Chapter - III
Compliance Audit

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Industries and Commerce Department

3.1 Development of Textile and Apparel Parks

3.1.1 Introduction

As part of implementation of government policies, plans were formulated to establish Textile and Apparel Parks starting from 1995-96. The objective of setting up of these parks was to increase textile exports and to generate employment opportunities in handloom and textile sector. The agencies chosen to implement them were the Directorate of Handlooms and Textiles (DHT), Telangana State Industrial Infrastructure Corporation Limited[1] (TSIIC) and private parties. Currently there are eight such Parks in the State as detailed in ***Appendix 3.1***. Out of the eight Parks, two Parks received assistance from Government of India (GoI) under the Scheme for Integrated Textile Parks (SITP)[2], three Parks under Textile Centre Infrastructure Development Scheme (TCIDS) and one Park under Critical Infrastructure Balancing Scheme (CIB)[3].

Audit reviewed four Parks, two developed by private parties with Government support (Handloom Park, Pochampally and Whitegold Integrated Spintex Park Private Limited (WISPL)), one under TSIIC (Apparel Export Park (AEP), Gundlapochampally) and one under DHT (Textile Park, Siricilla). The Handloom Park, Pochampally and WISPL received GoI assistance under SITP, AEP Gundlapochampally under CIB and Textile Park, Siricilla under TCIDS. The funds allotted, released and expenditure incurred on these parks are detailed in ***Appendix 3.2***.

Records maintained at the Offices of the Assistant Directors of the Parks developed by DHT, Zonal Managers of the concerned Zones in case of the Parks developed by TSIIC and at the Offices of the private developer were reviewed (May-June 2016) to ascertain the reasons behind delay and non-achievement of targets. Significant audit findings are discussed below:

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1 Andhra Pradesh Industrial Investment Corporation Limited (APIIC) before bifurcation.

2 SITP was launched in July 2005 to create new textile Parks of international standards at potential growth centres. Under the scheme GoI support by way of grant or equity will be limited to 40 *per cent* of the project cost subject to a ceiling of ₹ 40 crore for Parks

3 Critical Infrastructure Balancing Scheme is for assistance from GoI for providing appropriate infrastructure for the development and growth of exports

Audit findings

3.1.2 Preparation of faulty Detailed Project Reports

Detailed Project Reports (DPR) were prepared to implement the Textile and Apparel Parks, which envisaged creation of common infrastructure and common facilities in the Parks. Out of the four projects reviewed, DPRs of two projects were not prepared properly as discussed below:

In Textile Park, Siricilla, the extent of land earmarked for setting up of units in the Park, as proposed in the DPR, could not meet the demands of the entrepreneurs. Thus, the areas identified for establishment of infrastructure facilities like cotton processing and sizing units, texturizing unit and common facility centre were sold out to entrepreneurs, leaving no area for development of the above stated facilities. Further, though the DPR had recognised the problem of water scarcity, an unreliable source was identified to meet the requirements. The source dried up, leaving the Park unable to meet the water requirement. Due to non-availability of water, processing units were not established and though Common Effluent Treatment Plant (CETP) was constructed, it could not be used. Had a reliable water source been identified and secured, the situation could have been avoided.

In case of Handloom Park, Pochampally, the DPR initially submitted in April 2006 was revised in May 2008, increasing the total outlay from ₹ 18.49 crore to ₹ 34.00 crore mainly to improve the common facilities, such as effluent collection and treatment system, testing equipment, etc. As per both the DPRs, 2000 looms were to be installed, whereas only 500 were installed. The DPR overestimated the international demand for its products and the increased outlay did not serve its purpose.

3.1.3 Delay in completion of the project

Audit observed significant time overruns in completion of the Parks ranging from seven months to 151 months, as detailed in ***Appendix 3.3*****.**

Two projects viz., Textile Park, Siricilla (with a delay of 151 months) and WISPL (with a delay of seven months) have not been completed (July 2016), even though they were proposed to be completed by December 2003 and December 2015, respectively.

In respect of AEP Gundlapochampally and Handloom Park, Pochampally, there were delays of 60 and 42 months, respectively, in completion of the Parks. The delays were attributed to revision of DPRs, problems in acquisition of land and delay in conversion of land use.

