Chapter IV

Compliance Audit Observations

Important audit findings that emerged from the test check of transactions of the Government of Gujarat Companies and Statutory Corporations are included in this Chapter.

Government Companies

Sardar Sarovar Narmada Nigam Limited

4.1 Avoidable expenditure

The Company did not utilise the survey data prepared by the consultant and did not obtain required statutory clearance. This led to avoidable expenditure of ₹ 19.20 crore and a further claim for revision in contract price.

The Sardar Sarovar Narmada Nigam Limited (the Company) awarded (January 2011) two works namely construction of Kachchh Branch Canal (KBC) from 82.300 km to 112.500 km (cost ₹ 402.45 crore) and 133.519 km to 189.977 km (cost ₹ 345.30 crore) on Engineering, Procurement, Construction and Commissioning (EPC)[1] basis at a cost of ₹ 747.75 crore[2]. The scope of work, *inter alia*, included preliminary survey, leveling and Geo-technical investigation design of canal section and structure design at a cost of ₹ 19.20 crore. It will irrigate 63,111 hectare (ha) of cultivable command area (CCA) in Banaskantha & Patan and 1,12,778 ha CCA in Kachchh District.

The Company had awarded (November 2001) consultancy work[3] at a cost of ₹ 5.61 crore to M/s. RITES Limited (Consultant) for KBC of Sardar Sarovar Project. The consultant completed (April 2010) the work and submitted (July 2010) the report with details on design/ drawing/ estimates for all structures/ canal for 20 km to 194.677 km along with Geo Technical Reports. The consultant was paid final bill of ₹ 11.53 crore in July 2014.

The irregularities relating to award of contract and not obtaining statutory clearance are as follows:

(a) We observed (December 2013) that the data of preliminary survey, leveling and Geo-technical investigation, design of canal section and structure design prepared (April 2010) by the consultant were already available with the

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1. Under EPC contract the contractor has to design a project or work, procure all the necessary materials and construct it, either through own labour or by subcontracting part of work and deliver it to the employer. The contractor carries the entire risk of the project for schedule, as well as budget, in return for a fixed price.
2. Based on Schedule of Rates 2008-09, estimates for the works were prepared and the bids were evaluated accordingly for award of contract.
3. The scope of the work involved in consultancy services was (i) Strip topographic survey and canal alignment planning for 33 km to 105 km, (ii) Canal alignment planning and approval for 125 km to 186 km, (iii) Design, drawing & estimation of canal for 20 km to 186 km, (iv) Geotechnical investigations, testing report and (v) Design, drawing and estimation of structures including vicinity contour survey for 20 km to 186 km.

Company. However, the Company awarded (January 2011) both the works by including these activities at a cost of ₹ 19.20 crore in scope of work of EPC contracts without any recorded justification. It is pertinent to mention that two works in chainage 112.500 km to 133.519 km were carried out based on the report of consultant. Therefore, Audit is of the view that when the report of the consultant could be used for the works in chainage 112.500 km to 133.519 km, the same could also have been used for chainage 82.300 km to 112.500 km and 133.519 km to 189.977 km. Not doing so resulted in avoidable expenditure of ₹ 19.20 crore.

The Government stated (July 2015) that the tender documents of EPC contracts provide for use of available survey and investigation data, design works carried out by RITES. The lump sum amount quoted by the EPC contractors is with respect to the same provision and hence, it is not correct to say that the data prepared by the consultant was not utilised in the works.

The reply is not specific to audit observations. It did not specify to what extent the data prepared by the RITES was being utilised by the EPC contractors and also the necessity of the Company to further include the same type of survey, leveling and Geo-technical investigation, design of canal section and structure design works in the EPC contracts at a higher cost of ₹ 19.20 crore.

(b) The Executive Engineer (EE), Kachchh Branch Canal Division No. 2/4, Bhachau awarded (January 2011) the work[4] for chainage 133.519 km to 189.977 km under EPC contract to a contractor[5] at a cost of ₹ 345.30 crore (Estimated cost: ₹ 375 crore) stipulating completion by January 2013. Out of the total 203.6276 ha land required for completion of the work, Government land of 134.0364 ha was allotted by the Collector, Bhuj to the Company in August-November 2010. Immediately after starting of work (February 2011), the Dy. Conservator of Forests (DCF), Kachchh East Division, Bhuj stopped (June 2011) the work as land in chainage 144.00 km to 168.00 km fell in Kachchh Desert Wild Life Sanctuary (KDWLS).

The Company sought (August 2011) permission from Forest Department to construct canal in the protected area of KDWLS. The Forest Department instructed (November 2011) the Company to carry out Environment Impact Assessment (EIA) and Biodiversity Study. The Company submitted (April 2012) proposal to the Principal Chief Conservator of Forests along with the Study Report of EIA and Biodiversity for obtaining approval of the Committee of National Board for Wild Life (NBWL). The matter remained under pursuance with the NBWL between June 2013 and August 2014. Ministry of Environment and Forests (MoEF) guidelines (December 2012) stipulate that proposals in respect of a Sanctuary or National Park, require Supreme Court's approval based on the recommendation of the Standing Committee of NBWL. The Standing Committee recommended (August 2014) the proposal for diversion of 134.0364 ha land from KDWLS. The Company

[4] Earthwork, structure, lining, service road, CR/HR/Escape gates, stop logs, control cabins etc including Geo-Tech investigation, design of structure and operation and maintenance of the same for five years.

[5] M/s. Hindustan Construction Company Limited.

filed (February 2015 and May 2015) affidavit in the Supreme Court for pre-approval. Further progress was awaited (August 2015).

We observed (December 2013) that Land Acquisition is within the scope of Company and at the time of allotment of land, the Collector had stated that if any other permission was required in relation to the allotted land, the same would have to be taken from the Competent Authority. The Company was aware that KBC passes through KDWLS and statutory clearance was required when activities were to be taken in eco-sensitive zone. Similar delay was experienced during work of chainage[6] from 47 km to 110 km of KBC. The Company granted extension (February 2013) of time limit up to June 2014 due to delay in handing over land, which was further increased to March 2015. The contractor put up a proposal (May 2013) for revision in contract price based on provisions in the contract for ₹ 77.33 crore over the contract price for the chainage falling in KDWLS. However, due to stopping of work, the revision in contract price was not finalised (July 2015). Thus, award of work without obtaining required permission for acquisition of forest land resulted in delay and revision in contract price.

The Management/Government have stated (July 2015) that the District Collector transferred 134.0364 ha Government land to the Company on 99 years lease in 2010. However, only when the forest department stopped the work, it was found that the land of four villages falls under the KDWLS. As the land was allotted by the Collector, the Company did not anticipate any problem with the title of land before awarding the contract.

The reply is not acceptable as seen from the correspondence of EE, KBC Division No. 2/4, Bhachau with DCF, Bhuj (July 2011), the Company was aware that KBC passes through KDWLS and no objection certificate of Forest Department was required when activities would be taken up in five km range of the eco-sensitive zone. Thus, not getting statutory clearance before award of contract by the Company may lead to revision in contract price.

Alcock Ashdown (Gujarat) Limited

4.2 Loss due to termination of ship building contract

The Company accepted contract for constructing two ships without having technical and financial capacity. The contract was cancelled due to time over-run which resulted in loss of ₹ 42.80 crore.

The Alcock Ashdown (Gujarat) Limited (AAGL) is engaged in the business of ship building. AAGL entered (20 June 2006) into an agreement for construction of two work boats cum supply vessels (Y-255 and Y-256) at the contract price of USD 6.65 million per vessel (approximately ₹ 61.06 crore[7])

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6 Work at various chainages between 47 km and 110 km of KBC passing through KDWLS was delayed due to not obtaining statutory clearance from MoEF (**Paragraph 2.14.2** of Audit Report (Commercial) of Government of Gujarat for the year 2008-09).

7 The exchange rate on 20 June 2006 was ₹ 45.91 per USD as taken from the RBI website. The Rupee equivalent comes out to be 6.65 million USD X 2 X ₹ 45.91= ₹ 61.06 crore.

with Marwa Offshore Enterprises (Mauritius) Private Limited, later on renamed as Dolphin Offshore Enterprises (Mauritius) Private Limited (DOEPL). The vessels were to be delivered in seaworthy condition by 30 September 2007.

AAGL sub-contracted (August 2007) the work related to hull construction, outfitting, engineering, installation, piping, commissioning and trials of vessels Y-255 and Y-256 to Shoft Shipyard Private Limited (SSPL), Thane. The payment was on per tonne basis for fabrication work and on lump sum rate for machine fittings. Material had to be supplied by AAGL and the construction was to be done at SSPL yard in Bharuch. The two ships were to be delivered by 31 December 2007. As monitoring of the contract at SSPL yard was becoming difficult for AAGL, additional responsibility of project management was also assigned (December 2008) to SSPL at a cost of ₹ 2.80 crore. The completion date was extended to May 2009.

One work boat cum supply vessel i.e., Y-255 was delivered by SSPL/AAGL to DOEPL on 20 December 2009 against the scheduled delivery date of 30 September 2007. The delivery of the second vessel was inordinately delayed by four years[8] due to the financial problems faced by AAGL and consequent non fulfillment of financial commitments to SSPL. DOEPL terminated the contract (November 2011) and invoked the bank guarantee given by AAGL to secure advance payments made by them under the contract. The reasons cited for the cancellation were that owing to time over-run there would be cost escalation, deterioration of the Hull and expiry of manufacturer's warranty on the equipments. The Board of Directors of AAGL in its 71st meeting, held in November 2011, took note of the cancellation and assessed the loss due to the cancellation to the tune of ₹ 42.80 crore[9].

The Valuation Report of the vessel Y-256 at SSPL, Bharuch was obtained (June 2012) from the Registered Valuer[10] which was valued at ₹ 24.12 crore on "as is where is basis". The vessel was again valued (December 2013) by another Registered Valuer[11] at ₹ 20.00 crore. The vessel would have deteriorated during the one and half years and there would have been reduction in its fair market value. The tender document was uploaded on the AAGL's website for sale of the vessel (Y-256) and News Paper advertisement was given on 1 March 2014. There was not even a single response.

We observed in Audit that as per the terms of contract for ship building entered into by AAGL, DOEPL was required to give AAGL, 20 *per cent* of the contract amount on signing the contract, 10 *per cent* on commencing of steel cutting and balance 70 *per cent* on delivery of vessel. The above terms indicate a huge working capital investment by AAGL. Even in sub contracted works the material had to be supplied by AAGL and sub-contractor payments were evenly spread throughout the contract period resulting in huge requirement of working capital. It was therefore essential that the order book

8 From September 2007 to November 2011.

9 Cost incurred on Y-256 ₹ 39.74 crore plus advances to be repaid ₹ 10.86 crore plus subsidy to be refunded ₹ 3.58 crore less advances utilised in the work ₹ 11.38 crore.

10 R.D. Engineer Associates Pvt. Limited, Vadodara.

11 Vedam Design & Technical Consultancy Pvt Limited.

should have been synchronised with working capital availability. At the time of taking up the order of DOEPL in June 2006, AAGL already had the following orders in its order book:

Table 4.1: Orders already booked by AAGL as on June 2006

Name of the party	Description of vehicle	Number	Cost (₹ in crore)
Sea Tanker Management Company	12,800 T dwt IMO II Tankers	8	600
Customs, Delhi	GRP vessels	16	120
Indian Navy	Survey vessels	6	600
Gudami International Private Ltd	3,000 T dwt product carriers	2	34

Source: Board Minutes of the Company

Notwithstanding the above orders in existence, no cash flow analysis was put up to the Board or insisted by the Board before approving taking up of new orders. When DOEPL was considering termination of the contract and invoking bank guarantee, AAGL appointed a consultant (I Maritime Consultants Private Limited) to review the state of affairs of the Company in December 2008. The consultant stated (December 2008) that the orders contracted by AAGL were well beyond its technical and financial capability and orders were procured at very low rates without considering the viability of the pricing and the terms of payment. Thus, the acceptance of a ship building contract by the Company without assessing technical and financial viability resulted in loss of ₹ 42.80 crore.

