

Chapter II

Performance Audit of Government Company

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Maharashtra State Road Development Corporation Limited

Highlights

Maharashtra State Road Development Corporation Limited (Company) was incorporated in August 1996 under the Companies Act, 1956. The main objective of Government of Maharashtra (GoM) to form the Company was to implement road infrastructure projects through Public Private Participation (PPP) and arrange funds for the projects. The GoM assigned total 26 projects to the Company upto 2005-06 and no projects were assigned thereafter. The Company had taken up 18 projects funded through borrowings and grants and remaining eight projects were awarded on Build, Operate and Transfer (BOT) basis. The project cost was to be recovered through toll collection. Performance Audit covered the working of the Company for five years from 2009-10 to 2013-14.

(Paragraph 2.1)

The Company incurred losses during the period of five years under review mainly due to non commencement of toll collections, collection of toll below the estimated revenue and closure of few toll stations before recovery of entire project cost. However, losses of ₹ 148.06 crore incurred during 2009-10 decreased to ₹ 8.86 crore during 2013-14 (as per provisional accounts). The long term borrowings also reduced from ₹ 3,063.53 crore in 2010-11 to ₹ 1,627.36 crore in 2013-14. The net worth of the Company remained negative throughout the four years.

(Paragraphs 2.8.1 and 2.8.2)

The Company completed the Nagpur-Aurangabad-Sinnar-Ghoti-Mumbai Road improvement project (NASGM) at a cost of ₹ 765.94 crore. The actual toll recovery for NASGM was far less than estimated toll collection of ₹ 193 crore per annum. The GoM decided (June 2014) to close all eight toll stations across NASGM road and proposal for reimbursement of ₹ 1,795 crore (including interest and other cost) submitted by the Company was pending with GoM.

The Company also executed eight Integrated Road Development Programme (IRDP) projects at a total cost of ₹ 1,272.46 crore which was met through borrowings and Capital Contributions from GoM and Local Bodies. The collection of toll for IRDP projects at Amravati, Pune and Nanded completed during 2010-13 was not started due to non-issue of no objection certificate by the Pune Municipal Corporation and public demand for not to levy toll.

(Paragraphs 2.10.2, 2.10.4 and 2.12.6)

The Company had no mechanism in place for periodical inspection of road conditions for preparation of annual plan and plan for special repairs. The Company had to close four toll stations on NASGM and IRDP, Aurangabad for one to 563 days during 2010-11 to 2013-14 due to public agitation against bad roads.

(Paragraphs 2.11.1)

The Company introduced Revenue Sharing Clause (RSC) in short term toll collection contracts awarded from September 2011. The RSC provided that after the contractor collects the amount offered under the contract, any excess revenue shall be remitted to the Company after deducting five *per cent* towards profit and five *per cent* towards administrative charges. However, the Company did not include any mechanism in the agreements for assessment of such excess revenue.

(Paragraph 2.12.2)

There were delays in awarding 12 toll contracts which ranged from one to 20 months and the loss of revenue worked out to ₹ 13.24 crore considering the rates received against subsequent tenders.

(Paragraphs 2.12.4)

Contractors were to pay weekly/monthly/ yearly or whole upfront payment of toll to the Company. However, there was no monitoring system in place to check the arrears and an amount of ₹ 15.10 crore was recoverable from 27 contractors even after adjusting security deposits.

(Paragraph 2.12.7)

Introduction

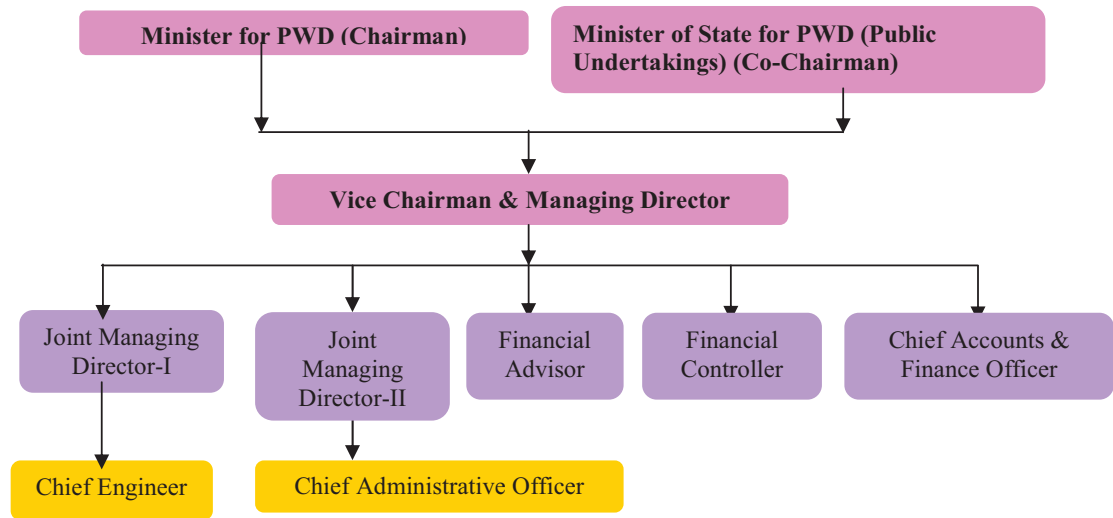
2.1 The Government of Maharashtra (GoM), Public Works Department (PWD) formulated (July 1996) a policy to finance road development projects through Public Private Participation (PPP) for improving existing roads, construction of roads and Rail/Road over Bridges (ROBs) in the State. The various modes for PPP projects were Build, Operate and Transfer (BOT) contracts, Concession Agreements, Special Purpose Vehicle, Joint Venture *etc.* The construction/development of road and other related infrastructure in the State are carried out by PWD, Mumbai Metropolitan Region Development Authority (MMRDA), Zilla Parishads, Municipal Corporations (MC), *etc.* Maharashtra State Road Development Corporation Limited (Company) was

