Chapter-III
Compliance Audit Observations

Important audit findings emerging from test check during the audit of the State Government companies/Statutory corporations are included in this Chapter.

Government companies

Assam Power Distribution Company Limited

3.1 Loss of Revenue

Irregularities in the management of distribution franchisee agreements

With a view to improve consumer service quality as well as billing and collection efficiency, the Company introduced (October 2009) the Input Based Distribution Franchisee System (IBDF) in the State. Under the IBDF, the franchisee buys electricity from the Company at a defined input point either through Distribution Transformers (DTRs) or through feeders at a price fixed by the Company known as 'Bulk Supply Tariff' (BST) as approved by the State Electricity Regulatory Commission. The franchisee on the other hand collects revenue from consumers by raising bills at the tariff fixed by the Assam Electricity Regulatory Commission (AERC) in the Schedule of Tariffs. Once the IBDF agreement is entered into, the franchisee is liable to pay the cost of entire energy received from the Company as per the BST rates irrespective of the actual energy sold and revenue collected by the franchisee there against from the consumers. The franchisees were entitled for a commission at fixed rate on the value of energy billed to them under IBDF.

Examination of the implementation of the scheme by the Company revealed the following irregularities:

1. Calculation of BST based on a presumed consumer mix

According to clause 12 to the Franchisee Guidelines issued by the Rural Electrification Corporation (REC) for implementation of Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY) scheme, the BST for each DTR of the franchisee is to be determined separately on the basis of the actual consumer mix of the area served by the respective DTR. Further, the BST rate so adopted needs to be fully factored by the Company while submitting Annual Revenue Requirement (ARR) to AERC for determination of tariff.

It was, however, observed that instead of determining the BST under IBDF based on the actual consumer mix of the DTR, the Company determined (August 2011) BST rates based on a presumed consumer mix in line with the erstwhile Single Point Power Supply Scheme (SPPS), of the Company. Under SPPS, the presumed consumer mix was adopted for determining the tariff as the number of consumers belonging to higher tariff category was presumed to be very small. However, in case of an area having large number of higher tariff category consumers, the BST rates derived as per the SPPS (*viz.* on presumed consumer mix) would be significantly lower than that derived on the basis of actual consumer mix of that area. Although this presumed consumer mix was supposed to be a temporary arrangement till implementation of the IBDF, it formed the basis of the agreements signed with the franchisees.

An analysis of the actual consumer mix was carried out in Audit based on the actual consumer profile of the Company as a whole. As per analysis carried out by Audit, an average BST rate of ₹ 3.35[1] per unit was arrived at, against the average BST rate of ₹ 2.98 per unit adopted by the Company under IBDF. The total revenue loss sustained by the Company during August 2011 to June 2014 on account of adoption of lower BST rates worked out to ₹ 24.57 crore ***(Annexure 7)***. It was further observed that the Company did not factor the BST rate adopted under IBDF for submission of ARR to AERC in contravention of the REC guidelines.

In the above context, it was also observed that the CMD of the Company had directed (December 2011) that the BST should be fixed based on the actual consumer mix with effect from April 2012. A Committee was also constituted (December 2011) for determination of the revised BST rates for the purpose. It was, however, observed that the Committee could not introduce any mechanism for the fixation of the revised BST rates even after almost three years of its constitution (September 2014). In absence of the revised BST rates, based on actual consumer mix, the Company continued to adopt the lower BST rates as determined on the basis of presumed consumer mix till date (September 2014).

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[1] The BST rate has been worked out by Audit based on the approved formula in model D of the franchisee guidelines issued by REC and also adopted by the Company in computing the BST rate.

2. Excess payment towards higher rate of return

According to clause 14 of the Franchisee Guidelines issued by the REC, the rate of return to the franchisees should not exceed 10 *per cent* of the cost of energy received from Company at BST rates. It was, however, observed that the BST fixed by the Company under IBDF considered a return of 15 *per cent* contrary to the provisions of Franchisee Guidelines. This has resulted in an excess payment of ₹ 11.59 crore to the franchisees on 646.46 MUs of energy billed for the period August 2011 to June 2014 ***(Annexure 8).***

3. Accumulation of outstanding amount against the terminated franchisees agreements

Clause 9 of the IBDF agreements (entered between the Company and the franchisees) states that any receivables remaining unrecovered from the consumers at the time of handing over of the feeder to the franchisee shall be treated as the revenue arrears of the Company. The franchisee shall display all arrears in the bills issued by them to the consumers and shall remit all the recoveries there against to the Company after adjusting an additional incentive of 10 *per cent* on the amount so recovered.