3.1.4 Cost overrun

Out of the four Parks reviewed, in case of two Parks, significant cost overruns were observed.

In Textile Park, Siricilla, it was observed that there was increase in the cost of the components such as power supply, water supply and internal road network. The cost overrun was ₹ 4.22 crore, as the Department incurred an expenditure of ₹ 5.86 crore (July 2016) on the above three components against the originally approved cost of ₹ 1.64 crore. Further, the park has not been completed even after incurring expenditure of ₹ 8.88 crore (July 2016), against the original outlay of ₹ 7.73 crore.

In Handloom Park, Pochampally, there was an overall increase in the project cost by ₹ 1.04 crore (actual cost of ₹ 35.04 crore against the approved cost of ₹ 34.00 crore).

The reasons for cost and time overrun are discussed below:

3.1.5 Non-provision of utilities

As per Textile and Apparel Promotion Policy of 2005, State Government was to give necessary assistance in providing power, water and other utilities to the Integrated Textile Parks developed by the Private Parties. The Government was also responsible for providing the same utilities to the Parks being developed either by DHT or by TSIIC. Once the units in the Parks became functional, the developers were required to maintain the utilities by collecting service and user charges from unit holders in the Parks as per the SITP guidelines. TSIIC was also to collect user charges from the units in the Parks developed by it.

Audit observed that the provision of utilities was deficient in three Parks. Textile Park at Siricilla did not have water supply and WISPL had no water supply and connectivity with external roads. In AEP, Gundlapochampally, water supply was stopped (October 2010) as unit owners were not paying user charges. The Park-wise details are given below:

3.1.5.1 Textile Park, Siricilla

As per the progress report of the Textile Park at Siricilla as on 30 June 2016, water supply and storm water drains were not completed. Construction of common facilities like processing, sizing and warping units, creche, medical centre and security quarters were not yet started. The peak water requirement in Siricilla Park was estimated to be 1.25 lakh gallons /day in the DPR. Till the year 2010, the water requirement was met from Manair river at Rallapet at a cost of ₹ 97.63 lakh (₹ 40.85 lakh was reimbursed under TCIDS). However, the supply of water was stopped afterwards, purportedly due to depletion of groundwater levels and damage to pipelines carrying water to the Park. Audit also observed that from April 2011 to November 2014, no expenditure was incurred by the Park Administration for providing water to the units. The Assistant Director (Handlooms and Textiles), Karimnagar, who was also the Park Administrator, had requested (February 2014) for sanction of ₹ 2.75 crore for drawing water from Lower Manair Dam at Ragudu and ₹ two crore was sanctioned (August 2014) by State Government for the purpose. A contract was entered into (September 2015) with Kaveri Infra Projects Private Limited for construction of the pipeline at a cost of ₹ 2.61 crore with a stipulation to complete the work within six months. However, the work has not been completed (July 2016). Meanwhile, the units were meeting their needs by getting water through private tankers.

3.1.5.2 Whitegold Integrated Spintex Park Private Limited, Ibrahimpatnam

Whitegold Integrated Spintex Park Private Limited had requested (November 2011) the Government for external road connectivity to National/ State Highway. The Government accepted[4] the request and proposed the road connectivity at a cost of ₹ two crore. Subsequently, TSIIC requested (November 2013) Roads and Buildings (R&B) Department to examine the feasibility of developing a service road of Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB), instead of the existing R&B roads and Panchayat Raj roads connecting the area to the State Highway. R&B Department had informed that the road pertained to Panchayat Raj Department. The matter is still pending (August 2016).

Similarly, water supply was to be provided to the Park by HMWSSB as per Government instructions. However, the same was not provided to the Park (August 2016). Thus the Park had no reliable external road connectivity and source of water supply.

3.1.5.3 Apparel Export Park, Gundlapochampally

As per DPR, the establishment of AEP, Gundlapochampally was to be completed by December 2003. However, the works relating to approach road, internal roads, side drains and street lights were completed during the period from March 2004 to March 2010. More importantly, water supply and common effluent pipe line from the Park to main sewerage was completed in March 2008 and the common waste water treatment plant was established only in March 2009. All these led to considerable delays in completion of the Park.

[4] G.O.Ms. No. 162 of Industries and Commerce (Tex) Department dated 30 November 2012.