also incorporated (August 1996) under the Companies Act, 1956 with the main objective to implement road infrastructure projects through PPP and arrange funds for the projects. The GoM constituted (November 1996) a Cabinet Infrastructure Committee (CIC) under the Chairmanship of Chief Minister which is an Apex Body for approving the infrastructure projects above ₹ 25 crore. The GoM assigned total 26 projects to the Company up to 2005-06 and no projects were assigned thereafter. The pioneer projects like Mumbai-Pune Expressway (MPEW), Bandra-Worli Sea Link (BWSL), construction of 37 bridges/flyovers in and around Greater Mumbai area and Nagpur-Aurangabad-Sinnar-Ghoti-Mumbai Road improvement project (NASGM) were completed by the Company. Integrated Road Development Programme (IRDP) projects in 10¹⁹ districts, were among the 26 projects assigned to the Company as a concessionaire for a period varying up to 30 years. Accordingly, the Company was allowed to recover project cost from end users through toll collection. The Company had taken up 18 projects funded through borrowings and grants and remaining eight²⁰ projects were awarded on BOT basis. The glossary of terms used in the Performance Audit is given in **Annexure-2**.

Organisational set up

2.2 The Management of the Company is vested in the Board of Directors (BoD) comprising of seven Directors.

The organisational chart of the Company is as under:



¹⁹ Amravati, Aurangabad, Baramati, Kolhapur, Latur, Nagpur, Nanded, Nandurbar, Pune and Solapur

²⁰ Augmentation of IRDP Baramati, Bhiwandi Kalyan Shil Phata, Chalisgaon By-pass, IRDP Kolhapur, Karmala By-pass, Katol By-pass, Miraj ROB and ROB at Warora District Chandrapur

Scope of Audit

2.3 The Performance Audit (PA) was conducted during March 2014 to July 2014 covering period of five years from 2009-10 to 2013-14. The audit findings were arrived at after test check of records of PWD, Company's Head Office (HO) and three field offices (Aurangabad, Nagpur and Pune). For detailed scrutiny, 10 projects were selected from 18 projects executed by Company and one project out of eight executed on BOT basis on the basis of judgemental sampling (refer **Annexure-3**). Audit also selected 41 toll collection contracts for eight projects including securitisation of five Mumbai Entry Points and 49 commercial contracts on the basis of high value out of total 81 and 97 contracts respectively awarded during the period of review.

The findings of PA Reports on MPEW and BWSL projects were included in the earlier Audit Reports (Commercial) for 2004-05 and 2006-07, GoM which were discussed (2007-08 and 2013-14) by the Committee on Public Undertakings (COPU). On discussion of PA on MPEW, COPU recommended (November 2007) to review the bonus clause for early completion, appointment of High Level Committee to study the system for toll recovery and Vigilance Squad to monitor toll collection. The COPU during discussion on BWSL recommended (December 2013) to take up project of Worli-Nariman Point Sea Link to enhance the utility of existing sea link, recovery of penalty for delay from contractors and change in the working procedures to safeguard the financial interest of the Company.

Audit objectives

2.4 The Audit objectives were to ascertain as to whether:

- The State policy/long term plan for execution of infrastructural projects was in place;
- Projects/toll collection contracts were awarded in time after following due tendering process;
- Works were executed as per terms of contract and collection of toll was in accordance with the terms and conditions of contract;
- An effective financial Management system was in place; and
- Performance of the Company was effectively monitored and internal control/internal audit system was adequate.

Audit criteria

2.5 Audit criteria adopted for achieving the stated audit objectives were derived from following documents:

- Vision Documents of the Company and Road Plan of GoM (1981-2001 and 2001-2021);
- Notifications/Government Resolutions issued by GoM;

- Tender documents and agreements executed with private parties for execution of projects and collection of toll;
- Standards prescribed by Indian Road Congress (IRC), Guidelines issued by Ministry of Road Transport and Highways (MORTH) and Quality Assurance Manual of the Company;
- The Bombay Motor Vehicles Tax (BMVT) Act, 1958; and
- Agenda and Minutes of Board Meetings and Information System reports of the Company.

Acknowledgement

2.6 Audit acknowledges the co-operation and assistance extended by the Company at various stages of conducting the Performance Audit.

Audit findings

2.7 The audit objectives were discussed with the Company during an Entry Conference held on 26 March 2014. The draft PA Report was issued to the Management/GoM on 29 September 2014. The Company replied to the audit findings on 17 November 2014. The audit findings were also discussed in an Exit Conference held on 26 November 2014 which was attended by the Secretary (PWD), GoM and Vice Chairman and Managing Director of the Company. The views expressed by the Company and the Government in the meeting/replies have been considered while finalising the PA Report. The audit findings are discussed below:

Financial position and working results

Financial position

2.8.1 The table given below depicts the financial position of the Company for the four²¹ years ended 31 March 2014:

Particulars	(₹ in crore)			
	2010-11	2011-12	2012-13	2013-14
Equity and liabilities				
Paid up capital	773.56	773.56	773.56	773.56
Reserves and surplus ²² Positive(+)/Negative(-)	(-) 1,036.56	(-) 1,062.50	(-)945.71	(-)910.68
Free reserve	1.00	1.00	1.00	1.00
Non-current liabilities				
Deferred Government grants	161.72	152.23	144.13	133.24
Long term borrowings	3,063.53	2,531.47	2,155.13	1,627.36
Long term provisions, trade payables and other liabilities	3,259.97	3,218.71	3,078.24	2,922.41

²¹ Figures for 2009-10 were not considered as the format for preparation of accounts (Schedule VI) was revised from 2011-12 with corresponding figures for previous year

²² Reserves and surplus includes capital reserve, revaluation reserve and Government grant minus accumulated losses

Audit Report No.2 of PSUs for the year ended 31 March 2014

Particulars	2010-11	2011-12	2012-13	2013-14
Current liabilities				
Trade payables, other current liabilities & short term provisions	1,554.65	1,612.32	1,314.10	1,672.00
Total	7,777.87	7,226.79	6,520.45	6,218.89
Assets				
Non-current assets				
Tangible assets	5,599.86	5,339.63	5,041.19	4,747.43
Capital work in progress	272.87	311.66	443.69	489.85
Non-current investments	1.05	1.05	1.05	1.05
Long term loans and advances	13.15	9.85	8.90	0.10
Current assets, loans and advances	1,890.94	1,564.60	1,025.62	980.46
Total	7,777.87	7,226.79	6,520.45	6,218.89
Debt Equity Ratio	4.87:1	4.09:1	3.15:1	3.00:1
Net worth ²³ (Negative)	(262.00)	(287.94)	(171.15)	(136.12)