Clause 12 of the agreement further stipulates that the franchisees shall clear their outstanding dues on monthly basis against the energy invoice raised every month irrespective of the actual collections made by the franchisees. In case of non-payment of monthly dues by the franchisees within 15 days of the due dates, a penal surcharge of 1.5 to 2 *per cent* was leviable at the discretion of the Company. If the franchisees fail to make payment within 30 days of the receipt of the bill, the contract termination clause shall be invoked by the Company.

Examination of seven IBDF agreements terminated by the Company during the period August 2010 to April 2014 revealed that in five out of the said seven agreements, there were total revenue arrears of ₹ 81.50 lakh at the time of handing over (August 2010 to July 2012) of the feeders to the franchisees. None of the five franchisees, however, had remitted any amount to the Company against these arrears till date (September 2014). Thus, due to failure of the Company to insist upon the franchisees for recovery of previous revenue arrears from the consumers along with their current dues has caused non realisation of the Company's old receivables of ₹ 81.50 lakh.

Further, the Company had instructed (October 2013) that the activities of the franchisees should be strictly monitored so that the outstanding dues do not exceed 75 *per cent* of the security deposits. It was, however, observed that in all the above mentioned seven franchisees agreements, the Company had taken abnormally excess period ranging from 2 to 29 months in invoking the termination clause after first default by the franchisees. In one of these seven cases (*viz.*11 KV Dhupdhara feeder), the franchisee was allowed to continue till the outstanding dues accumulated to 752 *per cent* of the security deposits. The total dues recoverable from the franchisees as of March 2014 in excess of the security deposits obtained from them were to the tune of ₹ 2.04 crore ***(Annexure 9)***. Since the agreements with the seven franchisees had already been terminated, the chances of recovery of these dues were remote.

In reply, the Management stated (September 2014) that the committee formed (December 2011) to re-examine the consumer mix had recommended that the pre-determined consumer mix was quite similar to the actual consumer mix and hence the prevailing BST rate should continue. Regarding the allowance of higher margin to the franchisee, it was stated that the additional five *per cent* margin was given to cover the other costs such as maintenance of computer equipments *etc*. The Management also indicated that action is being taken on the defaulting franchisees by terminating their agreements.

The reply is not tenable owing to the fact that the average BST rate as calculated by Audit based on the actual consumer mix was found to be on the higher side than the BST rate adopted by the Company. Further, the recommendation of the Committee for continuing with the prevailing BST rates as referred to by the Management was temporary for a period of six months up to September 2012. The Committee had also fixed the deadline for implementing the new system by September 2012. The plea of allowing extra margin for maintenance activities is also not acceptable in view of the fact that an additional margin of 2 *per cent* is already being allowed to the franchisees to meet the cost of maintenance activities.

The matter was reported (August 2014) to the Government; their replies had not been received (September 2014).

3.2 Loss of Revenue

The Company suffered a revenue loss of ₹ 84.74 lakh due to wrong classification of consumers.

The Assam Electricity Regulatory Commission (Commission) came into existence in 2003. In February 2005, the Commission issued the Electricity Supply Code and Related Matters Regulations, 2004 (Regulations). As per the Regulations, the classification of consumers, tariff and conditions of supply applicable to each category of consumers, shall be fixed by the Commission by way of the tariff order or otherwise. The Licensee (*viz.* the power distribution company) may classify or reclassify the consumers into various categories from time to time as per the classifications fixed by the Commission. As per the Schedule of Tariff issued (June 2005) by the Commission and subsequent tariff orders issued from time to time, the consumers belonging to oil and coal sector should be classified under the 'HT Category VII – Oil and Coal'.

The Company had entered (October 1994/January 2000) into agreements with two LPG bottling plants belonging to the Indian Oil Corporation Limited (IOC) at Guwahati (October 1994) and Mirza (January 2000) for supply of 922 KW and 525 KW of power respectively. The two bottling plants of IOC receive raw material (*viz.* Liquid Butane and Propane) through tankers and fill it up in cylinders. Since both the IOC plants carry out the process of packing extracted products of crude oil, these should have been classified under category VII (Oil and Coal).