As per the agreement between HMWSSB and TSIIC, internal water supply was being provided by HMWSSB using the distribution system developed by TSIIC. TSIIC had been paying the bills for units in the Park upto 2005, irrespective of whether the amount was actually collected or not. The TSIIC had failed to collect the dues from the unit owners from the beginning and stopped payment of dues to HMWSSB. Subsequently, water supply was stopped by HMWSSB due to non-payment of dues to the tune of ₹ 35.27 lakh in October 2010.

The TSIIC – Industrial Area Local Authority (IALA) had informed (October 2010) unit holders to make independent arrangement for water supply. TSIIC had intimated HMWSSB (November 2010) of discontinuation of water supply made to AEP, Gundlapochampally. The water supply can be renewed only if entrepreneurs approached the HMWSSB or TSIIC entered into a fresh agreement with HMWSSB. However, no agreement was signed and the units were deprived of reliable water supply.

3.1.6 Non-achievement of objectives

Audit observed substantial shortfalls in achievement of the objectives of increase in export sales and employment generation.

Shortfall in export sales ranged from 94.8 to 100 *per cent*. There were no export sales in respect of Textile Park, Siricilla and WISPL against the targets of ₹ 10 crore and ₹ 650 crore per annum, respectively. In Handloom Park, Pochampally, the export sales were ₹ 1.53 crore (upto 2015-16) against targeted ₹ 17.50 crore per annum. AEP, Gundlapochampally stated that information relating to export sales was not available and no targets were mentioned in the DPR.

While the shortfall in establishment of units was in the range of zero to 100 *per cent,* it ranged from 81 to 100 *per cent* in employment generation.

- No units have been established in WISPL so far, resulting in non-generation of any employment till date against proposed employment for 5000 persons.
- Handloom Park Pochampally, developed as a single unit, was to install 2000 looms (cotton looms: 1495; silk looms: 505) as proposed in the DPR. However, 500 looms (cotton looms: 425 and silk looms: 75) could be installed (July 2016), and out of these, only 150 to 200 looms could be operated on an average per month due to inadequate working capital and other allied reasons. This resulted in generation of employment for only 300 to 350 persons on an average per month against the expected direct employment of 5050 and indirect employment of 3000 persons. It was also observed that the Park had been incurring losses ranging from ₹ 0.44 crore

to ₹4.73 crore since its inception (2009-10 to 2014-15) and was being sustained mainly through grants received from the GoI.

- In AEP, Gundlapochampally, against 58 units contemplated, only 56 units were established, thereby generating employment for only 2500 persons against the proposed 55350.
- In Textile Park, Siricilla, out of 192 units proposed to be established, only 114 units were completed and functioning as of July 2016. Against the proposed generation of employment for 6600 persons, the Park could generate employment for 1250 only.

3.1.7 Non-availability of financial assistance from Government of India

As mentioned in preceding Para 3.1.1, out of four Parks, GoI did not release full assistance to Textile Park, Siricilla due to delay in completion of work as discussed below.

The GoI share was ₹4.11 crore out of the approved project outlay of ₹7.73 crore. However, due to the slow progress of the Park and also due to discontinuation of TCIDS scheme, the GOI stopped its financial support to the Park from September 2011 after releasing ₹2.83 crore towards development of common facilities like common processing unit, sizing unit, sectional/ beam warping unit, etc on reimbursement basis. Thus the department lost the GoI assistance to an extent of ₹1.04 crore and this affected the construction of storm water drainage in the Park, for which an amount of ₹0.24 crore had been committed by Government of India.

3.1.8 Idling of infrastructure created

In the Textile Park Siricilla, the Common Effluent Treatment Plant (CETP) established in 2006 at a cost of ₹1.04 crore was not functional due to water problem. The last trial run of the CETP was conducted in September 2008 and has been lying idle since then. Due to water scarcity, even further trial runs had not been conducted, and as a result it was not possible to ascertain whether the CETP facility was in working condition.

Similarly, in AEP Gundlapochampally, the Common Waste Water Treatment Plant (CWWTP) has not been functioning in the Park since November 2011 as the unit holders, responsible for running the plant, were unable to form an association or collect charges for running it. As a result, the sewage water has been flowing through open spaces, thereby causing pollution. No permission or clearance from Pollution Control Board was obtained.