The Management in their reply accepted (August 2015) that the vessels could not be delivered due to lack of technical manpower owing to disinvestment process of AAGL in the year 2007. Also, the Company took a lot of efforts and initiatives to complete the work and deliver the vessels on time even by incurring additional costs but no progress could be achieved by SSPL.

However, audit is of the view that AAGL agreed to supply vessel to DOEPL ignoring the fact that their own facilities at Bhavnagar and Chanch were already utilised and the same may not be available for construction of Y–255 and Y–256 vessels. To tide over the problem, the construction of the vessels was sub-contracted to SSPL’s yard, but cash flow analysis to meet the working capital requirement was not done.

The matter was reported to the Government in July 2015; their replies were awaited (November 2015).

Gujarat State Petronet Limited

4.3 Avoidable Extra Expenditure

The Company commenced the pipe-line re-routing work without receiving the line crossing permission from Indian Oil Corporation Limited. As the permission was refused, the Company incurred avoidable extra expenditure of ₹ 1.25 crore again in re-aligning of said pipe-line.

Gujarat State Petronet Limited (the Company) is engaged in the business of transportation of natural gas from supply sources to demand centres across the State of Gujarat, through its gas transmission pipe-line network. The Amboli-Dahej pipe-line (ADPL) of 45 Kilometres (kms) is operated by the Company since 2001 which crosses river Narmada near Dhanturia village. During floods in the river Narmada (August 2013), the above pipe-line got exposed from the Dhanturia bank in Bharuch, which required re-routing of 2.663 kms.

Based on the detailed engineering route survey report prepared by Secon Private Limited (SPL), the Company's proposed re-routing was crossing the Indian Oil Corporation Limited (IOCL) pipe-line at one place near village Dhanturiya. As a result, the Company applied (February 2014) for permission from IOCL for crossing the pipe-line. The Company without waiting for the permission from IOCL awarded (4 March 2014) the construction contract for re-routing the pipe-line to M/s Punj Lloyd Limited (Punj Lloyd) at a cost of ₹ 16.51 crore. The new pipe-line to be constructed was to cross river Narmada of which, 2.1 km section was to be installed using Horizontal Directional Drilling[12] (HDD) technique and remaining section was to be installed as per onshore pipe-line laying method. However, during work execution, Punj Lloyd realized (April 2014) that the proposed re-routed pipe-line would cross IOCL pipe-line at two more locations[13]. Accordingly, the Company once again applied (28 April 2014) for permission to IOCL for all the three crossings.

However, IOCL took strong exception (May 2014) to the fact that the Company started the drilling work without waiting for IOCL's permission. Further, IOCL showed its concern about crossing of its pipe-line by the Company's proposed pipe-line below the river bed and refused to grant the crossing permission as this would pose great risk. They advised re-alignment of the Company's pipe-line. As a result, the Company had to pay an additional amount of ₹ 1.25 crore to Punj Lloyd for retrieval (restoring) of the pilot already drilled, shifting of HDD rig to the new location and re-pilot hole drilling.

Audit observed (February 2015) that the Company without waiting for crossing permission from IOCL, awarded the contract for construction of the re-routed pipe-line. This not only posed a grave threat in view of the nature of the crossing but also led to avoidable expenditure of ₹ 1.25 crore.

The Management has stated (July 2015) that the work was started without waiting for IOCL permission as the same was rectification work done on an emergency basis and not a normal maintenance work and any delay in completion of work before monsoon could have resulted into restricting the operation of the pipe-line which in turn could have affected the operations of downstream customers. Regarding SPL's failure to identify the other two locations of IOCL pipe-line, the Company justified the same by saying that the field markers were washed away during flood and land became marshy so the

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[12] HDD is a steerable trenchless method of installing underground pipes, conduits and cables in shallow arc along a prescribed bore path by using a surface-launched drilling rig, with minimal impact on the surrounding area. Directional boring is used when trenching or excavating is not practical.

[13] (i) Near Dhanduriya Village, Tk. Ankleshwar and (ii) Near River Bank towards Bhadbhut.

other two crossing locations were not physically traceable at the time of survey. It was stated that pipe-line built data was also not shared by IOCL with all concerned agencies like Gujarat State Disaster Management Authority and hence SPL did not notice the crossing locations.

The reply is not convincing as IOCL took strong exception to starting of work by the Company without its permission. IOCL even warned that in case of any sort of damage or disturbance or catastrophic situation, the Company would be held responsible. Further, SPL in its survey report made no mention of any difficulty faced in identifying crossings due to markers being washed away.

The matter was reported to the Government in June 2015; their replies were awaited (November 2015).

Gujarat Urja Vikas Nigam Limited

4.4 Management of subsidy by GUVNL

Introduction

4.4.1 Gujarat Electricity Board (Board) was unbundled effective from 1 April 2005 into seven separate companies[14]. GUVNL was the holding company of the remaining six companies with a paid up share capital of ₹ 8,930.35 crore as on 31 March 2015 held by Government of Gujarat (GoG). GUVNL is responsible for carrying out the functions of trading of electricity (purchasing of power from various sources and supplying to the distribution companies/licensees), claiming of subsidy from GoG and other residual functions of the erstwhile Board, not assigned to the remaining six companies.

GoG gives different kinds of revenue subsidies to agricultural consumers; water works consumers, hutments and *bastis* under different schemes. The above revenue subsidies are accounted in the books of the four distribution companies (DISCOMs) on accrual basis and are claimed by GUVNL from GoG on behalf of the DISCOMs and then passed on to them. The four major subsidies given by GoG to GUVNL are Horse Power (HP) based subsidy, Fuel Price and Power Purchase Adjustment (FPPPA) subsidy and Gujarat Electricity Regulatory Commission (GERC) tariff subsidy to agricultural consumers and Water Works subsidy to water works consumers in Gram Panchayats.

As on 31 March 2015, the four distribution companies had 11,85,542 agricultural consumers with a connected load of 1,36,70,911 HP, of whom 4,85,144 consumers were unmetered with a load of 67,52,295 HP and the remaining were metered consumers. There were 32,859 water works consumers as on 31 March 2015 who consumed 90.04 million units (MUS) during 2014-15. As on 31 March 2015, ₹ 3,611.81 crore was outstanding to

[14] Gujarat State Electricity Corporation Limited (GSECL), Gujarat Energy Transmission Corporation Limited (GETCO), Uttar Gujarat Vij Company Limited (UGVCL), Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Paschim Gujarat Vij Company Limited (PGVCL) and Gujarat Urja Vikas Nigam Limited (GUVNL).

GUVNL from GoG in respect of the above four subsidies and also a two times subsidy of 50 *per cent* tariff rebate given to agricultural consumers in 2012-13 and 2014-15 on account of delayed and deficient rainfall across the State during those years.

Scope of Audit

4.4.2 This Audit was conducted from January 2015 to April 2015 and updated in August 2015 covering the period 2009-10 to 2014-15 in respect of the four major subsidies *viz.*, HP based subsidy, GERC tariff subsidy, FPPPA subsidy and the Water Works subsidy to verify the correctness of the method of calculation of subsidy, the arithmetical accuracy of the calculation and the timely raising and receipt of claims for subsidy. Two DISCOMs, PGVCL and UGVCL having highest numbers of agricultural consumers (9.42 lakh out of 11.86 lakh consumers) were selected for scrutinsing the claims.

Purpose of subsidy and its accounting

4.4.2.1 The purpose for which the above mentioned four subsidies are given and their accounting are explained hereunder:

HP based subsidy is given by GoG since the introduction of HP based tariff for agricultural consumers in June 1987 to compensate Board/DISCOMs for the loss incurred as a result of the HP based tariff[15] being lower than Board's/DISCOM's cost to serve the Unmetered Agricultural (UAG) consumers. This subsidy was capped by GoG at ₹ 1,100 crore per annum (p.a.) in 1999-2000 based on recommendations of Asian Development Bank. Considering this cap, Gujarat Electricity Regulatory Commission (GERC) fixed its first HP based tariff for UAG consumers at ₹ 1,680 per HP p.a. in October 2000, which was gradually increased to ₹ 2,400 per HP p.a. in April 2013. In view of the cap every year the GoG releases only ₹ 1,100 crore for HP based subsidy.

Over and above the HP based subsidy, GoG also gives GERC tariff subsidy for UAG consumers as GoG does not allow DISCOMs to charge even the HP rate fixed by GERC from time to time. Since July 2004, GoG has kept the HP tariff constant at ₹ 665/807.50 per HP p.a.[16] and the difference between this rate and the GERC fixed rate from time to time is compensated by the GoG as GERC tariff subsidy.

FPPPA charges are levied on consumers on a quarterly basis to compensate DISCOMs for the difference in actual fuel price and power purchase cost incurred by them on the power sold to consumers as compared to the fuel price and power purchase cost of the base year considered by GERC while fixing the energy charges to be levied on consumers. FPPPA charges are, however, not levied on agricultural consumers as per GoG directions (November 2004). This non-levy is compensated by GoG by way of FPPPA subsidy. This

[15] HP based tariff is levied on the agricultural consumers based on their connected load without reference to their actual consumption as no meters are installed in the premises of such consumers.

[16] Applicable for the unmetered consumers having connected load up to 7.5 HP and above 7.5 HP respectively.

subsidy is claimed by GUVNL and released by GoG considering normative consumption of 1,700 units per HP per annum for UAG consumers and actual unit consumption in respect of metered agricultural (MAG) consumers.

Water works consumers in Gram Panchayats are supplied power free of cost since April 1995. The rate chargeable to them as per GERC tariff from time to time is compensated by GoG by way of water works subsidy.

The calculation and claims of the above subsidies is done through e-Urja (in-house revenue billing programme). Accordingly, each DISCOM prepares and sends monthly/bi-monthly claims to GUVNL which in turn submits the consolidated claims of all DISCOMs on quarterly basis for first three quarters and finally yearly claims (including 4th quarter) to GoG. GoG makes budget provision for release of subsidy on the basis of claims submitted by GUVNL for previous years. Accordingly, GoG releases the subsidy in four installments in a year. Accounting of subsidy on accrual basis is done by DISCOMs as soon as claims raised by them are accepted by GUVNL. The figure of subsidy outstanding to be received from GoG appears only in the books of GUVNL. The DISCOMs in turn show it as receivable from GUVNL.

The details of amount claimed, received and outstanding in respect of five subsidies (including the one-time agricultural subsidy) for the period 2009-10 to 2014-15 are given in ***Annexure 7***. Important aspects of the ***Annexure*** are tabulated below:

Table 4.2: GoG grants for the years 2009-10 to 2014-15

(₹ in crore)

Types of Subsidy	Opening balance	Claimed	Received	Closing balance
HP based subsidy	Nil	6,600.00	6,600.00	Nil
FPPPA subsidy	362.94	8,910.96	6,782.00	2,491.90
GERC tariff subsidy	108.29	5,183.85	4,803.13	489.01
Water works subsidy	144.93	1,910.14	1,829.91	225.16
50 *per cent* tariff subsidy for 2012-13 and 2014-15	NIL	905.74	500.00	405.74
Total	**616.16**	**23,510.69**	**20,515.04**	**3,611.81**

Source: Information provided by GUVNL

Audit findings

4.4.3 The audit findings in relation to non-reconciliation of water works subsidy, increasing trend in the outstanding subsidy claims from GoG leading to loss of interest, and slow progress in metering of agricultural consumers are discussed in the succeeding paragraphs:

Reconciliation of subsidy claim of water works consumption

4.4.3.1 GUVNL while claiming subsidy for water works showed the units assessed and the subsidy claimed for the units assessed. The amount of subsidy claimed ought to have been equivalent to the amount which is arrived at by multiplying the units assessed with per unit rate of energy charges and FPPPA charges. Audit, however, observed that the subsidy to be claimed as worked out based on the above formula did not tally with the year wise subsidy actually claimed for water works consumption relating to all four DISCOMs as tabulated below which needs to be reconciled by GUVNL:

Table 4.3: Reconciliation of water works subsidy

Year	Units assessed (In MUs)	Subsidy claimed (₹ in crore)	Subsidy to be claimed (₹ in crore)	(Excess)/Less claimed (₹ in crore)
2009-10	612.78	189.47	195.77	6.30
2010-11	661.19	201.31	206.47	5.16
2011-12	409.49	254.20	147.92	(106.28)
2012-13	524.37	349.63	213.52	(136.11)
2013-14	1,005.98	434.28	421.60	(12.68)
2014-15	1,107.88	481.25	489.31	8.06

Source: Compiled based on information provided by Company

The Management/Government stated (July/September 2015) that the difference is on account of changes in FPPPA rates and energy rates during the year and certain debit/credit adjustments made in the subsidy account.