It was, however, observed that the Company had wrongly classified both the bottling plants of IOC under 'Industry Category' instead of classifying them under the category VII of 'Oil and Coal' in violation of the provisions of the Schedule of Tariff. Since the tariff rates applicable for the Category VII (Oil and Coal) were higher than that charged from the consumers, the Company suffered (June 2005 to September 2014) a total revenue loss of ₹ 84.74 lakh on this account as detailed in ***Annexure 10***.

Thus, due to wrong classification of consumers contrary to the provisions of the 'Schedule of Tariff' notified (June 2005) by the Commission, the Company suffered a revenue loss of ₹ 84.74 lakh.

The matter was reported (April 2014) to the Government/Management; their replies had not been received (September 2014).

3.3 Loss of Revenue

Company extended undue benefit to the consumer by not recovering penalty of ₹ 45.92 lakh for overdrawal of power.

As per the general provisions of Schedule of Tariff issued by the Assam Electricity Regulatory Commission (AERC) from time to time, in case the recorded demand of a consumer during a month exceeds the contracted demand, fixed charges based on the contracted demand shall be levied at three times the normal rate for the portion of demand exceeding the contracted demand.

M/s. Indian Oil Corporation Ltd., (Consumer) a consumer of Assam Power Distribution Company Limited (Company) was provided (January 1992) with a connected load of 5 MW and contracted demand of 3.5 MW (4118 KVA) under the category of HT-VII (Oil and Coal).

In January 2013, the Company noticed that the consumer had overdrawn power by 2362 KVA during December 2012. Accordingly, the Company recovered an overdrawal penalty of ₹ 19.49 lakh from the consumer for the month of December 2012.

Subsequently, the Consumer requested (March 2013) the Company for enhancement of the connected load to 7.9 MW and Contracted Demand to 5.5 MW (*i.e.* 6,505 KVA), which was regularised in August 2013. Meanwhile, the consumer continued to overdraw the power to the extent of 2,362 KVA per month during January 2013 to March 2013. Even after submitting (March 2013) the request for enhancing the contracted demand to 6,505 KVA, the consumer had drew power in excess of the enhanced (proposed) contracted demand by 758 KVA per month during May 2013[2] to July 2013. It was, however, noticed that contrary to the provisions of the Schedule of Tariff, the Company levied only the fixed charges on the overdrawn load and did not recover the overdrawal penalty from the consumer for the said period of five months (January-March 2013 and June-July 2013). This had resulted in loss of revenue of ₹ 45.92 lakh to the Company as detailed in the ***Annexure 11.***

Thus, failure to recover overdrawal penalty from the consumer even after detection of overdrawn load resulted in a loss of revenue of ₹ 45.92 lakh.

In reply, the Management stated (June 2014) that once the excess load was detected, it was presumed to be the connected load of consumer from that time

[2] Penalty bill for May 2013 was realized by the Company

onwards and so only fixed charge was levied on the consumer without levying any penalty. The reply is not acceptable, since under the provisions of the Electricity Supply Code and Related Matters Regulations, 2004, the consumer is required to submit requisition for enhancement of the connected load, if necessary, and failure to regularise the increase in connected load may result in billing at penal rates. Further, once the consumer submits proposal for enhancement of the connected load, he should restrict the drawal of power within the increased load proposed for regularisation. Thus, till the consumer submits the requisition for the additional load and additional load is sanctioned the excess load detected cannot be presumed as the connected load.

The matter was reported (May 2014) to the Government; their reply had not been received (September 2014).

3.4 *Loss of Revenue*

Abnormal delay in replacement of defective meters and incorrect billing of energy consumption for intervening periods has resulted in loss of revenue of ₹46.95 lakh to the Company.

Clause 4.2.2.4 of the Electricity Supply Code and Related Matters Regulation 2004**,** (Regulations) issued by Assam Electricity Regulatory Commission stipulates that in case the meter of a general consumer is found defective, the quantum of energy consumed for the period of defect shall be determined on the basis of the average consumption for preceding three months prior to the date of detection of defect or that for the next three months after correction of the defective meter, whichever is higher. For seasonal consumers[3], however, the quantity of energy consumed shall be determined based on the average consumption of the immediate three identical months during the preceding three years. For consumers whose contract demand/ connected load varies during the concerned period, the consumption for the period of defect should be assessed proportionate to the contract demand/ connected load.