3.1.9 Allotment of plots to non-textile/ apparel units in Apparel Export Park at Gundlapochampally

As per the terms of sale deeds, each allottee was to use the land for setting up of factory for readymade garments only and no structure/ building other than factory building was to be put up without prior permission from TSIIC. Change in the line of manufacturing activity was to be approved by the Corporation.

A total of 126 plots were sold to 58 investors to set up apparel units. It was observed from the Joint Inspection Report on AEP conducted by the officials of DHT and TSIIC (April and May 2016) that out of the 58 units, 45 had commenced production and, out of these 45 units, 31 units were not involved in manufacturing of garments. Though 16 units had been approved by TSIIC to change their line of activity, the remaining 15 units had changed their line of activity without the approval of TSIIC. As 53 *per cent* of the total units belonged to non-textile/ apparel manufacturers, the Park had not achieved its intended purpose of being an apparel hub.

There was no mechanism in TSIIC to ensure that conditions of sale deeds were being adhered to. Audit observed that there was no clarity in the sale deeds as to the course of action to be taken in the event of change in the line of activity by the developers without the approval of TSIIC.

The Zonal Manager replied (August 2016) that notices had been issued to the units for changing their line of activity without prior approval.

3.1.10 Financial impact on Government exchequer in terms of acquisition of land, incentives received under State Industrial Policy

The acquisition of land for these Parks followed different procedures, based on the implementing agency and the scheme, if any, under which they were covered.

- In case of Parks developed under DHT, the land was being provided by the District Administration
- As per the SITP guidelines, in case of Parks developed by private parties, the entity developing the Park was to procure the land. The State Government was to assist in identification and procurement of suitable land.
- The objectives of establishment of the Park included creation of common infrastructure for pre-weaving operations such as warping, sizing and yarn processing, design development and textile processing. Processing unit is required for removing impurities from the woven fabric in its loom state and for further treatment to develop its full textile potential.

For Textile Park at Siricilla, DHT had requisitioned (February 2002) the District Collector for 75 to 100 acres in Siricilla and was allotted (May 2003) 60 acres of land. All the plots demarcated were allotted to weaving units, leaving no space for setting up cotton sizing and dyeing units, processing units and common facility centre. Additional 15 acres were released (October 2004) to the Park on further requisition by DHT (April 2004) for extension of the Park. It was noticed by the Department (July 2011) that only 11 acres were available against 15 acres allotted. Even after five years (June 2016), survey to finalise the 15 acres had not been taken up. Audit observed that in the absence of Common Facilities Centre and processing units, the project was not fully functional and could not achieve its intended objective.

- Whitegold Integrated Spintex Park Private Limited had purchased (February 2012) 135 acres in Ibrahimpatnam from TSIIC. As per the sale deed, the plot was situated in an industrial Park. However, as per the Draft Metropolitan Development Plan 2031 of Hyderabad Metropolitan Development Authority (HMDA), the land was classified as 'Residential, Public, Semi-public and utilities'. Due to this difference in classification, the layout approval from HMDA for the Park was obtained only in December 2015 after paying ₹ 1.07 crore to the Authority for the same as development and processing charges. This delayed the establishment of the Park by seven months (upto July 2016), which otherwise was to be completed by December 2015.
- In respect of Handloom Park Pochampally and AEP Gundlapochampally, Audit observed that there were no issues relating to land. The land was acquired by the developers themselves.

Due to the delayed acquisition of additional land for Textile Park, Siricilla and delayed re-classification of land in respect of WISPL, the expenditure so far incurred by the State Government (₹ 6.04 crore) and GoI (₹ 14.34 crore) could not yield expected results.

3.1.11 Conclusion

The establishment of handloom and textile parks was intended to increase employment and export of handlooms and textiles. There were delays ranging from seven to 151 months in establishment of parks due to non-completion of utilities. Functioning of parks was hampered due to non-provision of amenities and utilities. Further, units changed their line of activity without approval of competent authority. This resulted in non-achievement of objectives of parks as envisaged.

