked to rectify the defects. The defects were subsequently rectified by the contractors in August 2010 (Sl. No. 2) and May 2011 (Sl. No. 1). Thus, the sub-standard quality of work executed by the contractors had delayed the completion of the project by 16 months (Sl. No. 2) and 9 months (Sl. No. 1).

Although there were instances of bad/defective workmanship on part of the contractors, the Company did not closely monitor the progress of work. No records/registers were maintained by the Company to record the reasons and periods during which no works were done or done with very slow pace. In absence of necessary records, the extensions sought by the contractors on account of natural calamities like, unseasonal rains, floods, *etc.* were allowed by the Company without verification of the genuineness of claims made by the contractor for the delays. Thus, negligence on part of the Company in maintaining proper records on progress of work has facilitated the contractors in availing undue extension of time of work completion. Besides, Company also lost an opportunity to penalise the defaulting contractors for delay by imposing liquidated damages as per the provisions of the work order.

The Management replied (September 2014) that the delay was mainly due to area being remote, flood prone and extremist infested, *etc*.

The reply is not tenable as the Company could not verify the genuineness of the reasons put forth by the contractors for delays in absence of necessary records/registers. Further, the defects noticed in the works of the contractors on several occasions were indicative of their poor workmanship and raise question on the time extensions granted by the Company for completion of works.

Irregular price escalation

2.9.5.2 The Company had awarded (June-November 2007) different components of works to the contractors through open tenders. As per the agreed terms of the work orders, rates fixed for the works were to remain firm and no price escalation was allowed during the currency of the contract. However, none of the four contracts could be completed within the scheduled dates on account of various reasons. Several reasons leading to delays were attributable to the lapses on part of the contractors, like delay in supply of materials, poor quality of work executed *etc*. as discussed in previous paragraphs.

It was, however, observed that the Company had allowed a total price escalation of ₹ 0.34 crore to the contractors at Sl. No. 1 to 4 of ***Table 2.5*** without taking into account the delays committed by the contractors in completing the works. The escalation in the price was irregular and contrary to the agreed terms of contracts which stipulated completing the entire works on firm price basis without any price escalation.

The Management replied (September 2014) that price escalation was allowed as there was abnormal increase in prices of construction materials. The reply is not tenable as allowance of price escalation against the contract provisions at a later date negates the transparency of the tendering process. Further, the delays on the part of the contractors were also not considered before allowing price escalation.

Unauthorised expenditure

2.9.5.3 The ASIDE guidelines envisaged that all administrative expenses connected with the implementation of the project would be met by the concerned State Government. It was, however, noticed that the Company incurred administrative expenses of ₹ 0.60 crore out of the scheme fund in violation of the scheme guidelines. This has caused an irregular diversion of ASIDE funds towards the inadmissible purpose.

Non-operation of BTC, Mankachar

2.9.5.4 BTC, Mankachar constructed (July 2012) to promote export activities could not be made operational (September 2014). The main reasons attributed by the Company for non-functioning of the project were lack of infrastructure and communication facilities in the neighbouring country and non-finalisation of the operational module of the project by GOI. Besides, unauthorised occupation of the administrative building of the project by Central Reserve Police Force (CRPF) was also a deterrent in the operations of the project. Thus, the entire investment of ₹ 15.39 crore made on creation of export-oriented infrastructure under the project remained idle for more than two years without deriving the intended benefits.

The Company replied (September 2014) that improvement of infrastructure facilities in Bangladesh and fixation of operational module is pending at the Government level. It was also stated that the issue of illegal occupation of project building by CRPF officials has been brought to notice of GOA, response to which was awaited.

The reply of the Management is not tenable as the reasons put forth are indicative of deficient planning and lack of co-ordination between Company/GOI and Government of Bangladesh.

Audit objective: To assess that the completed projects were made operational for the intended use and operational revenue from the project were efficiently recovered by the Company.

(Paragraph 2.10)

Operational Management

2.10 The Company in order to promote industrial development in the State develops land and provides basic facilities like, power, water, road connectivity, sheds, *etc*. After development of the area, Company generally handovers the same to the industrial entrepreneurs on long-term lease basis or through outright sale. The present status of allotment of the industrial infrastructure developed by the Company is given in ***Table 2.6***.