(Source: Certified accounts of the Company upto 2011-12 and the provisional figures for the year 2012-13 and 2013-14 furnished by the Company)

It could be seen from above that the improvement in reserves and surplus, debt-equity *ratio* and net worth during the above four years was mainly due to repayment of loans from the upfront payment received against securitisation of five²⁴ Mumbai Entry Points (MEP) during 2010-11. However, reserves and surplus as on 31 March 2014 was still negative due to operational losses as discussed in the next paragraph on working results.

Working results

2.8.2 The working results of the Company for five years ended 31 March 2014 were as under:

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
<i>(₹ in crore)</i>					
Income					
Income from operation	551.89	497.63	437.13	547.80	552.86
Cess on fuel from GoM	28.16	27.00	70.00	70.00	151.80
Other income	6.92	66.20	132.18	8.46	16.88
Total	586.97	590.83	639.31	626.26	721.54
Expenditure					
Employees benefit expenses	10.21	10.36	11.25	12.77	12.73
Operation and maintenance of projects	18.13	23.60	60.32	59.53	93.81
Other expenses	18.70	20.48	23.48	15.89	17.54
Finance charges	433.97	501.84	424.67	289.13	271.57
Depreciation & amortisation expenses	254.02	292.97	293.73	294.33	334.75
Total	735.03	849.25	813.45	671.65	730.40
Profit (+)/Loss (-) before tax and prior period adjustments	(-)148.06	(-)258.42	(-)174.14	(-)45.39	(-)8.86
Add (+)/Less (-): Prior period adjustments	(+)18.55	(+)0.86	(+)0.98	(-)0.28	(-)0.05
Profit (+)/Loss (-) before tax	(-)129.51	(-)257.56	(-)173.16	(-)45.67	(-)8.91
Tax Expenses	-	0.07	-	-	-
Profit (+)/Loss(-) after tax	(-)129.51	(-)257.49	(-)173.16	(-)45.67	(-)8.91

(Source: Certified accounts of the Company upto 2011-12 and the provisional figures for the year 2012-13 and 2013-2014 furnished by the Company).

²³ Net worth = Equity + Free reserves + Capital reserves (-) Accumulated losses

²⁴ Airoli bridge, Dahisar on Western Express Highway, Mulund on Eastern Express Highway, Mulund-Thane (West) on LBS Marg and Vashi on Sion-Panvel Highway

The Company incurred losses during each of the five years mainly due to non commencement of toll collections in respect of IRDPs at Amravati, Nanded and Pune as discussed in Paragraph 2.10.4 and 2.12.6, collection of toll below the expected revenue in NASGM project and closure of certain toll stations such as Nandurbar (District Dhule) and Latur IRDP projects before recovery of entire project cost.

Planning

2.9 The GoM did not enter into agreements with the Company specifying terms and conditions for execution of 26 projects which were assigned during 1997 to 2006. Further, the scheduled dates of completion of the projects were also not specified. The proposals of the Company for augmentation of MPEW, Bandra-Versova Sea Link and Water Transport projects submitted (December 2008 to July 2012) were yet to be approved by GoM (December 2014).

Execution of projects

Execution of infrastructure projects

2.10.1 The Company executed 18 projects on its own in various phases and eight projects were assigned on BOT basis. Each project executed by the Company involves various sections/components of works for which separate contracts were awarded.

Completed sections /components of projects

The Company incurred total expenditure of ₹ 8,200.66 crore on various sections/components of 18 projects upto March 2014. During the period under review the Company incurred the expenditure of ₹ 1,615 crore on various completed components of twelve projects. The expenditure on completed sections/ components of four projects selected by audit was ₹ 254.53 crore. In this connection, Audit observed the following:

Nagpur-Aurangabad-Sinner-Ghoti-Mumbai Road improvement project (NASGM)

2.10.2 The Government of Maharashtra decided (December 1999) to undertake the improvement of NASGM road (approximate 700 Kms) based on traffic analysis and viability study conducted (1998) by the consultant - M/s Lea Associates. The work was bifurcated in 13 sections under 19 packages. The GoM declared (June 2002) the Company as an entrepreneur to implement the project through PPP and authorised toll collection at 13 toll stations across the road over a period of 27 years. The total cost of the project was estimated at ₹ 700 crore and project was assessed as viable with an estimated toll income of ₹ 193 crore per annum. The improvement of 600 Kms (approx.) of road was completed by the Company in a phased manner between June 2004 and March 2014 at a total cost of ₹ 765.94 crore except road of 6.72 Km of package No.13 (Lasur to Vaizapur, Aurangabad District) due to land dispute (November 2014). The balance construction of 82.29 Kms of road was

carried out by PWD and retained toll collection rights at Lahuki toll station (near Jalna). In this connection, audit observed the following:

- The Company completed the part of NASGM road of 81.63 Km (Talegaon-Karanja) between October 2004 and December 2009 at a total cost of ₹ 84.50 crore. However, toll collection for this road could not be commenced due to unmotorable condition of the stretch completed in 2004 by the time of completion of the next stretch. Similarly, toll for another road of 31 Km between Vaijapur-Punthamba Phata (sanvastar toll station) completed between December 2005 and March 2009 could not be started due to unmotorable condition of road.
- The project was not viable due to lower recovery of toll than estimated. The toll collection for completed sections was ₹. 29.02 crore during 2002-2003 to 2007-2008. The Company envisaged (March 2008) loss of ₹ 2,271.33 crore (Net Present Value) over a period of 30 years if it was to operate the project and therefore decided to assign the project for operation on BOT basis. Accordingly, the Company invited (January 2009) tender for operation of project on BOT basis and the lowest Viability Gap funding (VGF) of ₹ 1,040 crore was received. However, the GoM informed (October 2009) its inability to provide funding in view of the financial constraints. The Company continued to operate the eight toll stations of the project and collected toll of ₹ 225.82 crore up to March 2014 and incurred expenditure of ₹ 97.21 crore on maintenance.
- The GoM decided (June 2014) to close all the toll stations across the NASGM road from 1 July 2014. The reasons for closure of toll collection though called for were not furnished by the GoM (December 2014). The Company submitted proposal (June 2014) to the GoM for recovery of the balance project cost of ₹ 1,795 crore inclusive of interest, administrative cost and the internal return at 12 *per cent* per annum. The final decision of GoM was awaited (December 2014). Thus the funds of ₹ 1,795 crore remained blocked up without any return.