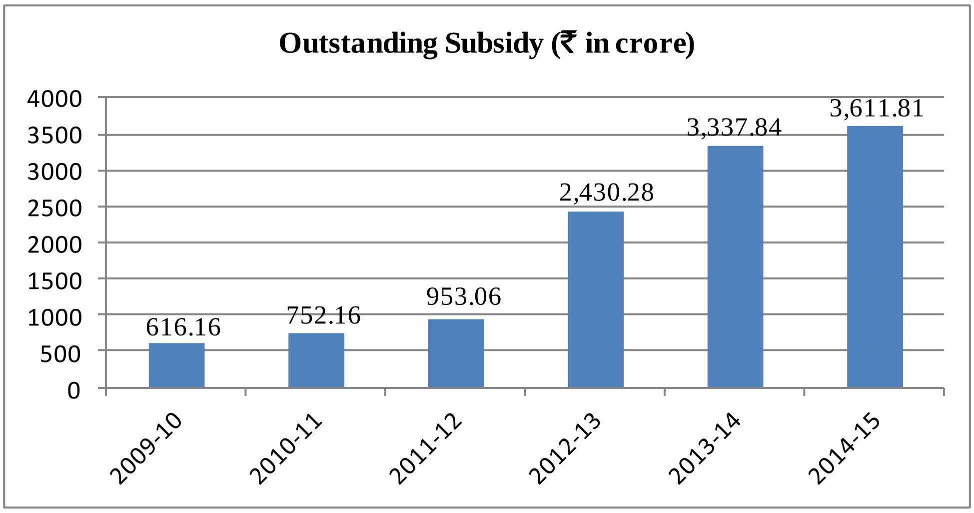
Audit has worked out the difference after considering month wise energy and FPPPA charges hence mid-year change in rates are taken care off. Debit /credit adjustments can lead to differences but not to the extent worked out by Audit.

Interest burden on account of delayed release of subsidy by GoG to GUVNL

Delay in releasing subsidy by GoG during the period 2009-15 resulted in interest burden of ₹ 890.51 crore on GUVNL.

4.4.3.2 In respect of the subsidy claimed by GUVNL from GoG an amount of ₹ 3,611.81 crore was outstanding as on 31 March 2015 (***Annexure 7***). The outstanding balance had increased from ₹ 616.16 crore to ₹ 3,611.81 crore during the last six years as given in the graph below:

Chart 4.1: Outstanding subsidy balance



Section 65 of Electricity Act 2003 stipulates that when the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Commission under Section 62 (Determination of tariff), the State Government shall, pay in advance, and in such manner as may be specified, the amount to compensate the person affected by the grant of subsidy. As may be seen from ***Annexure 7***, the subsidy had neither been released in advance nor given as and when claimed resulting in accumulation of outstanding balances. The delay resulted in interest burden of ₹ 890.51 crore[17] to GUVNL calculated at the average bill discounting rate of GUVNL of 9.31[18] *per cent.* GUVNL had working capital borrowings of ₹ 2,178.11 crore, ₹ 2,979.52 crore and ₹ 3,272.27 crore during the last three years ended 2013-14, which could have been reduced to the extent of subsidy outstanding had the same been received in time.

Further, each year DISCOMs file petitions before GERC for truing up of previous financial year including expenses incurred. While truing up DISCOMs incorporate "interest on loan" component which includes interest paid on loan taken for working capital. The burden of such interest is ultimately passed on to the consumer. Timely release of subsidy could have avoided this additional burden of interest being passed on to the consumer.

The Management stated (July 2015) that subsidy expenditure being a non-plan revenue expenditure, adequate budget provision is not being made despite GUVNL's representation for clearance of the outstanding subsidies which further cause mismatch in cash flows. To honour the committed liabilities for power purchase and debt servicing the DISCOMs/GUVNL have to raise outside finances for bridging the gap which is adding to the interest burden. Government stated (September 2015) that subsidy was being released as per budget provision based on available resources and keeping in view the requirement of other social sectors.

Slow progress in metering agricultural consumers

4.4.3.3 GERC directed (Tariff order 2004) the DISCOMs to complete *cent per cent* metering of all consumers. GERC reiterated the above directives through the tariff orders issued from time to time. Audit observed that there was no significant improvement in metering of UAG consumers during the last five years as tabulated below:

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17 This has been calculated on the year-wise outstanding subsidy balance as depicted in the graph above at the rate of 9.31 *per cent* per annum. Interest: ₹ 57.36 crore + ₹ 70.03 crore + ₹ 88.73 crore + ₹ 137.38 crore + ₹ 226.26 crore + ₹ 310.75 crore for the year 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15 respectively.

18 The average cash credit rate of GUVNL is 10.33 *per cent* and bill discounting rate is 9.31 *per cent*. The lower of the rate has been considered for working interest loss.

Table 4.4: Progress of metering agricultural consumers

Particulars	Year	DGVCL	MGVCL	UGVCL	PGVCL
Total Agricultural consumers (In nos)	2009-10	88,612	66,965	2,21,802	4,37,089
	2014-15	1,31,941	1,11,506	2,83,395	6,58,700
MAG consumers (In nos)	2009-10	42,777	40,819	65,924	1,77,560
	2014-15	86,770	85,591	1,29,011	3,99,026
UAG consumers (In nos)	2009-10	45,835	26,146	1,55,878	2,59,529
	2014-15	45,171	25,915	1,54,384	2,59,674
Percentage of metering	2009-10 to 2014-15	1.45	0.88	0.96	Negative

Source: Information provided by DISCOMs

At the end of 2014-15, agricultural consumers of around 34 *per cent* in DGVCL, 23 *per cent* in MGVCL, 54 *per cent* in UGVCL and 39 *per cent* in PGVCL were still unmetered. For the State as a whole 40.92 *per cent* of the consumers were unmetered (March 2015). Progress of metering of UAG consumers during the last five years was very slow, *i.e.* 1.45 *per cent* in DGVCL, 0.88 *per cent* in MGVCL, and 0.96 *per cent* in UGVCL. Further, in PGVCL number of UAG consumers increased from 2,59,529 in 2009-10 to 2,59,674 in 2014-15, for which reasons were not made available to audit. In 2009-10 there were 4,87,388 unmetered agricultural consumers in the State with a connected load of 63,03,906 HP whereas in 2014-15 the number was 4,85,144 consumers with a load of 67,52,295 HP. The non-metering has a direct impact on the subsidy payable as discussed hereunder:

DISCOMs have two types of tariff for agriculture sector, *i.e.* metered and HP based (unmetered). As per HP based tariff, the entire connected load of UAG consumers is currently charged at the rate of ₹ 200 per HP per month *i.e.* ₹ 2,400 per HP p.a. irrespective of the actual consumption. As per GoG policy, out of the aforesaid amount of ₹ 2,400 per HP p.a., the consumer has to pay only ₹ 665 per HP p.a. (having connected load below 7.5 HP) or ₹ 807.50 per HP p.a. (connected load above 7.5 HP) while remaining HP charges are compensated by the GoG in the form of subsidy. Further, the GoG is also extending 100 *per cent* subsidy towards fuel cost adjustment charges (also called FPPPA charges) considering normative consumption of 1,700 units per HP p.a. of connected load. On the other hand, in respect of tariff for MAG consumers, the units consumed are charged at the rate of 50 paise per unit for ordinary connection and 70 paise per unit for Tatkal connection till March 2013 after which these rates have been increased to 60 paise and 80 paise respectively. Besides, a fixed charge of ₹ 10 per HP per month upto March 2013 and thereafter ₹ 20 per HP per month is also charged from the MAG consumers. The subsidy given to MAG consumers is the fixed charge of ₹ 10/20 per HP per month and FPPPA charges on the actual units consumed.

From the above it may be seen that the tariff for MAG consumers has been kept low to encourage UAG consumers to opt for metering. But the metering of UAG consumers has been very nominally achieved as the UAG consumer bears only one third of the HP tariff fixed by GERC and rest is subsidised by the GoG.

The Management/Government stated (July/September 2015) that in spite of several efforts by DISCOMs metering of UAG consumers was not possible because of stiff resistance from farmers.

Conclusion and Recommendations

4.4.4 A review of the calculation and claiming of agricultural and water works subsidy by GUVNL from GoG revealed huge outstanding of subsidy from GoG and non-reconciliation of water works subsidy. There was nominal progress in the metering of unmetered agricultural consumers as GoG continued subsidising the unmetered consumers to the extent of two third of the HP rate fixed by GERC. We recommend that:

- ***GoG may release the subsidy in time to avoid interest burden on GUVNL/DISCOMs arising out of working capital borrowings.***
- ***GUVNL may ensure installation of meters for all unmetered agricultural consumers and implement the GERC directives.***

4.5 Energy loss due to excess consumption of electricity by Unmetered Agricultural Consumers

The excess consumption of electricity by unmetered agricultural consumers as compared to metered agricultural consumers during the period 2009-10 to 2014-15 in the four DISCOMs of GUVNL ranged from 5,822.84 MUs to 7,569.48 MUs every year resulting in an avoidable power purchase cost every year of ₹ 1,775.97 crore to ₹ 2,910.75 crore.

The four power Distribution Companies[19] (DISCOMs) have two types of tariff for agriculture sector, *i.e.* tariff for metered consumers and horse power (HP) based tariff (capacity based) for unmetered consumers which is explained through a ***Chart 4.2*** as follows.

[19] Dakshin Gujarat Vij Company Limited, Paschim Gujarat Vij Company Limited, Uttar Gujarat Vij Company Limited and Madhya Gujarat Vij Company Limited.

Chart 4.2: Comparison of Tariff structure for UAG and MAG consumers

Tariff structure for agricultural consumers

Unmetered Agricultural Consumers (UAG): HP based fixed tariff irrespective of actual consumption
Metered Agricultural Consumers (MAG): Tariff based on actual consumption

Unmetered Agricultural Consumers (UAG)

No. of consumers (2014-15): 4.85 lakh

Tariff Structure:

- Fixed charges - ₹ 2,400 per HP p.a. (irrespective of consumption)
- FPPPA charges

Payable fixed charges by UAG

- Below 7.5 HP - ₹ 665 per HP p.a.
- Above 7.5 HP - ₹ 807.50 per HP p.a.

Government Subsidy

- Remaining fixed charges subsidy (₹ 1,735 or ₹ 1,592.50 per HP p.a.)
- FPPPA subsidy – 100 *per cent* considering 1,700 units consumption per HP p.a.

Implications: UAG pay fixed amount irrespective of consumption of electricity.

Result:

- Consumption per HP by UAG was 1,833 units as against 719 units by MAG in 2014-15
- Leads to wastage of electricity as well as creates subsidy burden on the Government. Probability for excess consumption of water also exists.

Metered Agricultural Consumers (MAG)

No. of consumers (2014-15): 7.00 lakh

Tariff Structure:

- Energy charges – Paise 60 (normal) / 80 (tatkal) per unit
- Fixed per HP charges - ₹ 20 per HP per month
- FPPPA charges

Payable energy charges by MAG

- Energy charges on actual units consumed

Government Subsidy

- Energy charges subsidy – NIL
- Full Subsidy for fixed per HP charges
- FPPPA subsidy – based on actual units consumed

Implications: MAG pay energy charges based on actual consumption of electricity.

Result:

- Consumption per HP by MAG was only 719 units compared to UAG's at 1,833 units in 2014-15
- As payment is linked to consumption, it leads to judicious usage of electricity (and hence water).