Table 2.6

Sl.	Name of	Total area of	Allocable	Allocated	Un-	Number of units	Number of units

No.	the project	the project	area	area	allotted	allotted land	functioning
		(in lakh square metre)					
1.	Titabor	1.61	0.60	0.14	0.46	02	01
2.	Malinibeel	1.20	0.40	0.29	0.11	18	07
3.	Demow	1.23	0.84	0.26	0.58	06	03
4.	Dalgaon	1.40	1.08	0.86	0.22	09	08
5.	Bhomoguri	1.62	1.04	0.42	0.62	08	05
6.	IGC Matia	22.37	18.89	8.31	10.58	03	0
7.	Balipara	16.19	9.43	0.36	9.07	02	02
8.	Silapathar	0.87	0.59	0.00	0.59	0	0
9.	EPIP	2.76	1.85	1.85	0.00	59	39
Total		**49.25**	**34.72**	**12.49**	**22.23**	**107**	**65**
10.	Ginger Project	This project is a manufacturing unit and not meant for allocation to industrial entrepreneurs. The project is handed over by the contractor only in March 2014.					
11.	Border Trade Centre, Mankachar	This project was developed for cross-border trade with Bangladesh but due to non-completion of trade facilities at Bangladesh, the project was idle till date (September 2014).					

From the ***Table 2.6*** it could be seen that out of total 11 projects completed by the Company as of March 2014, only 9[7] industrial infrastructural projects were in operation (September 2014) with a total area of 49.25 lakh sqm. Further, as against total allocable area of 34.72 lakh sqm under 9 operational projects, an area of 12.49 lakh sqm only (35.97 *per cent*) could be allocated by the Company till date (September 2014) to 107 industrial units of which, only 65 units are presently functioning. The low occupancy in these projects was mainly attributable to improper project feasibility study at planning stage, lack of quality power, lack of proper maintenance of the project, *etc*. The amount outstanding against lease rent from the industrial units as on 31 March 2014 was ₹ 2.41 crore. Audit observed the following deficiencies in operation of industrial infrastructure:

Partial allotment of project area

2.10.1 As per the Land Allotment Rules, 2010, all the entrepreneurs to whom land have been allotted in Integrated Industrial Development Centres (IID)/Industrial Growth Centres (IGC) are liable to pay one time Land Development Charge (LDC) at the rate prescribed by the Company. In addition, the entrepreneurs are also required to pay Annual Service Charge (ASC) at the rate of three *per cent* of the LDC as well as Special Maintenance Charge (SMC) at the rate of 1.75 *per* sqm *per* month. As stated in previous paragraph, as of September 2014, the Company could allot only around 35.97 *per cent* of the allocable area available under 9 operational projects. Non allotment of more than 60 *per cent* of developed/underdeveloped area was indicative of deficient planning and inadequacy of efforts on the part of the Company in promotion of industrial activities in the State. As a result, the purpose of establishing the IIDs/IGCs at huge costs was defeated. Besides, the Company has lost the opportunity to recover one time LDC of ₹ 32.05 crore against the un-alloted land.

Delay in allotment of land

2.10.2 As per the provisions of the Assam Industrial Policy 2008 read with the notification of GOA dated 31 August 2009, the allotment of lands upto one acre of area should be made by the Company within 30 days of application by the entrepreneurs. In case of land measuring more than one acre, the allotment should be made within 60 days of receipt of application from the entrepreneurs. Further, after allotment of land, the Company should hand over the possession of land within 15 days from the date of allotment. As soon as the land is allotted and handed over to the entrepreneurs, the land allottees become liable for payment of various recurring charges to the Company, namely, Annual Ground Rent (AGR), Annual Service Charges (ASC) and Special Maintenance Charges (SMC).

It was observed that the there were delays in allotment of land to the industrial entrepreneurs as per details given in ***Table 2.7***.

Table 2.7

Sl. No.	Name of Project	Number of allottees	Delay beyond permissible limits (in days)	Loss of ASC	Loss of SMC	Loss of Ground Rent	Total
				(in ₹)			
1.	Demow	06	91 to 1514	63,000	2,84,755	4,750	3,52,505
2.	IID Dalgaon	04	228 to 680	78,300	2,80,420	4,000	3,62,720
3.	IID Bhomoraguri	07	25 to 443	48,816	1,50,830	6,000	2,05,646
4.	EPIP Amingaon	02	59 to 275	19,500	26,017	2,000	47,517
Total		**19**	**-**	**2,09,616**	**7,42,022**	**16,750**	**9,68,388**

From the above table it could be noticed that the Company delayed in processing of applications of the entrepreneurs for allotment of land in 19 out of total 107 cases ranging from 25 to 1,514 days beyond the permissible limits. The Company, thus, deprived the entrepreneurs from availing the benefits of the developed land for the periods of delays in allotment of land defeating the objectives of the State Industrial Policy, 2008.