Excess payment to PMCs

2.10.3 The Company appointed Project Management Consultants (PMCs) for post tender activities for execution of each section/component of the project. As per agreements executed (April 2008/April 2010) with two²⁵ PMCs, consultancy fee was payable on lumpsum basis (₹ 93.50 lakh) to one PMC and at the rate of 2.49 *per cent* of the estimated cost (₹ 25 crore) to another PMC. Audit, however observed that consultancy fee was paid on the basis of actual cost incurred instead of restricting the same to lumpsum/estimated cost put to tender. As a result, there was excess payment of ₹ 23.53 lakh to two PMC. The Nagpur Project Office of the Company stated (June 2014) that in case of reduction in project cost fee to be paid to the consultant would be same if it was regulated on the basis of estimated cost. Hence, fee was paid on the basis

²⁵M/s Gherzi Eastern Limited, Mumbai (excess payment of ₹ 3.81 lakh) and M/s Technogem Consultants Private Limited (excess payment of ₹19.72 lakh)

of actual cost instead of estimated cost. The reply was not convincing as the actual cost of the project was more than the estimated cost and payment of fee should have been restricted to estimated cost of the work put to tender.

IRDP projects

2.10.4 Integrated Road Development Programme projects envisaged improvement of road network within cities by constructing roads/ROBs/under-bridges and flyovers to improve the traffic flow. All the 10 IRDP projects were executed by the Company except two at Baramati²⁶ and Kolhapur which were executed on BOT basis. The cost of these projects was to be recovered through toll collections varying up to 30 years. The total cost of ₹ 1,272.46 crore was incurred by the Company on eight completed/ongoing IRDP projects up to March 2014. The cost of these projects was met through borrowings, capital contribution from respective MCs, Urban Development Department and MLA/MP development funds. Details of funds arrangement for three projects at Amravati, Aurangabad and Nagpur selected by Audit were as under:

(₹ in crore)

IRDP project and date of assignment by the GoM	Cost of the project		Financed through			Remarks
	Estimated	Actual	Capital contribution	Loan	Total fund	
Nagpur (February 2001)	269.66	441.22	281.83	217.00	498.83	63 out of 75 specified works were completed and put to use. Two were in progress. Balance work deleted.
Aurangabad (February 2001)	117.62	181.08	52.75	25.41	78.16	15 out of 30 specified works were completed and put to use. Three were in progress. Five work deleted and balance work yet to be taken up (December 2014)
Amravati (February 2002)	89.40	156.32	117.35	24.09	141.44	50 out of 55 specified works were completed and put to use. Five works were deleted.
Total	476.68	778.62	451.93	266.50	718.43	

It was seen from above that the cost of three projects increased from ₹ 476.68 crore to ₹ 778.62 crore due to delay in land acquisition, shifting of utility services and shortage of funds. The shortfall of ₹ 60.19 crore²⁷ was met through diversion of funds from other projects.

Audit observed that though the notification for recovery of toll at IRDP Amravati was issued (January 2010), the Company could not commence toll due to public demand for not to levy toll. Accordingly the GoM stayed (June 2011) the toll collection. The decision for recovery of toll was yet to be resolved (December 2014). Thus the funds of ₹ 38.97 crore spent by the Company on the project remained blocked up without any return till date (December 2014).

The Management stated (November 2014) that the actual cost of project will be submitted to GoM for approval.

²⁶ The project was initially executed by the Company and thereafter it was awarded on BOT basis with augmentation works

²⁷ ₹ 778.62 crore less ₹ 718.43 crore

Non recovery of cost on shifting of electrical poles/lines

2.10.5 The Government of Maharashtra decided (February 2001/ February 2002) that 50 *per cent* of the cost of shifting of electrical poles/lines in respect of IRDP, Aurangabad and 100 *per cent* in respect of IRDP, Amravati should be borne by Maharashtra State Electricity Distribution Company Limited (MSEDCL) (erstwhile Maharashtra State Electricity Board). The total cost of shifting of electrical poles/lines incurred by the Company was ₹ 15.62 crore (IRDP Aurangabad: ₹ 1.96 crore and IRDP Amravati: ₹ 13.66 crore). Audit noticed that the Company had not raised claim for recovery of ₹ 14.64 crore (IRDP Aurangabad: ₹ 0.98 crore and IRDP Amravati: ₹ 13.66 crore) from MSEDCL so far (October 2014).

The Management stated (November 2014) that they raised the claims in July 2014 on MSEDCL for Aurangabad project. However, the Company was silent on recovery of ₹ 13.66 crore for Amravati project.

Ongoing sections/components of the projects

2.10.6 The Company incurred expenditure of ₹ 477.43 crore upto 31 March 2014 on various ongoing sections/components of 18 projects implemented by the Company and ₹ 12.42 crore on feasibility study of 10 projects which were not yet assigned by GoM (December 2014). The details of expenditure of ₹ 424.45 crore incurred upto 31 March 2014 on ongoing sections/components of eight projects selected for audit and audit observations thereon were as under.