We compared in Audit the pattern of consumption of MAG consumers and UAG consumers as brought out in ***Annexure 8.*** In respect of individual DISCOMs, the consumption pattern of UAG consumers to MAG consumers ranged from 1.47:1 to 3.94:1 as brought out in the ***Annexure***. The table below gives the overall picture for the additional cost incurred by all the four DISCOMs due to additional consumption.

Table 4.5: Comparative consumption of agricultural consumers

Sl. No.	Particulars/Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
a	Total UAG consumers	4,87,388	4,86,940	4,86,600	4,86,191	4,80,776	4,85,144
b	HP load of UAG	63,03,906	64,01,752	64,48,045	65,68,566	66,63,847	67,52,295
c	Total MAG consumers	3,27,080	3,59,524	4,16,196	5,04,974	5,88,528	7,00,398
d	HP load of MAG	30,18,781	33,56,961	39,66,283	48,51,386	57,92,602	69,18,616
e	Consumption per HP of UAG[20] consumers (In Units)	1,953.87	1,625.50	1,750.58	1,961.64	1,670.23	1,833.25
f	Consumption per HP of MAG consumers (In Units)	835.58	715.93	755.20	809.26	659.70	719.36
g	Ratio of consumption UAG to MAG	2.34:1	2.27:1	2.32:1	2.43:1	2.53:1	2.55:1
h	Additional consumption by UAG consumers per HP **(e – f)**	1,118.29	909.57	995.38	1,152.38	1,010.53	1,113.89
i	Total excess consumption by UAG (in MUs) **(h x b)**	7,049.60	5,822.84	6,418.26	7,569.48	6,734.02	7,521.31
j	Power purchase rate per unit (in ₹)	2.87	3.05	3.36	3.61	3.80	3.87
k	**Additional cost due to additional consumption (₹ in crore) (i x j)**	**2,023.24**	**1,775.97**	**2,156.54**	**2,732.58**	**2,558.93**	**2,910.75**

Source: Compiled from information provided by DISCOMs and GUVNL

As brought out in ***paragraph 4.4.3.3*** there was a very slow progress in metering of unmetered agricultural consumers in the last five years as a result of which the additional consumption continues till date.

Audit observed that due to non-metering of agricultural consumers there was:

- **Excess consumption of energy**: As for each HP of connected load, the average consumption of UAG consumers for the period 2009-10 to 2014-15 was more than twice the average consumption of MAG consumers resulting in avoidable cost towards additional power purchase as shown above.

- **Probable excess consumption of water**: There is an inherent tendency to draw more water when the consumer has to make fixed payment irrespective of the power consumed.

- **Increased subsidy burden on the State Government:** The HP rate payable by UAG consumers is constant at ₹ 665 or ₹ 807.50 per HP p.a. since July 2004 and the differential amount was subsidised by GoG as GERC tariff subsidy. The HP rate fixed by GERC for the UAG consumers since October 2000 was high enough to recover a tariff of 99 paise to 141 paise per unit even if they consumed the normative consumption of 1,700

[20] In absence of meters in UAG consumers their consumption has been arrived at by reducing from the units sent out from each feeder the applicable transmission and distribution losses and the metered units. The consumption so derived has been divided by the total UAG load to arrive at the per HP UAG consumption.

units per HP per annum (₹ 1,680 per HP and ₹ 2,400 per HP/1,700 units). As the UAG consumer bears only one third of the HP tariff he pays only 39 or 48 paise per unit for the normative consumption of 1,700 units (₹ 665 and ₹ 807.50 per HP/1,700 units per HP), leading to a burden on the State Government for subsidy. Also, as the UAG consumer pays lesser amount than the subsidised MAG tariff (60 to 80 paise per unit) there was no incentive for the UAG consumers to opt for metering.

GUVNL/GoG needs to take urgent steps to ensure metering of UAG consumers as directed by GERC in 2004 to avoid wastage of scarce energy resources.

The matter was reported to the Management/Government in October 2015; their replies were awaited (November 2015).

Paschim Gujarat Vij Company Limited

4.6 Avoidable Extra Expenditure

The Company incurred avoidable expenditure of ₹ 1.39 crore due to failing to procure materials at lower cost by invoking the repeat order clause of existing contract.

The Company placed (September/October 2011) purchase orders on Prakash Re-roller Private Limited (PRRPL) for supply of 11,200 MT[21] of steel items at a total cost of ₹ 46.95 crore for meeting the requirement of various electrification schemes, fabrication and network maintenance works. The clause 14 of the purchase order stipulated that the Company reserved the right to place repeat orders/ additional orders up to 25 *per cent* of the original quantity of the order at the same prices, terms and conditions stipulated in the original contract during the contractual delivery period. As per the delivery schedule, the supply was to be completed by 15 May 2012[22]/5 June 2012[23].

The Company initiated (February 2012) the tender process for procurement of 16,025 MT[24] of steel items for similar requirements as stated earlier while the delivery against previous order was in progress. The trend of steel prices was on the rise during the period from April 2011 to February 2012 as evidenced from published market prices. The price bid opened in March 2012 was on the higher side. Considering the rising price trend, a belated proposal was made (April 2012) to the Competent Authority for placing repeat order for procuring additional quantity of 25 *per cent* against the previous order. However, the Competent Authority approved to place repeat order for procuring additional quantity of only 700 MT of MS Angle 65x65x6 mm on PRRPL to meet routine requirement on the plea that the tender process initiated in February 2012 was already over for the placement of orders. Based on the offers

21 MS Angle 65x65x6 mm-9,700 MT, MS Flat 50x6 mm-430 MT, MS Round 16 mm^2-1,070 MT.
22 MS Angle 65x65x6 mm.
23 MS Flat and MS Round Bar.
24 MS Angle 50x50x6 mm-1,725 MT, MS Angle 65x65x6 mm-10,760 MT, MS Flat 50x6 mm-1,450 MT, MS Round Bar 16 mm^2 – 1,460 MT, MS Channel 100x50x5 mm- 630 MT.

received in new tender, orders were placed for 16,025 MTs of steel items on eight firms in May 2012 even while the old order was still in progress.

Audit observed that as per clause 14 of the earlier order, the Company could have purchased 25 *per cent* of the original order quantity for the three items[25] i.e 2,800 MTs through repeat order against which it placed (1 May 2012) repeat order for only 700 MT of MS Angle 65x65x6 mm. The purchase order for new tender was also placed (21 May 2012) with PRRPL itself at higher rates. The difference in the prices of these three items in the new tender was higher by ₹ 6,465 to ₹ 7,380.67 per MT leading to an avoidable expenditure of ₹ 1.39 crore [26].

The Management/Government in their reply stated (June/July 2015) that the Competent Authority decided to procure 700 MT of MS Angle 65x65x6 mm in view of urgent requirement. It also stated that the repeat order clause is generally exercised to procure shortfall of requirement and delay in next tender but it cannot be used for hedging the price.

The reply is not convincing as the spirit of insertion of the clause is to enable the Company to procure more quantity in case requirement arises and an increasing price trend was on record with the Management. Therefore, the contention that the material was not required at that time is not acceptable. The Management is expected to safeguard its financial interests, which in the instant case was not done.

Metro Link Express for Gandhinagar and Ahmedabad Company Limited

4.7 Infructuous expenditure on metro project undertaken without approval and in violation of procedures

Introduction

4.7.1 The concept of Metro-Rail connectivity between Ahmedabad and Gandhinagar was under consideration by Government of Gujarat (GoG) from 2005. The project report originally prepared by DMRC[27] (2005) and the proposed route was deliberated at various levels of the GoG and the following route was finalised (June 2012) by the Committee of Ministers.

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25 2,425 MT of MS Angle 65x65x6 mm, 267.5 MT of MS Round Bar 16 mm and 107.5 MT of MS Flat 50x6 mm.

26 Difference in price for MS Angle 65x65x6mm X difference in quantity for repeat order which is 25 *per cent* of the original quantity less 700 MT at ₹ 6,465 X 1,725 = ₹ 1,11,52,125; Difference in price for MS Round Bar 16 mm and MS Flat 50x6 mm X 25 *per cent* of the original quantity ₹ 7,380.67 X (267.5+ 107.5) = ₹ 27,67,751. The total difference works out to be ₹ 1.39 crore.

27 Delhi Metro Rail Corporation.

Table 4.6: Route finalised by the Committee of Ministers

Sl. No.	Section Name	Length (in Km) (Broad Gauge)			No. of Stations
		Elevated	Underground	Total	
1	Line 1A: Ahmedabad Electricity Company (AEC) to Akshardham (Phase I)	23.10	nil	23.10	16
2	Line 1B: AEC to Agricultural Produce Market Committee (APMC) (Phase II)	nil	20.70	20.70	13
3	Line 2: Mahalaxmi to Ranip (Phase II)	8.70	1.30	10.00	8
4	Line 3: Civil Hospital to Jamalpur (Phase II)	13.60	3.80	17.40	9
5	Line 4: AEC to Airport (Phase I)	6.20	nil	6.20	3
6	Line 5: *CH*-3 to Mahatma Mandir (Phase I)	3.63	nil	3.63	2
	Total (Rounded to the nearest decimal)	**55**	**26**	**81**	**51**

Source: Project report of BARSYL

For the purpose of the implementation of the project and effective coordination, Metro Link Express for Gandhinagar and Ahmedabad Company Limited (MEGA Company) was incorporated by the GoG in February 2010 and a High Level Committee[28] was constituted in August 2011 for effective coordination and implementation of the Metro Project. Based on the above route finalised, the new Draft Project Report (DPR) was prepared by BARSYL and six other consultants in August 2012. The DPR was approved by the Board of Directors (BoD) of MEGA Company in December 2012. The estimated cost of the project as per the DPR was ₹ 15,789 crore.

The High Level Committee suggested (July 2013) to revise the above DPR so as to cover areas in and around Ahmedabad city *viz.*, Motera-Memco, APMC–Visat Extension and Vadaj–Memco in Phase-I. It was also proposed that Phase I would be completed by 2018 and then metro connectivity to Gandhinagar, GIFT City, Airport and other places would be covered in subsequent phases. In Phase-I GoG approved two corridors *viz.*, (i) North South Corridor and (ii) East West Corridor with a total length of 35.2 kms (approx.) including 28.2 kms elevated and 7.0 km underground having 32 stations along the route. The DPR for the revised Phase I was prepared by DMRC with a project cost of ₹ 10,773 crore and approved by GoG and GoI (April 2014 and November 2014 respectively). The BoD accorded (5 March 2015) its approval for conversion of MEGA Company into a Joint Ownership (50:50) Special Purpose Vehicle between GoI and GoG. In the revised Phase I, General Engineering Consultant for Ahmedabad Metro Rail Project, Detailed Design Consultants for other works have been selected and the work has since started (May 2014).

[28] Principal Secretary, UD&UHD as Chairman and 12 members – Chairman (MEGA), Municipal Commissioner (Ahmedabad), Chief Executive Authority (Ahmedabad Urban Development Authority), Chief Executive Authority (Gandhinagar Urban Development Authority), Superintendent of Police, Gandhinagar, Dy. Commissioner of Police (Traffic-Ahmedabad), Municipal Commissioner (Gandhinagar), representatives of DRM (Ahmedabad), representatives from Torrent Power/UGVCL, representatives from BSNL, representatives from GIFT Co. Ltd. and representatives of other utilities *viz* Gas, Telecom etc. stationed in Ahmedabad/Gandhinagar (as may be invited by the Chairman).

Even before the DPR was prepared (August 2012) by BARSYL and approved by the BoD (December 2012), the MEGA Company started issuing purchase/work orders for the same from June 2011. A total of 1,868 orders were issued (June 2011 to September 2013) at a total cost of ₹ 583.89 crore out of which 672 work orders (valuing ₹ 200.68 crore) regarding planning, alignment, designing, consultancy services and material procurement were issued before the approval of DPR by BoD and remaining 1,196 work orders (valuing ₹ 383.21 crore) regarding earth filling materials, casting yard, construction of diaphragm and retaining wall etc., were issued after the approval of DPR by BoD but before approval of project report by GoG and GoI. Except the general orders for planning, alignment and designing, all the other orders were for the depot sites of Motera, Indroda and Chiloda. For this phase, the GoG infused (May 2011 to March 2014) Share Capital of ₹ 1,100 crore in the MEGA Company and the Company further arranged loan aggregating to ₹ 466 crore from Vijaya Bank (₹ 250 crore), Punjab National Bank (₹ 116 crore) and United Bank of India (₹ 100 crore) in March and June 2013.