The Regulations further stipulate that after detection of defect in the meter it is the responsibility of the licensee (Company) to take immediate steps to replace the defective meter. Such defective meters should be repaired or replaced within

[33] For consumers whose connected load and contract demand varies with the peak season and off season

seven and fourteen days in urban and rural areas respectively after receipt of complaint.

Examination of records of the Company revealed that the meters of four consumers (including three general consumers and one seasonal consumer) turned defective during the period January 2009 to September 2011. These meters were replaced after a period ranging from 20 to 33 months after detection of defects as against the prescribed period of 7 to 15 days. Further, in case of three general consumers, the consumption for the period of defect should have been billed at higher of two rates *viz.* average consumption during the preceding three months of defect or the average consumption during next three months after correction/replacement of meter. Contrary to the above provisions, however, it was observed that the consumption billed by the Company for the period of defect was lower than the actual monthly consumption recorded by the new meters after replacement of the defective meters.

Billing the three consumers for the period of defect of meters at lower rates then applicable under the provisions of the Regulations has caused a revenue loss of ₹ 24.93 lakh to the Company.

The fourth consumer, who was a seasonal consumer lodged (7 January 2009) a complaint about erroneous behaviour of the meter in recording the readings. It was, however, observed that the Company, took 20 months in testing and replacing (September 2010) the defective meter after lodging (January 2009) of complaint. In accordance with the provisions of the Regulations as applicable to the seasonal consumers, the Company should have raised a bill for ₹ 23.81 lakh on the consumer as worked by Audit, for the period of defect of the meter (June 2009 to September 2010). Contrary to this the Company raised (January 2011) a revised supplementary bill for ₹ 20.95 lakh only.

The consumer refused to pay the bill on the plea of higher billing and abnormal delay in replacement of defective meter by the Company and appealed (February 2011) before the Consumer Grievance Redressal Forum of the Company. The Appellate Authority noted the negligence of the Company in timely replacement of defective meter and restricted the supplementary bill claim to a meagre amount of ₹ 1.79 lakh only which was paid (August 2011) by the Consumer. As a result, the Company sustained a loss of revenue of ₹ 22.02 lakh on account of improper billing and abnormal delay in replacement of defective meter.

Thus, abnormal delay in replacement of defective meters and incorrect billing of energy consumption for the intervening periods has resulted in loss of revenue of ₹ 46.95 lakh to the Company.

The Company should evolve an effective system for rectification of defective meters within the prescribed time and for raising revised bills for intervening period as per the applicable provisions of the Regulations.

The matter was reported (April 2014) to the Government/Management; their replies had not been received (September 2014).

3.5 Loss of revenue

Failure to lodge a claim for recovery of inadmissible rebate has caused a loss of ₹ 30.14 lakh to the Company.

Clause 2.2 of the Electricity Supply Code and Related Matters Regulation 2004**,** (Regulations) issued by Assam Electricity Regulatory Commission provides parameters for supply of power at different voltages to consumers in accordance with their Contracted Demand. In case the consumer intends to avail supply of power at higher voltage than applicable, the consumer needs to build and maintain additional infrastructure at his own cost. In such situation, the Schedule of Tariff provides for a rebate at the rate of 3 *per cent* in monthly charges to the consumer for availing power at higher voltage so as to mitigate the hardship caused to the consumer on account of said additional cost.

The Company had extended a service connection to a Consumer with a connected load of 3500 KVA and a contracted demand of 5000 KVA. As per the Regulations *ibid*. all the consumers with Contracted Demand ranging between 1200 KVA and 5000 KVA were to be supplied power at the voltage of 33 KV. During the period from July 2005 to September 2011, the Consumer had been drawing power within the Contracted Demand (*i.e.* 5000 KVA) at the specified voltage of 33 KV. As such the consumer was not entitled for any rebate for availing power at higher voltage. The Company, however, had irregularly allowed rebate of 3 *per cent* to the consumer on monthly charges during the said period (from July 2005 to September 2011) amounting to ₹ 87.25 lakh. On realising the mistake, the Company discontinued the rebate with effect from October 2011. It was, however, observed that the Company had not preferred any claim on the Consumer for recovery of the inadmissible rebate (₹ 85.27 lakh) already allowed for the above period.