The Management replied (September 2014) that the delays in allotment of land were due to delay in holding the meetings of State Level Committee for land allotment.

The reply (September 2014) of the Management is not acceptable as out of 19 cases specified above only 3 cases are for allotment of land above one acre for which approval of the State Level Committee is required. The responsibility of allotment of remaining 16 cases was with the power of the internal Land Allotment Committee of the Company. Further, considering the in-ordinate delay in allotment process also, the reply of the Company is not acceptable.

Non-collection of service tax

2.10.3 As per Section 65(105)(zzzz) of the Finance Act 1994, effective from 1 July 2010, service tax at the rate of 12.36 *per cent* was leviable on the land development charges (LDC) collected by the Company. The Company allotted (March 2011 to February 2014) land to 16 entrepreneurs for furtherance of business or commerce and accordingly collected the LDC as per the prescribed rates. Contrary to the provisions of the Finance Act, 1994 *ibid*, however, the Company did not recover the service tax on the LDC although same has been levied on ASC, AGR and SMC leading to loss of revenue of ₹ 0.66 crore to the Government exchequer.

The Management replied (September 2014) that service tax is not levied on LDC the development charges are refundable.

The reply is not tenable as the allotments were made (September 2010) under new Land Allotment Rules, 2010 which do not contain any provision for refund of development charges on expiry of lease period.

Unauthorised occupation of land

2.10.4.1 With a view to ascertain the actual land occupation by the entrepreneurs in EPIP, the Company appointed (February 2008) Consultant to carry out survey in EPIP. The Consultant reported (May 2008) that 26 entrepreneurs had occupied 2,525 sqm of land in excess of actual allotment.

2.10.4.2 In another case, an existing allottee entrepreneur under IID Titabor requested (February 2007) the Company for allotment of additional land of 5,352 sqm in IID, Titabor. The Company did not take any decision on the request of the entrepreneur. In July 2008, however, the Company noticed (July 2008) that the entrepreneur had an unauthorised occupation of 8,028 sqm of land. The Company directed (July 2008 and May 2012) the entrepreneur to get the unauthorised occupation of land regularised but the entrepreneur did not comply (September 2014).

It was observed that in all the above cases of unauthorised occupation of land, the Company had not initiated any action either to cancel the lease agreements due to violation of lease conditions or to regularise the unauthorised occupation of land by recovering applicable charges from the defaulting entrepreneurs. The financial loss on account of legitimate dues in the form of LDC, SMC and ASC recoverable by the Company from the unauthorised occupants of land, as worked out by Audit, was to the tune of ₹ 0.40 crore after netting off the partial recoveries (₹ 0.04 crore) made by the Company from 10 units.

The Management assured to take necessary steps to recover the development charges and vacate the unauthorised occupation. The reply confirms the failure on the part of the Company in taking appropriate action against the illegal occupant.

Additional expenditure due to deviation from the DPR

2.10.5 For facilitating the distribution of uninterrupted power to industrial units under IID Titabor, the approved DPR (March 2004) of the project had the provision for construction of a dedicated 33/11 KV sub-station along with control room, switchyard, transformer *etc*. at a cost of ₹ 0.20 crore. Though funds needed for the purpose were received (June 2004 to August 2010) by the Company from GOI/GOA, the Company instead of constructing the dedicated Sub-station, *etc*, as per approved DPR, availed (May 2010) a connected load of 80 KW through 11 KV line for meeting the power requirement of the project. In the absence of a dedicated 33/11 KV sub-station for the project, there was a poor response of the entrepreneurs for setting up industrial units under IID, Titabor. On realising the fact, the Company proposed (July 2011) for construction of 33/11 KV sub-station at a cost of ₹ 2.42 crore and requested GOA for funding of the work under Non-Lapsable Central Pool of Resources. The response of the GOA on the request of the Company was awaited (September 2014). It was observed that inappropriate decision of the Company for drawl of power from 11 KV line in deviation from the approved DPR has already caused cost escalation by ₹ 2.22 crore (till July 2011) in the workable cost of the sub-station, control room and switchyard etc.

The Management replied (September 2014) that there was no provision for 33/11 KV sub-station in the project report and therefore the work was not executed at the initial stage and proposal was made for funding under NLCPR scheme. Further, the Management also stated that the delay in execution in work was due to non approval of estimate by Central Electricity Authority.