The above works were stopped in September 2013 as a consequence of the change in routes and the Company had incurred expenditure of ₹ 445.86 crore till March 2015 on the above abandoned phase. We reviewed 811 work orders (earth filling work – 352, labour work – 258, design/planning – 24, material – 142 and retaining wall – 35) valuing ₹ 388.66 crore covering the above areas.

Audit Findings

Purchase procedure

Purchase manual and purchase policy

4.7.2.1 As per the documents available on record, there was no approved purchase manual, purchase procedure or delegation of powers for issue of purchase orders and work orders from June 2011 to September 2012. In September 2012, the BoD of MEGA Company approved adopting the purchase procedure of Gujarat State Petroleum Corporation Limited (GSPC). The procurement manual of GSPC laid down the following procedure for procurement of goods and services:

Table 4.7: Procedure for procurement as per GSPC procurement manual

Value (in $ or ₹ equivalent)	Purchase Method
Less than $ 500	Without any formal enquiries
More than $ 500 but less than $ 50,000	Purchase against Hand Quotations from minimum three suppliers
More than $ 50,000 but less than $ 5,00,000	Limited Tender from pre-qualified suppliers
More than $ 5,00,000	Global Tenders

Source: GSPC Procurement Manual

Out of total 1,868 work orders, 494 work orders (valuing ₹ 170.82 crore) regarding planning, alignment, designing, consultancy services and material procurement were issued before adopting GSPC procurement manual and remaining 1,374 work orders (valuing ₹ 413.07 crore) regarding earth filling materials, casting yard, construction of diaphragm and retaining wall etc., were issued after adopting GSPC procurement manual.

We reviewed 165 orders valuing ₹ 101.72 crore (ranging from ₹ 2.12 lakh to ₹ 738.65 lakh) issued prior to September 2012 and 646 orders valuing ₹ 286.94 crore (ranging from ₹ 1.53 lakh to ₹ 910 lakh) issued after September 2012. We observed that prior to September 2012, 88 orders valuing ₹ 68.17 crore were issued by inviting quotations from local suppliers and 77 orders valuing ₹ 33.55 crore were issued on nomination basis. It was also observed that after September 2012, 201 orders ranging from ₹ 1.53 lakh to ₹ 456.65 lakh were issued on nomination basis though as per the GSPC manual only contracts up to ₹ 30,000 could be issued on nomination basis. Further after September 2012, 445 orders ranging from ₹ 4.20 lakh to ₹ 910 lakh were issued by inviting quotations from local suppliers. As per the GSPC manual only orders up to ₹ 30,00,000 (Approximately) can be issued through hand quotations from three suppliers. However, Audit observed that the Company had issued 343 orders valuing ₹ 242.63 crore (ranging from ₹ 30.17 lakh to ₹ 910 lakh) by inviting quotations from local suppliers.

The Management/Government replied (September 2015/November 2015) that from September 2013 onwards, the new Management of the Company is following the CVC guidelines for all the procurements and the same are based on laid down delegation of powers through a transparent open tendering system. It was further stated that the Company takes care of provisions regarding security deposit/performance guarantee/liquidated damages to ensure timely completion. Further, they had also initiated action against the officials responsible for the issue raised in audit for period prior to September 2013.

Estimation of requirement in work orders

4.7.2.2 The Company had not estimated the total requirement of cement, sand, murrum, rubble, boulder, *grit kapchi*, metal, steel etc., before placing procurement orders nor the work required to be executed before placing orders for labour contracts, earth filling work or other civil works. The orders for material procurement did not specify the site at which the delivery of procured material had to be made or at which site the work was to be executed. The orders other than design contracts which were given on nomination basis were split into orders of varying value; the range of which is tabulated below:

Table 4.8: Orders other than design contracts split into smaller values

Nature of contract	Period of contract	Number of orders issued	Monetary range of orders (₹ in Lakh)	Total order value (₹ in crore)
Material	June 2012 to April 2013	142	4 to 381	120.60
Earth filling	April 2013 to July 2013	352	4.20 to 196.91	176.80
Labour	January 2012 to May 2013	258	1.53 to 9.76	20.34
Total		**752**		**317.74**

Source: Compiled from information provided by the Company

As seen from the table, 752 orders were issued for a total value of

₹ 317.74 crore ranging from ₹ 1.53 lakh to ₹ 381 lakh in respect of individual orders. No justification was on record for such high variation in the orders.

The Management/Government in their reply (September/November 2015) accepted the facts for work done prior to September 2013.

Reasonability of rates for awarded works

4.7.2.3 In absence of proper purchase procedure, the reasonability of the rates at which the above contracts were awarded could not be vouchsafed in Audit. In respect of earth filling contracts and construction of retaining wall, which were awarded by calling limited number of local suppliers, we observed that the contracted rates were higher (31.25 *per cent* to 374.58 *per cent*) than the prevalent schedule of rates (SOR) of the Roads and Building Department. In respect of 371 orders awarded during February 2013 to July 2013 under the above categories, the cost was higher by ₹ 40.16 crore[29]. In respect of material procurement contracts for period prior to January 2013, such comparison could not be made in Audit as the rate was inclusive of loading, transportation and unloading and therefore could not be compared with SOR rates which were only for material.

The Management/Government replied (September/November 2015) that the BoD had constituted (September 2013) a Committee of Approval to review approvals/sanctions and take appropriate decisions. Further, the Management constituted (December 2013) a Technical Unit (TU) headed by a Chief Engineer of the R&B Department to render technical advice. The Company has decided to make recovery according to Reasonable Rates (RR) by applying the rates throughout the contract. Eight agencies engaged by the then management of the Company for retaining wall have filed an arbitration petition in Public Work Contract Dispute Arbitration Tribunal, Ahmedabad.

Distribution of quantity among work orders

4.7.2.4 In absence of a clear cut purchase policy there was no rule/provision for quantity allocation between parties. There was wide variation in quantity distribution among individuals in the same order as well as different orders. The quantity distribution in respect of material procurement is tabulated below:

[29] Earth filling - ₹ 33.52 crore and Construction of retaining wall - ₹ 6.64 crore.

Table 4.9: Quantity distribution in respect of material procurement

Name of Material	Number of Orders	Period of orders	Total Order Quantity	Range of quantity distribution	Total value of orders (₹ in crore)
Boulder	25	June 2012 and September 2012	75,150 Brass[30]	150 to 10,000	20.44
Rubble	11	September 2012 and October 2012	66,200 Brass	500 to 14,000	17.98
Sand	12	July 2012	59,100 Brass	3,800 to 6,300	11.49
Cement	9	July 2012	1,32,500 Bag	2,600 to 40,000	3.38
Matipuran	24	August 2012, September 2012 and January 2013	6,53,750 cu m	7,500 to 1,25,000	17.52
Grit Kapchi	4	July 2012	1,595 Brass	30 to 1,000	2.17
RMC[31]	18	October 2012 to April 2013	51,980 cu m	975 to 4,650	24.36
Steel	38	July 2012 to July 2013	3,182.16 MT	9 to 466	14.16

Source: Compiled from information provided by the Company

No justification was on record for allocation of different quantities among the various parties.

Quantity allocation to ineligible parties

4.7.2.5 We also observed in respect of six[32] parties that the Gujarat Commercial Tax Department had cancelled their Taxpayer Identification Numbers (TIN) during the period March 2012 to April 2013. However, the Company had issued orders of ₹ 24.89 crore to these Companies even after the cancellation of TIN.

As per prevailing practices in Government Companies, purchase orders are not awarded to firms not having TIN as payment of invoice value with tax to a party with registered TIN only can ensure that the tax amount reaches the Government.

The Management/Government in their reply (September/November 2015) accepted the fact.

Execution of orders

4.7.3 The Company did not have a system of maintaining measurement books for works done or stock registers for materials procured other than cement and steel. As the orders placed also did not specify where the material was to be delivered or work to be done, Audit could not vouchsafe the expenditure of ₹ 445.86 crore booked in the accounts up to March 2015 in respect of these contracts. However, the following were observed in respect of the execution of works:

Policy for grant of mobilisation advance

4.7.3.1 Mobilisation advance was mainly given in contracts for fabrication, consultancy, planning & review, retaining wall construction and agency

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[30] 1 brass = 4.528 metric tonne.

[31] Ready Mix Concrete

[32] Mahir Mehta Steel Traders Pvt. Ltd., Sinni Steel Pvt. Ltd., Kaizan Technowizard, Strength Construction, Ultra Power Infrastructure and Span Technowizard.

contracts. In the 50 orders that we test-checked in Audit, it was observed that the mobilisation advance given ranged from 10 to 30 *per cent*. Due to stoppage of work, an advance of ₹ 23.12 crore was pending for recovery in case of 39 orders.

For the purpose of executing certain works like casting yard, depots, building works, bridges etc., the Company awarded four agency contracts[33] called engagement mechanism contracts. These agencies could hire sub-contractors for execution of the works and recover the cost of the works along with project management charges from the Company. The agencies were also entitled for mobilisation advance at 10 *per cent* of the works contracts awarded by them. The formal engagement mechanism contracts awarded to HPL, HSWCL, BRCL and WAPCOS were not available on record. In respect of HPL, HSWCL and BRCL adhoc mobilisation advance of ₹ two crore each was released without any work contracts being submitted by them. WAPCOS was released mobilisation advance of ₹ 12.71 crore, based on two works contracts of ₹ 151.99 crore awarded by them. Recovery of the above amount of ₹ 18.71 crore released (March 2013 to August 2013) to the four engagement mechanism contractors was pending for recovery (September 2015).

The Management/Government replied (September/November 2015) that the Company has initiated recovery of advances wherein slight progress has been made. It was further stated that in case of WAPCOS an arbitrator has been appointed and hearing is going on.

Maintenance of stock registers for materials

4.7.3.2 Audit observed that no stock register in respect of sand, *matipuran*, rubble, boulder, *grit kapchi* and metal was maintained in respect of which orders worth ₹ 78.70 crore were placed during the period from June 2012 to January 2013. Further, there was no record of quantity received and/or quantity consumed. During test check in Audit, it was observed that in respect of cement, 1,32,500 bags worth ₹ 3.38 crore were ordered and paid (July 2012) based on certificate of receipt, but details of only 2,650 bags were mentioned in the stock register. No record of the receipt and utilisation of the remaining 1,29,850 bags of cement valuing ₹ 3.22 crore was available.

The Management stated (July 2015) that it is initiating departmental action against the concerned officials in respect of the material items of cement, sand, metal, *matipuran*, rubble, boulder and *grit kapchi* by issuing show cause notice.

In respect of reinforced bars, out of 2,579 MTs certified as received and paid for, 1,783 MTs were shown as consumed in the work and 30 MTs was sold as scrap. However, the details of the remaining quantity of 603 MTs were not available on record. It was also noticed in Audit that the shortage of 603 MT valuing ₹ 2.62 crore was in respect of six vendors[34]. The Company has filed an

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[33] Hindustan Prefab Ltd (HPL), Hindustan Steel Works Construction Ltd (HSWCL), Bridge & Roof Company India Ltd (BRCL) and Water & Power Consultancy Services (WAPCOS).

[34] Riddhi Steel Corporation, Mahir Meta Steel Traders Pvt. Ltd., Sinni Steels Pvt. Ltd., Riya Enterprises, Varahi Sales Corporation and Avani Enterprises.

FIR (December 2014) against some officers of the Company for the same. In absence of proper stock records and registers the actual receipt, issue and balance of stock could not be vouchsafed in audit.

The Management/Government (September/November 2015) stated that the show cause notices have been issued to concerned officials and also major penalties were imposed in many of the cases in addition to the criminal actions initiated against many officials.