As per clause 4.3.3 of the Regulations, the Licensee (Company) is not entitled to recover any sum due from a consumer after a period of two years from the date when such sum becomes first due, unless the same is continuously shown as recoverable as arrears for electricity supplied. Thus, out of the total rebate of ₹ 85.27 lakh erroneously allowed to the Consumer, the Company could have recovered an amount of ₹ 30.14 lakh pertaining to the period of preceding two years (September 2009 to September 2011) by preferring the claim continuously after discontinuance of the rebate in October 2011. Since, the Company had failed to lodge any claim on the consumer for the recovery of the said inadmissible rebate as stipulated in the Regulations, it has lost the legal protection to enforce the claim.

Thus, due to failure in preferring the claim for the recovery of the inadmissible rebate within the specified time, the Company has sustained a loss of ₹ 30.14 lakh.

The matter was reported (April 2014) to the Government/Management; their replies had not been received (September 2014).

3.6 Loss of revenue

Company suffered a revenue loss of ₹ 17.30 lakh due to incorrect application of multiplying factor

The energy consumption of consumers, who are provided with CTPT[4] trivector meters is measured by multiplying the difference in meter readings of two periods by a specified Multiplying Factor[5] (MF), and the bill is prepared accordingly. In case of any change in the MF due to replacement of the meter or otherwise, the fact should be recorded clearly and corresponding changes in the energy consumption should be carried out in the bill.

Test check of records of the Company revealed that one seasonal consumer[6] (Consumer) had been receiving power from the Company since April 2003 with a sanctioned load of 439 KW under the billing category HT (VI)-TEA. The Consumer was sanctioned (August 2012) and released (September 2012) an additional load of 310 KW. A new CTPT set with MF 2000 was installed replacing the old one having MF 1000. Thus, after release of additional load, the total connected load of the consumer stood at 749 KW with the MF being 2000

[4] Current Transformer Potential Transformer set meter.

[5] It is a constant factor taken based on the CT/ PT ratio used to calculate the power consumption of the meter.

[6] A consumer whose contract demand is high in the peak season and low during the off season.

and therefore, energy bill should have been raised accordingly. It was, however, observed that the Company continued to measure the energy consumption based on the old MF of 1000 only. The incorrect application of the MF by the Company for billing the consumer even after installation of new CTPT has resulted in a short realization of revenue by ₹ 17.30 lakh during the period from September 2012 to July 2013. On being pointed out by Audit, the Company had corrected the bill from August 2013 onwards. The Company, however, had failed to recover the short realized amount of ₹ 17.30 lakh from the consumer till date (September 2014).

The matter was reported (April 2014) to the Government/Management; their replies had not been received.

Assam Electronics Development Corporation Limited

3.7 Non Recovery of Advances

Irregular release of TA advances to the Chairman despite non adjustment of previous advances has resulted in accumulation of tour advances to ₹ 61.84 lakh.

As per the provisions (clause 17.1) of the Tour Allowance (TA) Rules (May 1998) of Assam Electronics Development Corporation Limited (Company), all employees of the Company are required to submit TA bills in respect of their official tours within 15 days from the date of return from the journey. The TA Rules (clause 15.4) further restrict granting of subsequent TA advance unless the TA bill for the previous advance is submitted by the employee to the Accounts Department of the Company.

Further, Clause (iv) of the Office Memorandum (19 June 1984) of the Government of Assam states that the Chairman of a State PSU shall be free to visit the Company as and when required but all other tours within and outside the State shall be undertaken by him only when instructed by the Board of Directors. The Chairman shall submit his tour diaries and tour notes to the administrative department with a copy to the Managing Director of the Company so as to ensure that the tours are undertaken fruitfully.

It was observed that the Company sanctioned (September 2010 to June 2014) 72 advances amounting to ₹ 67.34 lakh to the Chairman for undertaking tours both within and outside the State without prior approval of the Board of Directors. The tours were undertaken with a frequency of one to three tours every month. It was noticed that most of the tours of the Chairman were to the places like, Mumbai, New Delhi, *etc.* which were outside the State. Despite non-submission of TA bills by the Chairman for previous tours along with other necessary documents (*viz.* tour diaries/statements, tickets, *etc.*), the Company continued to irregularly sanction advances one after another without satisfying the prescribed requirements. This has resulted in accumulation of unadjusted tour advances to ₹ 61.84 lakh[7], against the tours undertaken by the Chairman which were pending for recovery/adjustments (September 2014).