Agriculture and Co-operation Department

3.2 Implementation of Crop Loan Waiver Scheme

3.2.1 Introduction

Government of Telangana had introduced (August 2014) Crop Loan Waiver Scheme[5] (Scheme) to alleviate the hardship of the farmers due to their indebtedness. The scheme covered short term production loans[6] and crop loans against gold, disbursed by lending institutions[7] to farmers. Each farmer family was eligible for waiver of crop loan amount which was disbursed and outstanding as of 31 March 2014 together with applicable interest on outstanding loan up to 31 August 2014 or ₹one lakh per farmer family[8], whichever was lower. The expenditure under the scheme was estimated to be ₹17000 crore to be released in four installments of ₹4250 crore each. Out of these, two installments of ₹4250 crore and ₹4086 crore were released in September 2014 and July/August 2015.

The scheme was implemented by the Department of Agriculture and Cooperation. The Department functions under the administrative control of the Principal Secretary, who is assisted by the Director of Agriculture, Additional and Joint Directors of Agriculture (JDA) in the Directorate and one Joint Director for each district other than Hyderabad.

Audit of the implementation of the scheme was taken up to assess whether the beneficiaries selected were eligible for the waiver and implementation of the scheme was as per the scheme guidelines. A test-check of records pertaining to the periods 2014-15 and 2015-16 relating to the scheme in offices of three out of nine JDAs viz., Mahabubnagar, Nalgonda and Warangal, and Office of Director of Agriculture were scrutinised during May - July 2016

3.2.2 Budget releases and Expenditure

Details of release of funds and expenditure incurred for implementation of the scheme during 2014-15 and 2015-16 in the State are as follows:

Table 3.1: Budget releases and Expenditure

(₹ in crore)

Year	Releases	Expenditure	Unspent amounts refunded as per UC	Number of beneficiaries
2014-15	4250	4040	171.32	35,29,944
2015-16	4086	4040	Not available	

*(**Source:** Budget figures of 2014-15 and 2015-16, Socio Economic Survey 2016 and records of the department)*

5 G. O. Rt. No. 69 Agriculture and Cooperation (Agri. II) Department dated 13 August 2014

6 A loan given in connection with the raising of crops which is to be repaid within 18 months

7 Includes scheduled commercial banks, cooperative credit institutions (including urban cooperative banks) and regional rural banks

8 Defined as head of family, spouse and dependent children

In the sampled districts, JDAs had released ₹3509.23 crore to banks of which an amount of ₹3441.68 crore was utilised for implementation of scheme during 2014-15 and 2015-16. The position of release and utilisation of funds in the test-checked districts were as under:

Table 3.2: Budget release and utilisation of funds

(₹ in crore)

District	Year	Releases	Expenditure	Unspent amount remitted into Government account as per UCs	Number of beneficiaries
Mahabubnagar	2014-15	681.46	673.91	7.55	5,98,990
	2015-16	673.91	671.75	2.15	
Nalgonda	2014-15	633.61	587.86	45.89	4,96,629
	2015-16	587.86	587.86	Not available	
Warangal	2014-15	472.24	460.15	12.06	4,03,856
	2015-16	460.15	460.15	Not available	
Total		**3509.23**	**3441.68**		**14,99,475**

***(Source:** Records of the Department)*

Audit findings

3.2.3 Improper verification of beneficiaries

The stages of beneficiary identification are given in the chart below:

Each bank branch prepares Annexure A (list of crop loans) and Annexure B (list of agricultural gold loans). They were compared to arrive at Annexure C (list of eligible farmers who had outstanding crop loan together with agriculture gold loan limited to a maximum extent of ₹ one lakh). Annexures A, B and C were to be sent to Lead District Manager (LDM) and District Collector.

At Joint Mandal Level Bankers' Committee (JMLBC) meeting, Annexures C containing beneficiaries of different bank branches were compared in each mandal and Mandal Tahsildars checked the land records to eliminate fake beneficiaries. Co-operation Department was also to cross-verify Annexures A, B, and C pertaining to Primary Agricultural Cooperative Societies and District Co-operative Central Banks. After this, final Annexure D (list of farmers with loans from multiple banks) was shared with bank branches at mandal level

Each bank prepared initial Annexure E based on Annexure C and the common Annexure D. This Annexure was to be exhibited village-wise and social audit was to be conducted by a team of Mandal Parishad Development Officer, Tahsildar, Assistant Registrar/Sub Divisional Level Cooperative Officer and Branch Manager.