Sl. No.	Name and scope of the Project and date of assignment	Estimated cost of pending/ ongoing work (₹ in crore)	Scheduled completion date of the project	Cost incurred on ongoing sections of the project (₹ in crore)	Audit observations
1	Mumbai Trans Harbour Link (Sewri Nava Sheva Harbour Link consisting of freeway grade road Bridge connecting Mumbai with Navi Mumbai)-July 1997	9,630	GoM had not specified scheduled completion of project while entrusting the work to the Company.	13.65	The expenditure was incurred on the feasibility study of the project. However, the project was assigned (February 2009) to MMRDA for execution. The GoM was yet to reimburse the expenditure incurred by the Company (December 2014).
2	Water Transport, Mumbai (Development of Water Transport facilities at Pheri warf, Nerul and Mandva) –February 2002	750		13.16	The Company invited (July 2008/June 2010) tenders for development of the project on BOT basis. However, the response was very poor. The Company again invited (March 2012) tender for three packages out of total five packages. The decision for awarding of work was pending with GoM (December 2014).

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Sl. No.	Name and scope of the Project and date of assignment	Estimated cost of pending/ ongoing work (₹ in crore)	Scheduled completion date of the project	Cost incurred on ongoing sections of the project (₹ in crore)	Audit observations
3	Mumbai Flyovers (Construction of 40 flyovers/bridges) – September 1997	302.44		34.04	The Company has already completed construction of 37 flyovers/bridges which are operational. Presently approval for construction of three flyovers was pending (December 2014).
4	Western Freeway (Bandra -Worli-Nariman Point Sea Link) –February 1998	8,863		13.40	The Company has already completed Bandra- Worli Sea Link which is operational. Feasibility study for remaining stretch is under progress (December 2014).
5	IRDP Aurangabad (Construction of total 30 roads/flyovers/bridges)- February 2001	108.91		105.86	The Company completed 15 components of work which are in use. The construction of three ROB's was in progress (December 2014). Three works were awarded in February 2014 to be completed by February 2016
6	IRDP Nagpur (Construction of total 75 roads/ flyovers/bridges)- February 2001	54		97.80	The Company had already completed 63 components and the construction of one RoB was in progress. The work was still pending due to Encroachments. (December 2014)
7	IRDP Pune (Construction of total 33 roads/ flyovers/ bridges)- February 2001	9.28		9.28	The construction of one flyover was completed, however, the amount is yet to be capitalised (December 2014)
8	NASGM road (700 Kms)- June 2002	17.11	November 2014	137.26	The work of balance road of 7 Km was in progress. Actual cost includes interest and land cost which are yet to be capitalised
	Total	19,734.74		424.45	

Audit observed that certain components/sections of projects assigned to the Company during July 1997 to June 2002 at an estimated cost ₹ 19,734.74 crore are yet to be completed (December 2014). Delayed completion of these may result in cost overrun and may also affect financial viability of these projects.

Maintenance of roads

2.11.1 The assets (roads/bridges/flyover etc.) of three projects which are securitised by the Company and eight projects executed on BOT basis are to be maintained by the respective contractors. The assets of seven projects were

maintained by the toll collection contractors as per contracts awarded upto March 2010. The Company maintained the assets of all the projects thereafter as the maintenance by the contractors was not satisfactory.

Audit observed that as per guidelines issued by MORTH, maintenance needs are to be assessed every year as part of planning and assessment can be by visual rating, roughness measurements, benkelman beam deflection measurement, skid resistance measurement *etc.* The PWD prescribed (January 2003) the norms for annual maintenance at the rate of 0.5 *per cent* of the construction cost of bridges and one *per cent* of the cost of road. Similarly, a norm for special repairs in seventh year was at the rate of three *per cent* of the cost of bridge and six *per cent* of the cost of the roads. Audit noticed that the Company had no mechanism in place for periodical inspection of road conditions for preparation of annual plan *vis-a-vis* plan for special repairs to ensure that each road and other project assets are maintained as per standards.

Audit further noticed that as per the terms of contracts awarded for collection of tolls with maintenance, contractors were liable to submit information about conditions of road along with details of repairs carried out during every month by 10th of the next month in such formats as prescribed by the Company. Audit, however observed that no such reports were obtained during audit period from any of the contractors to whom toll collection contracts were awarded along with maintenance of roads.

Public agitation against toll on account of bad road conditions

2.11.2 The Company inspected road conditions on the basis of public agitation against the bad conditions of road. There were complaints from public about bad condition of ROB at Nallasopara (District-Thane) which was maintained by contractor. On verification of complaint, the Company informed (November 2010) the contractor to carry out the repairs. However, the contractor did not repair the ROB and the Company repaired (November 2010) the same at the risk and cost of the contractor by incurring expenditure of ₹ 25.08 lakh. Audit observed that though the Company was aware of the bad condition of the ROB, performance security of ₹ 14.53 lakh was allowed to expire (August 2011). Thus, chances of recovery of ₹ 25.08 lakh from the contractor were remote as the Company had SD of ₹ 2.77 lakh only.

Audit also observed that there were public agitations against bad conditions of NASGM road and IRDP Aurangabad in respect of four²⁸ toll stations during 2010-11 to 2013-14. These toll stations remained closed for one to 563 days due to which toll of ₹ 4.59 crore could not be recovered.

The Management stated (November 2014) that repairs could not be carried out due to paucity of funds. The reply was not acceptable as it was the responsibility of the Company to maintain roads as per standards since the cost of maintenance was also being recovered through toll.

²⁸ NASGM-Deole, Dusarbeed, Shevati and IRDP Aurangabad-Lasur

Recovery of toll

2.12.1 The State Policy of June 2000 revised from time to time up to July 2009 stated that (a) Toll should not be recovered if the project is funded through budget allocation; (b) The average distance between two stations should be 35-40 Kms; (c) The place of toll station shall be decided by the concerned Regional Chief Engineer of PWD and (d) GoM will declare toll rates for projects costing up to ₹ 400 crore and toll rates are to be independently decided in respect of projects costing more than ₹ 400 crore.

The recovery of project cost is done through toll collection by awarding short term contracts and securitisation contracts. In securitisation contract the project cost is recovered in advance and contractor is assigned rights to recover the toll and maintain the asset during the specified period. The projects are also executed on BOT basis. In BOT contracts, private sector builds an infrastructure project, operates it and after recovery of the cost transfers ownership of the project to the Government.