Thus, non-compliance of the TA Rules as well as directives of the Government of Assam by the Company has resulted in accumulation of un-adjusted tour advances to ₹ 61.84 lakh.

In reply, the Government/Management stated (September 2014) that due to urgency of the journey, approval of the Board of Directors was not obtained and the matter has been placed in the Board for obtaining *post facto* approval. The reply is not acceptable in view of the fact that the number and amount of unadjusted tour advances was quite significant. Hence, Company should have taken appropriate action as per the applicable Rules before granting further TA advances.

Assam State Development Corporation for Scheduled Castes Limited

3.8 Excess expenditure

Excessive time taken by the Government of Assam in sanctioning of the scheme coupled with delay in finalisation of the list of beneficiaries by the Company resulted in excess expenditure of ₹ 24.38 lakh on the implementation of the scheme.

The Department of Welfare of Plain Tribes and Backward Classes (WPTBC), Government of Assam, (GOA) directed (September 2010) the Company to invite tender for the implementation of the scheme for distribution of pick-up Vans for the benefit of the scavenger community. Under the scheme, the Company was to provide one pick-up Van each amongst the self-help groups of scavenger community consisting of ten beneficiaries. In response to the tender

[7] Out of total advance of ₹ 67.34 lakh, only ₹ 5.50 lakh has been adjusted till date (September 2014)

notice, the Company received (September 2010) three bids which were placed (October 2010) for consideration by the Purchase Committee of the Company.

The Committee decided (October 2010) to award the work to Kiron Transport Company (supplier) at their quoted rate of ₹ 2.86 lakh per vehicle as it was an authorized dealer of TATA vehicles. The Committee also suggested the Company to avail the benefit of provision of free accessories and insurance as indicated in a separate communication (October 2010) of the supplier. The scheme was, however, formally sanctioned by the GOA in September 2011 only. The Company while placing the order (October 2011), on the supplier for the supply of 61 vehicles ignored the advice of the Committee regarding availing of benefits of free insurance and accessories and had agreed (October 2011) to pay an additional amount of ₹ 30,982 per vehicle to the supplier towards the cost of insurance (₹ 14,712) and accessories (₹ 16,270).

In April 2012, the supplier expressed his inability to supply the vehicles at the quoted rates, due to rise in the price of the van model and requested the Company to allow an escalation of ₹ 39,972 on the quoted price of each vehicle in addition to ₹ 30,982 per vehicle to be paid towards cost of accessories and insurance. The Company, in order to accommodate the demand of the supplier, reduced (June 2012) the targeted number of beneficiaries from 68 to 61 and remitted (June 2012) ₹ 1.99 crore as price for the 61 vehicles to be delivered by the supplier. Till May 2014, 50 vehicles have been delivered by the supplier to the beneficiaries.

It was observed that the WPTBC Department had already earmarked (March 2010) the required funds in the Revenue Deposit Account prior to issuing (September 2010) directions to the Company for implementing the Scheme. Despite availability of necessary funds, the WPTBC Department had taken a period of 12 months in according (September 2011) the sanction to the Scheme. It was further noticed that the process of finalising the list of beneficiaries for the scheme was initiated (October 2011) by the Company after 12 months of inviting (September 2010) tenders for the scheme.

The excessive time taken by WPTBC department in sanctioning of the scheme as well as delay in finalisation of the list of beneficiaries by the Company led to avoidable expenses of ₹ 24.38 lakh on account of price escalation in the vehicle cost at the rate of ₹ 39,972 per vehicle. The Company also failed to pursue with the supplier for providing benefits of free accessories and insurance despite the suggestion of the Purchase Committee.

Thus, the delays in sanction of the scheme, and finalisation of beneficiaries list resulted in excess expenditure of ₹ 24.38 lakh on procurement of 61 vehicles under the scheme besides depriving the 7 eligible beneficiaries of the scheme benefits.

The matter was reported (August 2014) to the Government/Management; their replies had not been received (September 2014).