Adequacy in the terms and conditions of the work orders

4.7.3.3 Audit observed that:

- The material orders issued in respect of cement, sand, rubble, *matipuran*, boulder, rubble *grit kapchi*, steel, and metal did not specify where the material had to be delivered.
- Out of the 811 orders test checked in Audit, 806 orders did not have provision for security deposit or bank guarantee or penalty clause for non-performance.
- In 258 labour contracts awarded for ₹ 20.34 crore during the period July 2012 to May 2013, the orders did not mention where the work had to be done, what was the nature of the work, or how the labour rate was worked out. It was also not clear how the labour contractors were selected.

Thus, the Company had not included even basic terms and conditions like place of delivery, security deposit and bank guarantee clause and place of work in material and labour contracts. To that extent the terms and conditions were inadequate.

The Management replied (July 2015) that it was initiating departmental action against the concerned officials in respect of the above labour work. The Management/Government in their reply (September/November 2015) have also accepted the observation for works done up to August 2013.

Unilateral reduction in credit period for payment

4.7.3.4 Audit observed that:

- In respect of steel procurement worth ₹ 2.41 crore though the approval note stated the terms of payment to be within seven days of delivery, the order issued stated it as payment against delivery. The Company therefore had unilaterally foregone the available credit period of seven days.
- In respect of metal procurement though quotation submitted by the lowest bidder required payment within 15 days from delivery, the order required payment within one or two days of invoice submission. The Company had unilaterally foregone the credit period of 13 days for the amount of ₹ 9.10 crore.
- Similarly in case of rubble, as per the quotation received from the lowest bidder, payment was to be made within 30 days from delivery. This was

changed in the order to payment within seven days of delivery. Resultantly, Company lost credit period of 23 days for the amount of ₹ 12.84 crore.

Thus there was promptness in payment despite inadequacy in terms and conditions of work orders.

Payment Procedures

4.7.4 A total of 700 vouchers relating to planning & review, consultancy, rubble, cement, *matipuran*, sand, *grit kapchi*, TMT bars, boulders, earth filling, labour etc., were test checked in audit.

In respect of material procurement and earth filling contracts, payment was released based on the certificate[35] of quantity receipt and value given by the Sr. Manager Construction. The certificate did not mention the truck number through which the quantity was received or the place where it was received. As per the standard operating procedure prescribed by the Company (March 2012) for payments, even copies of signed measurement books, progressive sheet of payment were not mandatorily required to be attached with the invoices.

Audit further observed that pre audit of invoices was not compulsory and hence was not done in any case. It was also observed that while making payment in respect of labour contracts the Company had not ensured the attachment of abstract sheets showing the place where the work was carried out, name of site and number of labourers engaged in the work. The payments were made on the basis of quantity and rate mentioned by the contractor.

The above deficiencies went unnoticed due to the weak internal controls in the system.

Avoidable drawal of loan

4.7.5 The Company availed (28 March 2013) loan of ₹ 250 crore from Vijaya Bank at the interest rate of 12 *per cent* per annum, ₹ 116 crore from Punjab National Bank (29 June 2013) at 11.50 *per cent* per annum and ₹ 100 crore from United Bank of India (29 June 2013) at 11 *per cent* per annum for financing the Metro project as initially proposed. In view of cancellation (September 2013) of the earlier proposed Phase-I, the said loan was repaid (November 2013). We observed that as on March 2013 the Company was having ₹ 235.82 crore[36] in fixed deposits and ₹ 80.87 crore[37] in current accounts. Further, the loan received from the banks was also deposited in fixed deposit with the same banks at interest rate lower than the interest paid on availed loan. This resulted in avoidable interest loss of ₹ 12.93 crore

[35] The standard format of certification was "This is to certify that goods, materials, items mentioned in the invoices are received as per purchase order and as per requirement. Payment claimed in the invoice is in line with the required standards. Hence the invoice is recommended for payment".

[36] Central Bank of India, ICICI Bank, Indian Overseas Bank, United Bank of India (₹ 50 crores in each bank), State Bank of India and Bank of India (₹ 35.82 crore).

[37] SBI (₹ 61.40 crore), ICICI Bank (₹ 18.83 crore) and Axis Bank (₹ 0.64 crore).

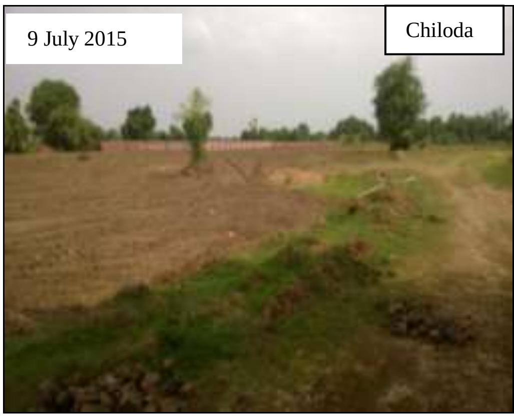
during April 2013 to November 2013 in view of the fact that project was yet to be approved and GoG fund was already available for incurring expenditure.

The Management/Government replied (September/November 2015) that the new management of the Company, upon taking over the charge of the Company, has reviewed the issue and repaid the term loans in November 2013 to discontinue the loss.

Infructuous expenditure

4.7.6 The Company incurred an expenditure of ₹ 445.86 crore towards alignment & planning expenditure, construction of depots & bridges, casting yard, rolling stock, protection wall and survey & data collection for the old Phase I which was subsequently scrapped. Out of the above expenditure, an amount of ₹ 373.62 crore was incurred towards various kinds of expenditure in the three sites at Motera, Indroda and Chiloda which were to be used as depot, casting yard and test track site. In the new Phase I route, these three depots do not figure in the approved route and for the purpose of depot, casting yard and test track, the sites of Vasna and Apparel Park have been approved. Therefore, the expenditure on the earlier three sites is likely to be infructuous.

Picture 4.1



Picture 4.2

Picture 4.3

(Showing works done in three depots)

The Management/Government stated (September/November 2015) that the sites at Motera, Chiloda and Indroda will be used in the subsequent phase when connectivity to Gandhinagar will be given. The land at Motera has been acquired (March 2015) and the same will be utilised for property development. The expenditure incurred on utility shifting and earth filling will not be infructuous as the sites would be used in Phase II.

The reply is not convincing because at Indroda and Chiloda though expenditure has been incurred no land is in the possession of the Company. Further, Audit observed that the BoD in September 2015 has resolved that out of an amount of ₹ 527.88 crore lying under capital work in progress, ₹ 355.80 crore pertaining to the old phase should be taken out of the Balance Sheet by March 2016. This shows that the major expenditure pertaining to the scrapped phase will not remain in the books of accounts after March 2016 and thus would be infructuous.

Conclusion and Recommendation

4.7.7 The Company had awarded 1,868 work orders for the earlier phase of metro project which was subsequently scrapped. The work of earlier phase was stopped in September 2013 due to non receipt of approval from GoI and GoG and expenditure of ₹ 445.86 crore was incurred on the abandoned phase upto March 2015.

The Company incurred an expenditure of ₹ 373.62 crore on the development of Indroda, Motera and Chiloda site under the earlier phase without the approval of DPR. As the earlier phase was scrapped and the expenditure incurred could not be used in the new phase under progress, it resulted in infructuous expenditure of ₹ 373.62 crore.

- ***The Company may ensure that projects are not undertaken without proper approval of DPR as non-approval can render infructuous expenditure incurred on areas not approved.***

Statutory Corporations

Gujarat State Road Transport Corporation

4.8 Public Private Partnership (PPP) projects in GSRTC

Introduction

4.8.1 Gujarat State Road Transport Corporation (Corporation) was incorporated on 01 May 1960, under Road Transport Corporation Act, 1950 to provide adequate, safe, efficient, economical, comfortable and properly co-ordinated road transport facilities to the travelling public all over the State. The Corporation is under the administrative control of the Ports and Transport (P&T) Department of the Government of Gujarat (GoG). GoG authorised (October 2005) Gujarat Industrial Development Board (GIDB) along with P&T Department and Infrastructure Leasing & Financial Services Limited (IL&FS) to finalise the terms of proposal for adoption of Public Private Partnership (PPP) mode to modernise its transport infrastructure by improving existing bus terminals/constructing new bus terminals subject to approval by the Board of GIDB. Based on the proposal submitted by IL&FS, GIDB approved (December 2005) undertaking studies for development of seven bus terminals[38] as identified by the Corporation in the first phase. The Corporation appointed (February 2006) IL&FS as the consultant for conducting the survey in these seven bus-stations, preparing the request for proposal (RFP) documents, carrying out the tenderisation process and scrutiny and evaluation of the tender documents.

PPP model and the cost benefit envisaged

- The PPP mode approved and adopted envisaged granting of rights to selected private developer (Concessionaire) to develop two distinct facilities, *viz.*, the Bus Terminal Facility (BTF) and the Commercial Facility (CF) on build, operate and transfer (BOT) basis at the Corporation’s existing bus stations premises against the payment of one time lump sum concession fee to the Corporation.
- The concession period for BTF would be 31.5 years during which the Concessionaire should construct BTF within a period of 18 months as per the specifications of tender conditions and would operate and maintain BTF for the remaining period.
- Further, the Concessionaire would construct CF within the BTF area and the CF would be given on lease for commercial purpose by the Corporation through entering into lease agreements with lessees in which the Concessionaire would be confirming party. The period of lease of CF would be 90 years against consideration consisting of one time lump lease premium payable to the Concessionaire and nominal annual lease rent payable to the Corporation by the lessees.

[38] Central Bus Stand (Vadodara), Makarpura (Vadodara), Geeta Mandir (Ahmedabad), Subhash Bridge (Ahmedabad), Adajan (Surat). Lambe Hanuman (HQ premises - Surat) and Modhera Cross Road (Mehsana).

- In addition to the receipt of lump lease premium from the developed CF, during the concession period, the Concessionaire would get revenue from advertisement, parking fees and users charges for the various facilities developed within the BTF area.
- The Corporation would also get the financial benefit in the form of receipts of lump sum concession fee, annual lease rents and saving in the cost of construction of modern BTF and operation and maintenance (O&M) of BTF during the O&M period.

The bidders for the project were selected based on the evaluation of their technical and financial capabilities, project proposal[39] and the maximum concession fee offered to the Corporation. During August 2010 to May 2011, the Corporation entered into Concession Agreements (CAs) with two selected bidders for six out of the seven bus stations. The construction of two BTFs at Central Bus Stand (Vadodara) and Makarpura (Vadodara) was completed (February 2014). Construction of four BTFs at Geeta Mandir (Ahmedabad), Subhash Bridge (Ahmedabad), Adajan (Surat) and Modhera Cross Road (Mehsana) was in progress and one project at Lambe Hanuman (Surat) was not been taken up (March 2015). Details of all the six projects taken up in the first phase under PPP are given in ***Table 4.10*** of ***paragraph 4.8.3***. The Corporation had also identified (March 2012) 14[40] more Bus Terminals which were under bidding process (March 2015).

Under the PPP structure envisaged by the Corporation, in return for giving commercial right to private developers on its existing land it got a modern bus terminal facility with free maintenance for a period of 30 years and also a lumpsum concession fee. The photographs of two completed bus stations are shown below:

Picture 4.4 Showing the completed Central Bus Station at Vadodara

39 Showing conceptual layout, quality assurance plan, innovation in design, project implementation schedule and operation & maintenance plan.

40 Bhavnagar, Amreli, Rajkot, Surendranagar, Bharuch, Bhuj, Patan, Junagadh, Jamnagar, Kadodara, Navsari, Nadiad, Porbandar and Anand.

Picture 4.5 Showing the completed Makarpura Bus Station at Vadodara

Audit scope and objectives

4.8.2 Audit was conducted to assess whether the selection of projects for PPP in the first phase was based on proper assessment of requirements and existing conditions; the tendering process was transparent; the project execution was timely and effective and the contracts entered into safeguarded public/Government interest. Implementation of the two projects *viz.*, Geeta Mandir (Ahmedabad) and Subhash Bridge (Ahmedabad) which were in progress, and two projects *viz.*, Central Bus Stand (Vadodara) and Makarpura (Vadodara), which were completed, were examined in detail in audit.