After social audit and taking into consideration objections raised, final Annexure E (village-wise beneficiary list) was to be prepared and displayed at each of bank branches after authentication. It was also to be sent to the LDM and the District Collector.

District Level Bankers' Committee convened by LDM sent district details of loan waivers bank-wise and farmer-wise to State Level Bankers' Committee (SLBC). SLBC was to intimate Bank wise, Branch wise farmers' eligible amounts to the Government in Annexure E.

For release of amount, all the banks consolidated district-wise and village-wise claims from lists prepared by District Level Bankers' Committees (DLBC) and submitted claims to the Government. The amounts were reimbursed to the banks by Directorate of Agriculture through Joint Director of Agriculture.

For release of scheme funds, all banks designated a nodal branch of each bank in the district and informed the details like name of the branch, account number (nodal bank account number), to which the loan waiver amount was to be credited, etc., to JDA and LDM. The process was to be completed by 30 September 2014.

Audit observed that the date for completion of the process was extended multiple times and supplementary claims were allowed based on decisions taken by DLBC/SLBC. This continued till June 2015 when the JDAs were finally instructed by Government to stop the payments.

This showed that the verification of beneficiaries was not done in time despite the mandatory verification process at different levels as there were additions/ deletions in final Annexure E.

3.2.3.1 Verification of beneficiaries under 'farmer family' norm without Aadhar

As per scheme guidelines, verification of beneficiaries by the bank branches, elimination of duplicate/multiple financing and restricting the benefit of loan waiver to ₹ one lakh to a farmer family was to be done at mandal level. For detecting multiple claims by farmers, Aadhar number of each of the beneficiaries was to be recorded in the prescribed Annexures containing list of beneficiaries.

It was observed that, Aadhar numbers were not recorded in the list of beneficiaries (Annexure E) pertaining to six banks viz., SBI, APGVB, HDFC Bank, Andhra Bank, Axis Bank and ICICI Bank in the sampled districts in more than 95 *per cent* of the cases.

Agriculture Department had no mechanism to ensure that the amounts released were going to the eligible farmers as it was not involved in the verification process at any stage i.e., preparation of list of eligible beneficiaries', verification of Annexures A to E and participation in social audit. The Chief Secretary to Government and Secretary (Institutional Finance), in a meeting (June 2015) with the District Collectors, had assured that a software package would be developed at the Centre for Good Governance for updating the Aadhar numbers and other details such as voter cards, bank accounts, etc., for integrating the data. In the absence of Aadhar card details, Audit could not verify whether beneficiaries had availed the benefits from multiple sources.

Government stated (November 2016) that the scheme was implemented in a short span of time. Further, mentioning of Aadhar number in the Annexures was not mandatory as few farmers had Aadhar cards.

However, 95 *per cent* of the population of Telangana had Aadhar cards (December 2014). Further Department had itself prescribed mentioning the Aadhar card number in Annexures A to E.

3.2.3.2 Non conducting of Social Audit

After consolidating the loan details of farmer family members, who had taken loans from more than one bank branch (comparing Annexure C and D), each bank was to prepare Annexure E. Annexure E was then to be exhibited village-wise and social audit was to be conducted by a team consisting of MPDO, Tahsildar, Branch Manager or his representative. After conducting social audit and settlement of all objections bank-wise the final list of farmers was to be prepared in Annexure E (final). This, along with the farmer-wise amounts eligible for waiver, was to be displayed at all bank branches after due authentication and sent to the LDM and the District Collector.

In the sampled districts, documents relating to conducting of social audit, verification and elimination of duplicate/multiple financing of beneficiaries were not made available to Audit.

Government stated (November 2016) that for social audit the data was sent to villages in Annexure E by the banks. After conducting of social audit, final village-wise Annexure E was prepared by bank branches and sent to LDM and District Collectors.

However, no document to support the reply was furnished, during audit or even at the time of reply.

3.2.3.3 Waiver of loan pertaining to beneficiaries of other district branches

In order to avoid the risk of excess loan waiver to beneficiaries who had borrowed funds from multiple mandals, Government had clarified (September 2014) that each lending bank should send village-wise beneficiary lists for social audit to other mandals where the beneficiaries were holding agriculture land. This was to be taken into consideration while preparing Annexure-E.