As on 31 March 2014, 65 toll stations of eighteen projects were in operation (eight on BOT, seven operated by the Company and three securitised). It was observed that the Company received upfront payment of ₹ 3,158.40 crore under three²⁹ securitisation contracts and ₹ 65 crore for IRDP Baramati which was completed by the Company and thereafter assigned (October 2010) on BOT basis with augmentation work. Audit of one securitisation contract for five MEPs and 40 short term toll collection contracts awarded during 2009 -14 revealed the following:

Short term toll collection contracts

Revenue sharing

2.12.2 The Company introduced Revenue Sharing Clause (RSC) in short term toll collection contracts awarded from September 2011 onwards.

As on 31 March 2014, the Company had 21 short term contracts (covering all 33 toll stations of seven projects) out of which 19 contracts were in operation with RSC. The RSC provided that after the contractor collects the amount offered under the contract, any excess revenue collected over and above the offered amount shall be remitted to the Company after deducting five *per cent* towards profit and five *per cent* towards toll collection and administrative charges. It was further stipulated that contractors shall submit details of daily toll collection and traffic data to the Company to display the same on the website of PWD/ Company so as to be available to the public. All these 19 short term toll contracts would be expiring between January 2015 and September 2017.

Audit observed that Company did not include any mechanism in the agreements for assessment of such excess revenue. The Company also did not

²⁹ Five Mumbai Entry Points-₹ 2,100 crore, Thane Godbunder-₹ 140.40 crore and MPEW including old NH-4-₹ 918 crore

take any efforts to link the real time data to the website of the Company. Further, there was no provision in the respective agreements for access to records of the contractors by the Company.

The Management stated (November 2014) that eight toll stations have already been closed and for revenue sharing in respect of remaining toll stations, data was being considered by collecting audited Balance Sheet, separate toll collection statements duly certified by the auditors and traffic plying data as per video footage.

Reply is not relevant as there was no provision in the agreement to furnish these documents to the Company as agreement specifically provided that contractors shall submit details of daily toll collection and traffic data to the Company for displaying the same on the website of PWD/ Company.

Thus, in absence of any mechanism to capture real time revenue as well as traffic data, the revenue sharing arrangement with the contractor failed. Resultantly, Company lost the opportunity to earn its due share of revenue.

Display of toll collection data

2.12.3 To create transparency in toll collection contracts and generating awareness among general public, GoM directed the Company (October 2011) to install real time data electronic display boards in all the toll stations in the State. The Company appointed (October 2012) M/s Rajdeep Info Techno Private Limited (Agency) for supply, installation and commissioning of Light Emitting Diode Boards at 29 toll stations at a cost of ₹ 2.81 crore and work was to be completed by December 2012. As per terms of contract 65 *per cent* of the total cost was payable to the agency after installation and commissioning and satisfactory testing of boards at toll stations, 15 *per cent* after installation and commissioning of boards, display of information on boards and simultaneous connectivity on Company and Information Technology and Computer Center (ITCC), Pune websites and 10 *per cent* after commissioning of the system. The payment of balance five *per cent* was to be released after defect liability period of one year and five *per cent* after expiry of guarantee period of five years.

The Agency installed 62 display boards at 30 toll stations during 2012-13 and toll information was displayed at the site. The Company released ₹ 2.70 crore being 90 *per cent* payment to the Agency. Audit observed that the objective of accessing the toll Plaza server for fetching the day end collection details as well as daily class-wise traffic summary and uploading the data and linking to Company/PWD website was yet to be achieved (November 2014) as there were connectivity problems in the software.

The Management stated (November 2014) that information was displayed at the site. It was further stated that no connectivity of data to ITCC Pune was established due to software problems and user ID and password was not provided by ITCC Pune. However, the management was silent as to why the connectivity was not established at its own website.

Delay in finalisation of toll contracts

2.12.4 The Company was to ensure finalisation of next toll collection contracts well before expiry of existing contracts. Considering six months for finalisation of tender, the Company should have invited tenders six months before the expiry of the existing contracts. On test check of 40 toll collection contracts, it was observed that tenders for 10³⁰ toll stations were not invited in time and delay ranged from two to 11 months. The delay in finalisation beyond six months were also noticed and overall delay in awarding contracts ranged from one to 20 months in respect of 12 contracts for toll collection awarded during the period 2009 to 2014. As a result, the Company had to extend 12³¹ existing contracts at the same rate as there was no provision in contracts to revise rate based on traffic growth. It was observed that rates received against subsequent tender were higher than the rates of existing contracts. Considering the rates received against subsequent tenders, the loss of revenue worked out to ₹ 13.24 crore and amounted to undue benefits to the existing contractors which could have been avoided by inviting tenders in time by adopting good contract management practices.

The Management stated (November 2014) that delay was mainly on account of administrative procedures. It was further stated that they have decided to introduce higher rates for the extension of existing contract beyond three months. However, the Company should have put in place necessary mechanism so as to finalise tenders in time.

Excess recovery of toll

2.12.5 Public Works Department (PWD) transferred (December 1998) partly constructed six ROBs³² to the Company. The PWD also directed (February 1999) the Company to complete these ROBs by borrowing funds from the market and committed to reimburse the cost along with interest in case toll collection during the concession period falls short to recoup the cost. The PWD had incurred total expenditure of ₹ 11.85 crore on partly completed projects and the Company incurred ₹ 6.39 crore during 1999 to 2003 to complete the ROBs. By the time these toll stations were closed for collection of toll (October 2010), the Company recovered total toll of ₹ 66.54 crore. Further, it was also observed that the toll notification had expired in February 2005, November 2005 and April 2010 in respect of three ROBs³³. The toll collection exclusively in absence of toll notification was ₹16.06 crore and overall excess toll collection over and above the cost of the project (six ROB) was ₹ 56.88³⁴ crore. Audit observed that the Company should not have

³⁰ Deole, Dusarbeed, IRDP Baramati, Kini, Taswade, Malegaon Mehekar, Nagzari Kherda, Nakshatrawadi, ROB at Tadali and Sawangi

³¹ Deole, Dusarbeed, IRDP Baramati, Kini Taswade, Kini Taswade, Malegaon Mehekar, Malegaon Mehekar, Nagzari Kherda, Nakshatrawadi, ROB at Tadali, ROB at Tadali and Sawangi

³² Ambesawangi, Yelekeli, Kothoda, Badnera Yavatmal, Kendali and Paraspur

³³ Badnera Yavatmal, Yelekeli and Paraspur

³⁴ ₹ 66.54 crore less cost of ROBs ₹ 6.39 crore less ₹ 1.32 crore (administrative cost and centages) less ₹ 1.95 crore (interest)

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recovered the toll without notification and not more than the cost as per section 20 of the Bombay Motor Vehicles Tax (BMVT) Act, 1958, which provided that toll shall be levied and collected not more than the capital outlay.