Statutory Corporation

Assam State Transport Corporation

3.9 Undue benefit

Allowing of higher rates for a component of works by the Corporation without taking cognizance of the rates available in SOR 2010-11 resulted in extension of undue benefit to the contractor to the extent of ₹ 1.28 crore.

With a view to ease the traffic congestion in Guwahati, the Government of India accorded (August 2008) administrative and financial approval for construction of a multi-level car parking at Paltan Bazaar, Guwahati at an estimated cost of ₹ 9.24 crore. The project was to be funded under the Non Lapsable Central Pool of Resources (NLCPR) of the Government of India. Though the Detailed Project Report (DPR) for the project was originally prepared (October 2008) by the Guwahati Development Department, Government of Assam (GOA), took a decision (December 2008) to execute the project through Assam State Transport Corporation (Corporation).

Before submitting the detailed cost estimates to the GOA, the Corporation issued (January 2009) a notice inviting tender for a lump sum value of ₹ 5.35 crore (excluding one work component relating to 'machine driven RCC piling of M-35 600mm'). Three bids[8] were received (January 2009) against the tender, and the quotation of Hi-tech Construction (Contractor) was found to be the lowest. After negotiation, the Contractor agreed to execute the project at ₹ 7.15 crore, *i.e.*, at 33.65 *per cent* above the SOR. The Corporation issued (April 2009) a notice to the Contractor to proceed with the work at the negotiated price of ₹ 7.15 crore.

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[8] M/s UCN Construction Pvt. Ltd. -₹ 8.59 crore, M/s Om Construction - ₹ 7.33 crore and M/s Hi-tech Construction - ₹ 7.22 crore

Meanwhile, the Corporation submitted (February 2009) detailed cost estimates for the project at ₹ 9.24 crore to the GOA based on the Schedule of Rates (SOR), 2004-05 of Assam Public Works Department (APWD). The detailed cost estimates so submitted by the Corporation had included the cost estimates (₹ 4,885 per running meter) against the left out work component (viz. 'machine driven RCC piling work of M-35 600mm'), which was worked out by the Corporation itself as the same was not available in the SOR 2004-05. The administrative approval for the detailed project cost estimates as submitted by the Corporation was received (April 2009) from GOA along with the advice that the construction of the project should be carried out strictly in accordance with the technical sanction of the APWD. In September 2009, the APWD had also accorded the technical sanction for the work.

Subsequently, based on a soil test report, the Corporation changed (September 2011) the specification of the piling work 'machine driven RCC piling work of M-35 600mm' to a 'leaner grade of M-25 600mm'. As the rate of the piling work with changed specification (*viz*. 'leaner grade of M-25 600mm) was also not available in the SOR 2004-05, the Corporation made a detailed analysis and fixed (September 2011) the cost at ₹ 4,705 per Running Meter (RM) based on the APWD approved (April 2009) rate for 'machine driven RCC piling work of M-35 600mm'. Accordingly, this additional piling work with changed specification (*viz.* 'leaner grade of M-25 600mm) was allotted to the contractor at revised (September 2011) work order value of ₹ 8.91 crore. The work was completed in September 2013 at a cost of ₹ 9.00 crore.

During examination of the records of the Corporation, it was observed that while the Corporation was in the process of fixing the cost for M-25 (600 mm) piling work, APWD had approved and issued (May 2010) the SOR 2010-11. The SOR 2010-11 prescribed the rate for M-25 piling work at ₹ 2,335.71 per RM, which was much lower than the rate (₹ 4,705 per RM) fixed (September 2011) by the Corporation. The Corporation, however, without taking cognizance of the SOR 2010-11 and without referring the matter to APWD for their approval had allowed (September 2011) the higher rate of ₹ 4,705 per RM for M-25 RCC piling work to the Contractor. Fixing a higher rate for the work component than what was available in APWD SOR 2010-11 was not justified and had unduly inflated the cost estimates of the project. Given the fact that the project was being executed at 34 *per cent* above the 2004-05 SOR rates, even if the Contractor was allowed to execute the work at 34 *per cent* above the rates prescribed in the SOR of 2010-11, the Corporation could still have saved ₹ 1,575.15[9] per RM.

Thus, allowing of higher rate for a work component than the rate available in the APWD SOR 2010-11 has resulted in undue benefit to the Contractor to the extent of ₹ 1.28 crore.