Audit Findings

Tender Process

4.8.3 For selection of bidders, the Corporation had issued Expression of Interest (EOI) advertisement in leading newspapers (May and June 2006) to select bidder based on their experience and net-worth. Total 37 out of 56 parties who submitted their EOI document qualified. Request for proposal (RFP) was issued (February 2007) to 37 bidders. Pre proposal conference was held in the same month. Only four bidders submitted the technical and financial bid (September 2007). The Technical proposal was opened (September 2007) and the same was evaluated by technical committee[41] formed by the Corporation by assigning marks for technical/financial capability and project proposal as laid down in the RFP. Three[42] out of four bidders qualified and their financial proposals were opened in the same month. The bidders who offered to pay highest amount of concession fees were selected. Accordingly, two parties were selected and the Letters of Intent (LOI) were issued from November 2009 to May 2010 for award of all the six bus stations. The Concession Agreements (CAs) were entered into between

[41] The technical committee consisted of three members from the Corporation viz., 1) General Manager (G) – Chairman 2) Chief Accounts Officer & Financial Advisor – Member 3) Chief Civil Engineer – Member. Besides officials from IL&FS, IDC, experts from CEPT University and GIDB Officials also assisted the technical evaluation committee.

[42] Aakruti Nirman Limited, Mumbai **(Akruti)**, Parshavnath Developers Limited, New Delhi **(Parshavnath)** and Consortium of SREI-Kolkata, Cube Construction Engineering Limited, Vadodara and Shristi Infrastructure Development Corporation Limited, New Delhi **(Cube consortium).**

the Corporation and the Special Purpose Vehicles (SPV) constituted by the bidders for each of the projects between August 2010 and May 2011. Each and every stage stated above had the approval of GIDB and the GoG. Further details in this regard are given below:

Table 4.10: Details of the Concession Agreements

Particulars	Geeta Mandir (Ahmedabad)	Subhash Bridge (Ahmedabad)	Central Bus Station (Vadodara)	Makarpura (Vadodara)	Adajan (Surat)	Modhera Cross Roads (Mehsana)
Name of bidder	Aakruti Nirman Limited Mumbai	Consortium of CCEL, SREI & Shristi	Consortium of CCEL, SREI & Shristi	Aakruti Nirman Limited Mumbai	Aakruti Nirman Limited Mumbai	Aakruti Nirman Limited Mumbai
Name of SPVs	M/s Hubtown Bus[43] Terminal (Ahmedabad) Pvt. Ltd	M/s Sancube Infra Projects Pvt. Ltd.	M/s Sancube Infra Projects Pvt Ltd.	M/s Hubtown Bus Terminal (Vadodara) Pvt. Ltd	M/s Hubtown Bus Terminal (Adajan) Pvt. Ltd	M/s Hubtown Bus Terminal (Mehsana) Pvt. Ltd
Project Area in Sqm as per CA	60,159	22,000 plus 3,000	20,309	25,362	26,473	87,410
Built up area of BTF in sqm as per CA	20,800	12,200	5,700	5,800	6,000	13,200
Floor space index as per CA	1.8	1.8	2.0	1.6	1.8	1.2
BTF total project cost (₹ in crore)	28.56	22.58	9.33	8.73	8.60	15.94
Concession fee (₹ in crore)	41.00	22.96	10.51	8.00	19.00	25.00
LOA issued	18-05-10	18-05-10	13-11-09	13-11-09	13-11-09	13-11-09
Master plan approval	10-05-11	07-12-10	11-01-11	22-06-10	22-06-10	22-06-10
Date of CA	12-05-11	07-12-10	26-08-10	26-08-10	26-08-10	26-08-10
Schedule Completion date of the project	08-06-13	06-01-13	28-12-12	15-01-13	06-12-12	02-01-13
Date of commissioning	---	---	14-02-14	14-02-14	---	---

Source: Compiled by Audit from documents provided by the Company

On scrutiny of tender process audit observed the following deficiencies:

Deficiency in the terms of RFP

4.8.3.1 As per Clause 2.2 of the Model Concession Agreement (MCA), the Concession Period for BTF would be 31.5 years from Compliance Date including construction period of 18 months. Audit is of the opinion that the Clause is not in the interest of the Corporation because considering the concession period from the Compliance Date instead of from the actual construction completion date of BTF, the period of O&M of BTF would be reduced for the period from Compliance Date to actual date of completion of BTF. To quote an example the scheduled date of completion of Makarpura (Vadodara) bus terminal was 15 January 2013, however, it was completed on 14 February 2014. Consequently, the concessionaire will have to operate and maintain the BTF for only 28 years and 11 months. This would reduce envisaged O&M benefits to the Corporation for all the six projects for the

[43] Previously known as M/s Aakruti City Bus Terminal (Ahmedabad) Pvt. Ltd.

delayed period to the extent of ₹ 83.50 lakh[44] till August 2015.

The Management stated (August 2015) that the Corporation has liberty to extend the construction period with terms and conditions it deems fit, which means it can (a) ask for 30 years of operations period as envisaged and (b) get compensation from concessionaire for any delay in completion which may affect Corporation's operation.

The reply is not acceptable as Clause 9.5 of CA which deals with construction period and Liquidated Damages does not make any reference to operation period which is covered under Clause 2.2 of the MCA. The liberty given under Clause 9.5 can be applied only with reference to provisions in that Clause and not be linked with provisions of Clause 2.2 wherein operation period is clearly defined as 31.5 years from the Compliance Date. Further, there is no precedent of the Corporation having used its liberty as stated in the reply.

Undue favour due to post tender change in conditions

4.8.3.2 Transparent tender procedures require that conditions offered to the bidders at the time of bidding should not be subsequently changed at the time of awarding the contract as it goes against the principle of giving a fair level playing ground to all bidders. We observed that certain important conditions of the MCA were changed prior to awarding of contract as discussed below and some of them were conditions which the Corporation had refused to change at the pre-proposal conference.

- As per Clause 10.5(a) of the MCA read with Form L of instructions to bidders, the concessionaire was to pay 25 *per cent* of Concession Fees (₹ 31.62 crore) within 21 days after issue of Letter of Acceptance (LOA). This was modified during negotiation with successful bidders after they refused to accept the LOI issued in February 2009. As per the CA, the Concessionaire was to pay five per cent of concession fees within 21 days from the date of LOA issue and balance 20 *per cent* within 21 days from the date of finalisation of Conceptual Master Plan[45] (CMP) by the Corporation. The change in condition led to interest loss of ₹ 2.15 crore[46] to the Corporation on initial payments of 25 *per cent* of Concession Fees.

  The Management stated (August 2015) that the PIC decided to form a Technical Evaluation Committee to review the Master Plan prepared by the bidders due to representation made by various bidders. The bidders were obliged to comply observations by Technical Evaluation Committee. Since this was not part of RFP and Master Plan was not finalised during

[44] The above calculation has been done based on the NPV of the yearly O&M cost as worked out by IL&FS multiplied by the period of delay till August 2015.

[45] Conceptual Master Plan is the foundation that translates the vision into a graphic footprint for the entire project. It defines the concept, establishes a base-line for development potential and creates a base map illustrating the limiting factors and opportunities in the chosen site and surrounding areas. It includes site inventory, constraint and opportunity mapping, parking concepts, phasing concepts, character sketches, project programming, aerial rendering of site etc.

[46] Difference of days between due date as per RFP and due date as per CA x SBI PLR (12.50) x 20 *per cent* of the concession fees.

issuance of LOA, appropriate changes were made in payment of Concession Fees.

The reply is not acceptable as there was no Technical Evaluation Committee formed by PIC as per records of the Corporation. As per records of the Corporation, based on representation received from selected bidders, PIC decided on the issue with the approval of GoG.

- Further as per the above Clause, the balance 75 *per cent* of concession fees (₹ 94.85 crore) was to be paid in three equal instalments within 18 months from the signing of CA. This Clause was also modified at the request of the successful bidders to 18 months from approval of Conceptual Master Plan. Further, this could be extended up to 36 months upon request from bidders. The RFP had a scheduled date (i.e., 21 days from issue of LOI) for signing of CA to be entered into but there was no time limit for approval of CMP thereby giving an undue benefit to the successful bidders.

  The Management stated (August 2015) that due to economic conditions prevailing at that point of time, various bidders had represented to allow extension of time period for payment of concession fee. The Corporation represented the case to GoG and PIC, having representative from various Departments of Government, who decided to allow extension for payment of concession fees with provision to pay interest.

  The reply is not convincing as the time extension was given to only selected bidders instead of all participating bidders resulting in an undue benefit to selected bidders when compared to the provisions of RFP based on which price quotation was given.

- In the RFP (Volume III – schedules) total project area (i.e. land area) was designated as 58,370 sqm for Geeta Mandir, 24,077 sqm for Makarpura, 21,160 sqm for Adajan and 86,280 sqm for Modhera Cross Road. On the basis of the same the developers had quoted the concession fees. However, at the time of signing of CA, the total project areas were increased to 60,159 sqm for Geeta Mandir; 25,362 sqm for Makarpura; 26,473 sqm for Adajan and 87,410 sqm for Modhera Cross Road but the BTF area was kept the same as per the RFP schedules. This resulted in increase in the commercial facility area to the Concessionaire in the range of 1,356 sqm to 9,563 sqm.

  In the case of Subhash bridge, on providing excess built up area to the Concessionaire, the premium was calculated (approved by Project Implementation Committee) by considering the total benefit to the Corporation as the total of concession fees, BTF cost and Operation and Maintenance expenditure during the CA. This benefit was then divided by the Built Up Area (BUA) available in the CF to arrive at the per sqm FSI valuation. Based on this valuation, the premium for additional CF area was calculated. On the same formula the Corporation had lost premium of

₹ 13.14 crore[47] on the four bus stations mentioned above due to allowing additional area in the CA, not envisaged in RFP.

The Management stated (August 2015) that corrigendum was issued to all bidders and the same was clarified during the pre-bid meeting (February 2007) and was finalised in the Concession Agreement.

The reply is not tenable as no records were available which showed corrigendum having been issued to all bidders. Minutes of pre-bid meeting contained no such clarification of changes in area in respect of the four projects. The Corporation has furnished copy of corrigendum issued to M/s Akruti Nirman Limited which shows area as per Corporation's record and as per survey. Even the fact that the area given in RFP would now be substituted by the area mentioned in the corrigendum was not mentioned. Thus, it is concluded that due to non-clarification about the area either at pre-bid meeting or in corrigendum, the Corporation could not get benefits of concession fees for the additional area. Further DLF Limited, one of the four bidders, who had quoted for all the six projects had issued a Power of Attorney (September 2007) in connection with the bid mentioning the area of all the six projects as per RFP which evidences the fact the corrigendum of changed area was not issued prior to price bid.

- As per Clause 10.4 of the MCA, the parties had to open an Escrow Account (A/c) with the bank by the Compliance Date and all inflows and outflows of cash and receivables on account of capital, revenue, expenditure or otherwise that arise in connection with the implementation of the project; other than concession fees payable to the Corporation and the income and expenditure of the Corporation from running of bus services had to be credited/debited to this account. This Clause was objected to in the pre-bid conference; however, the same was not deleted. This Clause was, however, diluted at the request of the successful bidders in November 2009/May 2010.

  The Management stated (August 2015) that the condition for Escrow Account had since been deleted as it was illogical and unnecessary.

  It could be seen that the Corporation deleted the condition for requirement of Escrow Account after issue of LOI and not at the RFP stage thereby denying a level playing ground to all bidders.

Violation of Clauses of Concession Agreement

4.8.4 The CA is the contract between the Corporation and the Special Purpose Vehicle created for each project by the developer in which the terms and conditions to be followed by both parties are laid down for the particular projects. Audit observed the following violations of conditions in the implementation of CA:

47 Geeta Mandir (₹ 8,576.41 x 3,220 = ₹ 2.76 crore) + Makarpura (₹ 5,460.99 x 2,056 = ₹ 1.12 crore) + Adajan (₹ 8,994.02 x 9,563 = ₹ 8.60 crore) + Modhera road (₹ 4,850.78 x 1,356 = ₹ 0.66 crore) = ₹ 13.14 crore.