Audit further observed that the Company did not prepare project wise cash flow statement for each year to ascertain the balance cost remained to be recovered at the end of each year.

The Management stated (November 2014) that even if there was excess recovery of toll the same was utilised for other larger public interest infra development projects. Management further stated that cash flow would be prepared on annual basis. The reply was not acceptable as the Company collected toll in violation of provisions of Section 20 of BMVT Act, 1958.

Delay in decision for recovery of toll

2.12.6 The Company completed the construction of IRDPs Nanded and Pune during 2010-11 to 2012-13 at a cost of ₹ 82.82 crore and ₹ 613.43 crore respectively. Funds were arranged through borrowings from open market. The Company submitted (November 2004/ October 2008) proposals to PWD for issue of notifications for toll collection at nine toll stations in IRDP Pune, eight toll stations in Nanded. However, notifications for Pune and Nanded were not issued by PWD so far (November 2014) for want of No Objection Certificate from Pune MC and public demand for not to levy toll respectively. Thus, in the absence of decisions of GoM, the Company could not commence the toll so far (October 2014) and had to repay the loan through short term borrowings with adverse effect on the financial condition of the Company.

Non recovery of dues from toll contractors

2.12.7 Toll collection contracts provided for payment of monthly/yearly/whole toll collection in advance. In case the contractor does not pay the amount by due date or within three days from due date, the same was to be recovered by adjusting/encashing the SD and contract was to be terminated /determined. Records of the Company revealed that due to default in payment by contractors arrears of ₹ 39.17 crore were recoverable from 34 contractors as on 31 March 2014 as detailed below:

Sl. No.	Period of arrears	Amount (₹ in crore)	Number of contractors
1.	Less than one year	23.19	7
2.	One to three years	11.65	6
3.	More than three years	4.33	21
	Total	39.17	34

Audit observed that there was no mechanism in place to monitor the arrears *vis-a-vis* SD of each contractor to take timely action. As a result ₹ 15.10 crore remained to be recovered from 27 contractors even after adjusting SDs. In respect of balance dues of ₹ 24.07 crore, the Company had adequate SD but the decision for encashment of the same was yet to be taken (November 2014).

The Management stated (November 2014) that the condition to recover maximum upfront amount was now included in tenders invited from December 2011 and the scheme for one time settlement was introduced for defaulting contractors. However, the fact remained that the toll contractors collected toll from the public but not remitted to the Company as per contractual terms.

Execution of commercial contracts

2.13.1 The Government of Maharashtra authorised (February 2002) the Company to utilise the space below and above the flyovers for commercial exploitation to generate revenue through pay and park facilities, advertisement rights, leasing of ducts and leasing of space for eateries/dhabas to recoup the project cost. As on 31 March 2014, the Company had total 92 advertisement sites (hoarding and kiosks) of which 61 sites were commercially exploited by awarding contracts through tendering process. The remaining 31 sites were not commercially exploited by the Company so far (December 2014) though these sites were available from October 2011 to August 2013. On test check of 49 out of total 97 contracts for 61 sites awarded during 2009-14, Audit noticed the following:

Delay in finalisation of advertising contracts

2.13.2 The Company awarded contracts to private agencies assigning rights to display advertisements on flyovers and toll plazas for periods ranging from three to five years.

Scrutiny of 20 contracts (₹ 15.87 crore) awarded during September 2012 to January 2014 for advertisement sites at 17³⁵ flyovers, two toll plazas (Dahisar and Mulund) and one bus shelter (Solapur) revealed that contracts for 13 flyovers and two toll plazas were not replaced by new contracts in time due to delay in invitation of tenders and finalisation of offers. As a result, the Company had to extend the existing contracts for a period from eight to 30 months resulting in loss of revenue of ₹ 2.59 crore being difference between new rates received and rates paid by existing contractors.

The Management stated (November 2014) that there were procedural delays on account of time taken for calculation of base price and introduction of new clauses in the offer document. Thus, there is need for streamlining the procedures so as to minimise such delays.

Non recovery of rent for ducts

2.13.3 The Company installed (2002) 25 ducts across BARC-Kalamboli-Dehu Road. Audit scrutiny revealed that the Company executed agreement with Bharati Airtel, Mumbai belatedly in December 2008 for 121 Km at

³⁵ Aarey, AGLR, Cheddanagar, Chembur Mankhurd Link Road, Dindoshi, GMLR, JVLR (Kanjur Marg), JVLR (Jogeshwari), Kalanagar, Konkan Bhavan, Love Grove, Nerul, Vashi, Teen Hath Naka Thane, Nitin Casting & Cadbury Junction, Everard Nagar and L&T Flyover

₹ 2.50 per duct *per metre/per month* for a period of seven years with retrospective effect from May 2002 being the date of handing over of ducts. Bharati Airtel continued to use ducts on same terms and conditions even after expiry of contract in April 2009. In September 2011 the Board formulated a policy to revise the rent of ducts to ₹ 4.63 per duct *per metre/per month* with an increase of five *per cent* per annum up to a period of six years. The Company neither renewed the agreement with Bharati Airtel from May 2009 nor recovered the revised rates from September 2011 onwards thereby forgoing revenue of ₹ 1.03 crore till date (August 2014).