The Management stated (September 2014) that when a new technology is first introduced the cost is quite high which decreases with the passage of time. In 2004-05, when the APWD issued the SOR 2004-05, the applicable rates of M-25 600 mm RCC piling work, being a new technology, was not available in the SOR. Therefore, the rates were fixed at the market rate of ₹ 4,705 per RM. The plea of the Management regarding the higher cost due to the technology of M-25 piling work being new is not acceptable in view of the fact that the rates for the work were fixed (September 2011) and the work was actually executed by the contractor in 2011-12 *viz.* after more than 15 months of introduction of the SOR 2010-11. Hence, the Company should have fixed the rate for the modified piling work in line with the rate prescribed in the SOR 2010-11.

The matter was reported (June 2014) to the Government; their replies had not been received.

General

Public Enterprises Department

3.10 Follow-up action on Audit Reports

3.10.1 Outstanding Explanatory Notes

The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained by various Public Sector Undertakings (PSUs). It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance (Audit & Fund) Department, Government of Assam issued (May 1994) instructions to all administrative departments that immediately on receipt of Audit Reports, the concerned departments would prepare an explanatory note on the paragraphs and performance audits included in the Audit Reports indicating the corrective/remedial action taken or proposed to be taken and submit the explanatory notes to the Assam Legislative Assembly with

[9] (₹ 4705.00 - 1.34 × ₹ 2335.71) per RM

a copy to the Accountant General within 20 days from the date of receipt of the Reports. Besides this, the departments would ensure submission of written Memorandum as called for on the para(s) concerning the department within the time limit prescribed by the Assam Legislative Assembly from time to time.

Though the Audit Reports presented to the Legislature for the period from 2008-09 to 2012-13 contained 57 paragraphs/performance audits, explanatory notes on 34 of these paragraphs/performance audit were not received till September 2014 as indicated in ***Table 3.1***.

Table 3.1

Year of Audit Report (Commercial/PSUs)	Date of presentation to the State Legislature	Total paragraphs/ performance audits appeared in Audit Report	No. of paragraphs/ performance audits for which explanatory notes were not received
2008-2009	March 2010	16	9
2009-2010	February 2011	11	4
2010-2011	March 2012	9	7
2011-2012	April 2013	13	7
2012-2013	August 2014	8	7
Total		**57**	**34**

Department wise analysis of paragraphs/performance audits for which explanatory notes are awaited is given in ***Annexure 12***. Power, Industries and Transport Departments were largely responsible for non-submission of explanatory notes.

3.10.2 Action Taken Notes on the Reports of the Committee on Public Undertakings (COPU)

Action Taken Notes (ATNs) on the recommendations of the COPU are required to be furnished within six weeks from the date of presentation of the Report by the COPU to the State Legislature. Replies to 134[10] recommendations pertaining to 18 Reports of the COPU, presented to the State Legislature between August 1997 and September 2014 had not been received as on September 2014 as detailed in ***Table 3.2***.

[10] No recommendations have been received for the year 2012-13 and 2013-14.

Table 3.2

Year of the COPU Recommendations	Total number of Reports involved	Number of recommendations where ATNs replies not received
1997-98	1	1
2002-03	1	9
2003-04	2	18
2004-05	1	10
2007-08	3	6
2008-09	6	65
2009-10	2	10
2010-11	1	9
2011-12	1	6
Total	**18**	**134**

3.10.3 Response to inspection reports, draft paragraphs and performance audits

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of four weeks. A review of inspection reports issued up to March 2014 pertaining to 35 PSUs disclosed that 1029 paragraphs relating to 212 inspection reports remained outstanding at the end of September 2014; of these, 166 inspection reports containing 702 paragraphs had not been replied to for more than one year. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2014 are given in ***Annexure 13***.

Similarly, draft paragraphs and performance audits on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially, seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that against nine draft paragraphs and one performance audit forwarded (April to August 2014) to various departments, only one department (Information Technology) submitted replies to one draft paragraph and replies to the remaining draft paragraphs and performance audit have not been furnished till date as detailed in ***Annexure 14***. It is recommended that the Government should ensure that (a) procedure exists for appropriate action against the officials who failed to send replies to inspection reports and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken within the prescribed period and (c) the system of responding to audit observations is revamped.

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Countersigned

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THE **Comptroller and Auditor General of India**