Recovery of Concession fees and interest

4.8.4.1 The delay in the payment of initial 25 *per cent* of concession fees has been commented in ***paragraph 4.8.3.2***. The balance 75 *per cent* of concession fees was to be paid in three equal installments within 18 months from the date of finalisation of CMP and this could be extended up to 36 months upon request from bidders. Accordingly, concession fees of ₹ 126.47 crore was receivable in respect of the six projects implemented in the first phase. Out of this 25 *per cent* (₹ 31.62 crore) was receivable as per time schedule prescribed in Clause 10.5(a), which was duly received. Remaining 75 *per cent* (₹ 94.85 crore) was receivable within 18 months of the finalisation of the Conceptual Master Plan as per Clause 10.5(d). However, an amount of ₹ 74.35 crore was received from six projects. An amount of ₹ 23.25 crore[48] was not received from 'Akruti' for Geeta Mandir project (August 2015). The Corporation neither recovered this amount nor invoked the bank guarantee of ₹ 23.25 crore given for the purpose.

Recovery of damages for delay in construction of BTF

4.8.4.2 As per Clause 9.5(c) of the CA, if the construction of the BTF is not completed within 18 months of the Compliance Date, then Liquidated Damages (LD) at the rate of ₹ 50,000 per day of delay subject to a maximum of 10 *per cent* of the BTF cost were recoverable from the concessionaire. Audit observed (31 August 2015) that in the four projects, which were in progress, the construction progress was not as per schedule and the delay ranged from 814 to 998 days. However, the completed two projects were commissioned with a delay of 394 to 413 days. The amount of LD to be recovered was ₹ 9.37 crore[49] in respect of all the six projects (₹ 1.80 crore for completed bus stand and ₹ 7.57 crore for under progress project). The Corporation had neither recovered the amount nor raised the demand.

The Management stated (August 2015) that the Corporation had in all cases issued notices for delay and was having enough securities against the recovery of damages. But the fact remains that the Corporation has not encashed any bank guarantee to recover the damages neither had it raised any demand for liquidated damages. The securities available were against the construction performance and not against LD alone and four of the projects were still under construction.

Implementation of O&M Clause of Concession Agreement

4.8.4.3 On scrutiny of records relating to implementation of O&M Clause both of CA in respect of BTFs at CBS and Makarpura (Vadodara) both of which were operationalised on 14 February 2014, audit observed the non-implementation of the following clauses of CA so far:

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[48] It includes interest amount of ₹ 2.75 crore. The interest amount was calculated at the rate 14.45 *per cent* compounding interest on the amount of outstanding concession fess. The interest period was taken from due date to 31.08.15.

[49] In the case of Geeta Mandir the delay was 814 days as on 31.08.15, so the damages would be ₹ 4.07 crore but the BTF cost was ₹ 28.56 crore therefore the damages will be ₹ 2.86 crore. Similar calculation was done in the other five projects.

- Creating and maintaining of Corpus Fund since operation date in form of fixed deposit of ₹ 2.10 crore (10 *per cent* of BTF cost) by the developers as per Clause 4.7(a) and (c) of CA. If the Concessionaire fails in the operation and maintenance of the BTF, then the Corporation can carry out the Operation & Maintenance and recover the amount from the Corpus Fund.
- Establishment of Maintenance Board[50] as per Clause 9.9(b)(i), which was supposed to oversee the O&M of the entire project. In absence of the Maintenance Board the required monitoring of the O&M of the BTF was not there.
- Establishment of Escrow Account by the operation date as per Clause 10.4(a). In absence of Escrow Account, the Corporation was unable to identify expenditure incurred by the Concessionaire on the O&M of BTF and advertising revenue received from the BTF.
- Submission of O&M Manual as per Clause 9.7(a) of CA. In absence of O&M manual, the Corporation could not ensure operation and maintenance as per the prescribed specification and standard.
- Submission of Maintenance Programme as per Clause 9.7(b) of CA. In absence of maintenance programme the Corporation could not ensure whether the O&M was being done properly or not.
- Levy of higher parking charges than prescribed in schedule I of CA in respect of BTF at CBS Vadodara. As per complaint received from the passengers, it was noticed that the developer recovers parking charges of ₹ 10 in respect of two wheelers for just 5/10/15 minutes as against the prescribed rate of ₹ two per four hours with a maximum of ₹ six per day. Due to non following of the prescribed rate of schedule I, the passengers had to pay higher parking charges to the Concessionaire.

The Management stated (August 2015) that the establishment of Maintenance Board, opening of Escrow Account, submission of O&M Manual and Maintenance Programme are under progress. Further, in case of Corpus Fund, the Corporation has enough bank guarantees against this and in case of parking charges the instruction had been given to Divisional Controller to supervise the operation of bus terminal.

Execution of projects in progress

4.8.5 In respect of implementation of projects, it was observed that out of the seven projects tendered in the first phase, one project at Lambe Hanuman, Surat was not taken up as GoG decided to re-invite bids based on fresh valuation of land. Projects at CBS, Vadodara & Makarpura, Vadodara were completed with a delay of 413 days and 394 days respectively due to delay in mobilisation of manpower and plant & machinery by the developer/ Concessionaire. The projects at Modhera Cross Road (Mehsana), Adajan

[50] Comprising one person nominated by the GSRTC, one person nominated by the GoG, being- either the concerned District Collector or Municipal Commissioner, and one person nominated by the Concessionaire.

(Surat) and Subhash Bridge (Ahmedabad) were in progress even after 971 days, 998 days and 967 days respectively from scheduled date of completion.

The Management stated (August 2015) that the delay occurred due to negotiation at GoG level. This delay was beyond the control of Corporation.

The reply is not acceptable as the delay commented in the paragraph is delay from the scheduled date of completion. The negotiation with GoG was prior to the award of the contract and has no bearing on the delay commented above. Further, the Independent Engineer had mentioned the inadequacy of manpower and plant & machinery in his Report.

Further in the case of Geeta Mandir project, South Block has been inaugurated on 06 August 2015 though the completion certificate of the said block is pending. The North block has not been started till date.

The reasons for not taking up of North Block and other cases of undue favour noticed in the execution of the above projects are discussed below:

Execution of the project in North Block of Geeta Mandir Bus Terminal, Ahmedabad

4.8.5.1 The Corporation had entered into CA (May 2011) with Akruti City Bus Terminal Limited for the development of Geeta Mandir BTF, Ahmedabad. The BTF was to be developed in two blocks (North & South). However, the construction activity for the North Block was not started and even transition plan (detailed step by step action plan) was not submitted by the Concessionaire.

It was observed that the Master Plan had considered the development of the North Block project near the vicinity of Astodia Gate, a centrally protected monument. The master plan envisaged the construction of the project within 200 metres of the gate; hence, prior approval of Archaeological Survey of India (ASI) was required. However, the same was received in June 2012 with the validity for three years. The period of three years had already lapsed without commencement of project. Hence, the Concessionaire will have to apply for fresh permission which will further delay the project.

The Management stated (August 2015) that they had followed up for the ASI permission for North Block and pending the receipt of ASI permission for North Block, the South Block had been started.

Valuation of additional built up area in Subhash Bridge Bus Terminal

4.8.5.2 As per the RFP documents, the land area for Subhash Bridge Bus Terminal Project was 22,000 sqm having Built Up Area (BUA) of 39,600 sqm. The Concessionaire was required to provide 7,200 sqm of BUA for BTF and 5,000 sqm of BUA (Plot area 1,200 sqm) for Central Administrative Office of the Corporation. The balance BUA of 27,400 sqm available as per existing local bye-laws could be utilised by the Concessionaire for Commercial Facilities.

Subsequently, an adjoining plot admeasuring 3,000 sqm over and above the 22,000 sqm already available for the bus terminal was made available to the Corporation by GoG. The Corporation decided (April 2010) to get the Central Administrative Office constructed by the Concessionaire on this additional plot instead of constructing it in the aforesaid 1,200 sqm of land consisting of 5,000 sqm of BUA. Hence, this 5,000 sqm of BUA would now be available to the Concessionaire for CF. Therefore, the Corporation had appointed a valuer, Muzoomdar Associates Private Limited for valuing the same.

On scrutiny of Valuation Report it was observed that the valuer had estimated the Concession Fees of ₹ 7.96 crore considering saleable area of 4,320 sqm instead of 5,000 sqm BUA. However, we observed that Concessionaire was selling plots based on BUA and not saleable area. Hence, valuation should have been done considering BUA of 5,000 sqm. This resulted in less receipt of concession fees of ₹ 1.25 crore[51] by the Corporation.

The Management stated (August 2015) that the above subject has been referred to the valuer M/s Muzoomdar Associates to review the valuation. Upon receipt of the opinion from the valuer it will be submitted to the Competent Authority for the final order and it will be implemented accordingly. The Management has not offered any comment on valuation.

Advantage to developer by approving extra Built up area for Commercial Facility in Master Plan

4.8.5.3 As per the CA for Subhash Bridge Bus Terminal, the total project site area was 22,000 sqm. An additional land of 3,000 sqm (5,000 sqm BUA) was made available by GoG for the project as discussed in ***paragraph 4.8.5.2***. The Built Up Area (BUA) was 44,600 sqm[52] for the site area of 25,000 sqm. Out of this, the BUA of 12,200 sqm was provided for Bus Terminal Facility and Administrative Building of GSRTC and remaining 32,400 sqm BUA was available for CF. However, in final Master Plan the developer had shown BUA of 56,363 sqm as per bye laws of Municipal Corporation (considering FSI of 1.8 + 25 *per cent* FSI for 22,000 sqm plus 5,000 sqm BUA) for the total site area of 25,000 sqm. Out of this, the BUA of 44,163 sqm could be used by the developer for CF after excluding 12,200 sqm for the BTF and Administrative Building. This resulted in extra BUA of 11,763 sqm (44,163 sqm-32,400 sqm) used by the developer for the CF. Based on FSI valuation derived from the total benefit to the Corporation, the benefit not passed on to the Corporation for the additional CF worked out to ₹ 17.23 crore[53].

The Management stated (August 2015) that Concessionaire has got approved from local authority an FSI area of 38,883.42 sqm for a plot of 21,603 sqm utilising 1.79 FSI. The reply is not acceptable as the BUA as per approved plan was 68,884 sqm. The same was higher than the extra BUA worked out in paragraph. The figure of 38,883.42 sqm stated in the reply is the carpet area and not the BUA based on which plot was sold.

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51 5,000 sqm x 7.96/4320 = ₹ 9.21 crore - ₹ 7.96 crore = ₹ 1.25 crore.

52 22,000 x 1.8 = 39,600 sqm BUA plus 5,000 sqm BUA = 44,600 sqm BUA.

53 Total benefit received by the Corporation for Subhas bridge being ₹ 47.47 crore divided by total area for which benefit was given (32,400 sqm) multiplied by additional CF given (11,763 sqm).

Conclusion and Recommendations

4.8.6 With a view to modernise its existing bus-stations and construct new ones, the Corporation entered into Public Private Partnership in six out of the seven bus-stands identified for Phase I. Two out of the six stations have been completed and commissioned with state of art facility and four are in progress. The PPP model adopted has been successful notwithstanding the delays in execution and deficiencies in the tender process. Our main observations in relation to these six projects are summarised below:

- Post tender changes resulted in monetary loss of ₹ 15.29 crore to the Corporation and denied a level playing ground to the bidders.
    - ***The Corporation should not dilute or undo tender conditions after the opening of bids.***
- The Corporation did not ensure compliance to certain Clauses of the Concession Agreements resulting in non-recovery of concession fees (including interest) and Liquidated Damages of ₹ 32.62 crore and did not take required action against Concessionaires for delayed execution.
    - ***The Corporation should ensure adherence to Concession Agreement Clauses and undertake regular monitoring to prevent avoidable delays.***

The matter was reported to the Government in May 2015; their replies were awaited (November 2015).

(Y. N. THAKARE)
Principal Accountant General
(Economic & Revenue Sector Audit) Gujarat

Ahmedabad
The
08 MARCH 2016

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
The
14 MARCH 2016