The reply is not tenable as DPR included the provisions for creation of power distribution network with sub-station. Further, the CEA rejected the work estimate

Audit objective: To assess that the Company's recovery performance against outstanding loans was efficient.

as the Company had not prepared the same through the authorised licensee. This also confirms the lapse on the part of the Company.

Status of loans

2.11 The Company availed Refinance and Seed Capital Assistance from Industrial Bank of India (IDBI) during the period from 1981-82 to 1992-93. The fund so availed by the Company was utilised to extend financial support by way of loans to the first generation entrepreneurs for setting up medium scale industries in the State. As of March 1993, the Company assisted 78 entrepreneurs out of the said IDBI funds. The Company, however, had completely stopped providing financial assistance to the industrial entrepreneurs after March 1993. Out of the loans (₹ 54.43 crore) provided to the said 78 entrepreneurs upto March 1993, the Company could settle only 35 entrepreneurs (₹ 30.19 crore) till March 2009. Thus, as of March 2009, there was an outstanding balance of ₹ 24.24 crore (principal) against 43 loanees (including 7 suit filed cases). During the period of audit, the Company has settled another 24[8] loan accounts involving a principal outstanding of ₹ 14.69 crore. Thus, as on March 2014, the Company had total 19 loanees with an outstanding (principal) amount of ₹ 9.55 crore.

During examination of the process of settlement of the loan accounts during the period 2009-14, the following were observed in audit:

Undue favour

2.11.1 The Company sanctioned (March 2003) a term loan of ₹ 0.76 crore to Intake Hospital Private Limited (IHPL) for setting up a modern diagnostic and healthcare centre at Dibrugarh. Accordingly, the Company released (April 2003 to October 2003) ₹ 0.74 crore to IHPL after adjusting (August 2004) the balance of ₹ 0.02 crore against outstanding interest.

IHPL defaulted (April 2004) in payment of outstanding principal and interest since beginning causing accumulation of outstanding dues to ₹ 1.56 crore as of May 2010. The Company served (July 2010) a legal notice to IHPL demanding payment of dues within 15 days. Thereafter, IHPL submitted One Time Settlement (OTS) proposals to the Company for settlement of its dues on many occasions till June 2013. The Company, however, neither accepted the proposals nor initiated any step for taking over/seizure of the unit under Section 29 of the SFC Act, 1951. As of May 2013, the outstanding dues of IHPL stood at ₹ 2 crore (Principal: ₹ 0.76 crore, Interest: ₹ 1.06 crore and Penal/additional interest: ₹ 0.18 crore). Against the recoverable amount (₹ 2 crore) outstanding as of May 2013, the Company offered (September 2013) IHPL to settle their dues by paying an aggregate amount of ₹ 1.82 crore only towards principal (₹ 0.76 crore) and interest (₹ 1.06 crore) within one month (viz., October 2013). The offer involved waiver of penal/additional interest of ₹ 0.18 crore. The offer of the Company was, however, not accepted by IHPL. It was observed that despite repeated defaults in payment of dues by IHPL, the Company did not take any legal course of action for seizure of the assets of IHPL. The inaction on the part of the Company is tantamount to extension of undue benefit to a chronic defaulter involving a recoverable dues of ₹ 2 crore.

Irregular disbursement

2.11.2 The Company sanctioned (March 1989) a financial assistance of ₹ 0.54 crore (Term loan: ₹ 0.49 crore and Equity: ₹ 0.05 crore) in favour of East India Publication Private Limited (EIPL) for setting up a modern printing press unit at Silchar. As against this, the Company disbursed (November 1990) the loan of only ₹ 0.05 crore to EIPL. Meanwhile, the Company also agreed (February 1990) to become guarantor of Letter of Credit Account (LC) opened by the EIPL with SBI New Guwahati branch for importing machineries pending approval of the Board of Directors. Subsequently, the Company decided to terminate (November 1990) the term loan on the ground of misrepresentation of facts by the EIPL and also call back the amount disbursed. The Company, however, did not take any action to cancel the guarantee provided to SBI against LC opened by EIPL. Meanwhile, SBI made payment against LC defaulted by EIPL based on the guarantee letter without informing the facts to the Company. The SBI raised demand on the Company, being the guarantor against LC dues of EIPL, for reimbursement of ₹ 0.18 crore paid by SBI towards LC defaulted by EIPL. The Company, however, refused to reimburse the payments made by SBI.