The Management accepted the audit observation and stated (November 2014) that the recovery of outstanding rent was in progress.

Other topics of interest

Commercial exploitation of land

2.14.1 GoM decided (December 2007) to hand over 402.18 Hectares (Ha) of land adjacent to MPEW to the Company on lease for 99 years for commercial exploitation at lease rent of ₹ 1 per square metre per annum. The Company was appointed as an agent of GoM for development of land. PWD, GoM executed (July 2012) agreement with the Company for specific land (11.20 Ha) at Sanjangaon, Taluka Khalapur, District Raigad. As per agreement the change of use was to be got approved from Revenue Department (RD). The Company submitted (March 2014) proposal to PWD to get the change of use approved from RD. Audit observed that the Company invited (August 2010) tender for leasing of land (19.69 Ha) at Sanjangaon without ensuring the change of use from RD. The Company accepted (March 2011 to March 2012) 1/3rd upfront payment of ₹ 1.91 crore from five parties for six plots admeasuring 9.57 Ha. The lease agreements with respective parties could not be executed due to pending approval for change of use. As a result the Company could not recover the balance 2/3rd upfront payment of ₹ 3.82 crore and annual payment of commitment fee of ₹ 24.92 crore. Further, the Company had not taken steps to take possession of the remaining land of 391.48 Ha. The value of the land worked out to ₹ 924.83 crore considering Ready Reckoner rate of GoM for 2014. Thus, the Company is yet to commercially utilise 402.18 Ha of land (December 2014).

Recovery of toll without notification

2.14.2 The Company entered into an agreement (December 1997) with Western Coalfields Limited (WCL) for construction of bridge across the river Wardha near Nakoda to facilitate movement of coal from Mungoli open cast mine of WCL to the areas of Chandrapur district. As per agreement, WCL was to provide loan equivalent to 50 *per cent* of the project cost with interest at the rate nine *per cent*. The cost of the project was to be recovered by collection of toll from the trucks passing through the bridge. The bridge was constructed at a cost of ₹ 7.68 crore excluding interest during construction with a refundable loan assistance of ₹ 1.13 crore from WCL. The Company collected toll to the extent of ₹ 7.14 crore during 2003-04 to 2010-11. Audit observed that the Company had not obtained the approval of the GoM for execution of project

and notification for recovery of toll. In the instant case toll collection was discontinued from 28 June 2011 for want of notification and the Company could not recover remaining project cost of ₹ 13.07 crore (including interest and taxes).

The Management stated (November 2014) that request for issue of toll notification was submitted to GoM in February 2003. The fact remained that the Company had not obtained the approval of GoM for construction of bridge as well as toll recovery hence the chances for recovery of the balance cost of the project were remote.

Monitoring and Internal Audit

2.15.1 Audit observed the following deficiencies:

- The Company had decided to constitute (January 2004) Flying Inspection Squad (FIS) for verification of toll collection and working of toll stations. FIS was to comprise of Executive Engineer (EE), one Deputy Engineer of the Company and one EE from local PWD division. The FIS was to visit all the toll stations one or more time as per requirement in every quarter. The FIS was to propose the amount of fine to be imposed or action to be taken against toll agents for violation of terms of contract. The COPU also recommended (November 2007) to appoint vigilance Squad to monitor toll collection. However, the Company had not formed such FIS so far (November 2014).

The Management stated (November 2014) that in view of automated system of vehicle counting available in each toll plaza FIS was not formed. The reply was not acceptable as the Company was to monitor working of the system installed in toll plazas.

- All toll collection contracts in force as on 31st March 2014 were awarded with Revenue Sharing Clause (RSC). However, the Company did not ensure availability of real time data for assessing amount collected and consequently the RSC could not be enforced.
- The arrears of toll collection were not monitored to ensure that arrears from contractors did not exceed the amount of SD.
- The Monitoring mechanism of the Company was deficient in respect of motorable condition of roads, renewal of notifications, finalisation of tenders well before the expiry of existing contracts.

The Management stated (November 2014) that necessary action would be initiated.

2.15.2 The Company had not prepared Internal Audit Manual prescribing functions of Internal Audit (IA) and reporting mechanism. The Company had also not created an independent audit wing. The IA work was outsourced to a firm of Chartered Accountants from 2009. Their reports were submitted to VC&MD of the Company. The activities of project offices other than Mumbai

were however not audited by IAs. Thus, the role of IA per se was not adequate.

The Company stated (November 2014) that they are in the process of implementing effective auditing practices.

2.16 Conclusion and Recommendations

The GoM assigned 26 projects to the Company, however, Concession Agreements were not signed with the Company prescribing terms and conditions for the assigned projects.

The GoM may execute Concession Agreements with the Company specifying terms and conditions for each project.

The Company was incurring losses due to non commencement of toll collection and closure of toll stations coupled with the GoM not compensating the Company towards the cost of project met through borrowing.

In the event of either non commencement of toll or closure of toll stations, GoM may evolve framework to recoup the cost of projects to the Company.

The Company had no mechanism in place for periodical inspection of road conditions for preparation of annual/special repairs plan to ensure that roads/bridges are maintained as per standards.

The Company may evolve system for periodical inspection of roads/other assets and prepare rolling plan for repairs.

The Revenue Sharing Clause was included in short term toll collection contracts without ensuring arrangement for real time data to measure the actual toll collection which was crucial for Revenue Sharing.

The Company may ensure online arrangement for linking real time data to the Company/PWD website in case of award of toll collection contracts with Revenue Sharing Clause.

There were delays in finalisation of toll collection contracts/commercial contracts resulting in undue benefits to existing contractors. Contractors did not pay upfront payment of toll as per terms of contract and arrears were more than the Security Deposit (SD) available with the Company. There were instances of recovery of toll more than the project cost which was in contravention of BMVT Act.

The Company may streamline their contract management practices so as to avoid delay in awarding of contracts. The Company may monitor arrears from contractors with reference to security deposit with the Company and take suitable action to safeguard the financial interest of the Company.

Audit findings were reported (September 2014) to GoM; the reply was awaited (December 2014).