The SBI filed (1993) money suit against EIPL and Company. Finally the Debt Recovery Appellate Tribunal (DRAT), Kolkata held (May 2002) the Company liable for payment of dues to SBI. Thereafter, the Company received (September 2002) recovery notice from DRAT for payment of ₹ 0.18 crore. The Company filed petition (2003) before the Guwahati High Court against the notice. The Court upheld (September 2009) the decision of DRAT. A revised notice demanding ₹ 6.41 crore (Principal: ₹ 0.18 crore and Interest: ₹ 6.23 crore) was served (December 2010) on the Company. Finally, both the Company and SBI had agreed for out of court settlement of the case at ₹ 0.60 crore only which was approved (August 2013) by Board of Directors of the Company. Thus, irregular agreement without safeguarding the financial interest and also assessing the genuineness of the other party led to avoidable loss of ₹ 0.60 crore to the Company.

Audit objective: To assess the existence of an effective monitoring system (including MIS) to ascertain the status of implementation and operations of the projects and also to take timely corrective measures against the deficiency identified.

(Paragraph 2.12)

Monitoring

2.12 An effective Monitoring consists of various processes performed to observe project execution in such a way that potential problems can be identified in a timely manner and corrective action can be taken, wherever necessary, to control the execution of the project. The monitoring and control process also provides feedback between project phases, in order to implement corrective or preventive actions to bring the project into compliance with the project management plan. The Company plays an important role in achieving the objectives of the Industrial Policy of the State. As such, the Company needs to have an effective monitoring system backed by a well documented Management Information System (MIS) detailing the status of implementation and operations of the ongoing/completed projects.

The deficiencies observed in the monitoring system of the Company have been discussed below:

- Inefficient project monitoring at various stages of project execution, namely, land acquisition, progress of contractor's work, *etc*, led to cost and time overrun of the projects;
- There was no system in place for periodical survey of project land and functioning of the industrial units, assessing the recovery performance against outstanding dues for taking corrective action, *etc*; and
- The Company did not have proper MIS system to apprise the management about the status of projects and recovery of outstanding loans on a regular basis. In

absence of MIS, decision-making were delayed which adversely affected the implementation of the projects and recovery of outstanding loans.

Conclusion

The Company had huge accumulated losses during all the five years covered in the PA, which had completely eroded its capital employed. The Company was able to earn overall profits during 2009-10 to 2013-14 (excepting 2012-13) mainly due to interest income earned against investment of project funds.

The Company does not prepare any long or short-term plan of its own for implementation of the industrial infrastructure projects. In fact, the Company prepares *adhoc* project proposals as per the directions of GOA and submits the same to GOA for approval and allocation of funds. The proposals for centrally sponsored projects are prepared as per the scheme guidelines and submitted to GOI for approval.

The detailed project reports prepared for execution of the industrial projects were deficient leading to changes in specification of works after the award of project. Other pre- work award activities *viz.* acquisition of land and issuing of work order were also delayed. The monitoring of project works executed through contractors was ineffective. As a result, all the five projects developed during 2009-14 were completed with delays ranging from 37 to 129 months causing corresponding cost overrun of ₹ 11.96 crore. Further, three out of five projects involving an aggregate investment of ₹ 28.42 crore remained non-operational on account of inadequate feasibility study.

The operational management of developed projects suffered from various deficiencies like, lack of adequate provisions for uninterrupted power supply, poor maintenance of projects, *etc*. As a result, more than 60 *per cent* of allocable area available (34.72 lakh sqm) under 9 developed projects could not attract the investors.

The Company did not have a proper Management Information System (MIS) in place, which had caused delays in decision-making during project implementation.

The Company did not extend any financial assistance to industrial units after March 1993. The performance of the Company in recovery of loans was also poor as it could not realise an amount of ₹ 9.55 crore against 19 loan cases disbursed prior to March 1993.

Recommendations

The Company should prepare its own plans for development of industrial infrastructure taking into account the State specific requirements. The Company also needs to overcome the deficiencies in preparation of DPRs and other pre work-award activities like, incorrect work specification, inadequacy of feasibility study reports, delays in land acquisition and awarding of work.

The Company should strengthen the project monitoring system by devising an appropriate MIS, periodical site inspections and reviewing of work progress in management meetings to identify potential problems and take corrective actions, wherever necessary.

The Company should ensure creation of timely and proper infrastructure facilities for the projects such as ensuring access to power supply source, expeditious development and allotment of land so as to attract the entrepreneurs.

The Company should explore ways and means for revival of its financing activities for promotion of industries in the State. The Company also needs to take available legal course of action for early recovery of outstanding loans.