Audit observed that the village-wise beneficiary list was not furnished by the banks situated in other mandals. The verification process was not conducted due to the non-availability of details relating to loans taken by the villagers from other mandals. In the three districts test checked, HDFC Bank, Axis Bank and ICICI Bank included beneficiaries who had availed of crop loans on their agricultural land from the bank branches of other mandals in other districts.

The details of accounts and amount waived off (June 2016) in three banks were as follows.

Table 3.3: Details of beneficiaries whose loan amount was waived off pertaining to other mandals in sampled districts

(₹ in lakh)

Name of bank	No. of beneficiaries pertaining to other districts	Total amount waived off in two installments
Mahabubnagar		
HDFC Bank	245	117.62
Nalgonda		
AXIS Bank	23	10.01
HDFC Bank	51	25.50
ICICI Bank	13	6.50
Warangal		
HDFC Bank	11	5.50
ICICI Bank	19	6.33
Total	**362**	**171.46**

*(**Source**: Records of test checked banks)*

LDMs in the selected districts stated that many of the banks had not submitted the lists to them for such cross verification. This clearly showed that Annexures E were prepared without proper verification and Government instructions were not followed.

Government stated (November 2016) that the RBI had removed the service area approach and the banks could now lend to farmers of other mandals. However, the title deed book was taken by the bank while sanctioning the loan, due to which farmers could not avail of loan from other banks. For social audit purpose, the farmers belonging to same village in the mandal, covered by the banks within the mandal were covered under JMLBC. But there were very few cases as pointed out by the audit wherein the bankers had issued crop loans to farmers of other mandals by taking their land title pass book in the custody of the bank, so that farmers could not avail crop loan/ other loan from other banks.

However, Government reply was silent on non verification of loans taken by the beneficiaries who availed crop loans in multiple mandals on their agriculture lands. In the absence of beneficiary verification, the possibility of waiver of crop loan in excess of prescribed limit of ₹ one lakh to the beneficiary could not be ruled out.

Deficiencies in utilisation of funds

3.2.4 Scheme implementation by Banks

3.2.4.1 Waiver of crop loan to ineligible beneficiaries

The beneficiary unit, as per the scheme guidelines, was to be a farmer family consisting of the head of the family, spouse and dependent children.

A test-check of list of beneficiaries showed that banks had extended the benefit of loan waiver (₹2.75 crore) to 455 Rythu Mitra Groups/Rythu Mitra Sangams (RMGs) by splitting the group accounts into 1159 individual accounts, though this was against the scheme guidelines. The details are furnished in the table below:

Table 3.4: Details of loan waiver to Rythu Mitra Groups Rythu Mitra Sangams

(₹ in crore)

Name of Bank	No. of Groups	No. of beneficiaries	Amount waived off
Mahabubnagar			
Andhra Bank	97	97	0.32
State Bank of India	32	32	0.15
APGVB	84	84	0.36
District Cooperative Central Bank*	3	44	0.04
Nalgonda			
APGVB	17	34	0.11
State Bank of India	40	40	0.17
Warangal			
APGVB	166	811	1.56
State Bank of India	16	17	0.04
Total	**455**	**1159**	**2.75**

* in test-checked Devarakadra Branch, Mahabubnagar district only

*(**Source**: Records of test checked banks)*

Further, as seen from the table, while some banks treated an entire group as a single beneficiary, others treated each group member as a separate beneficiary.

Government stated (November 2016) that the individual loan requirement prepared by the convener of the group was submitted to the bank for sanction of crop loans. Based on the crop loan sanctioned, waiver benefit has been extended to the farmers under RMG.

The reply of the Government was not tenable since as per the scheme guidelines, crop loan waiver was to be given only for farmer families as units. In cases where loans were waived off taking groups as individual beneficiaries, the possibility of farmer families receiving inadmissible excess benefits could not be ruled out.

3.2.4.2 Discrepancies in release of funds

Audit observed that the scheme guidelines were not followed while releasing the amounts, as discussed below:

- For the release of amounts to banks towards first instalment, SLBC was to furnish final Annexure E as received from all the LDMs to the Director, Agriculture. However, the data furnished by SLBC was not as prescribed in scheme guidelines i.e., it did not have list of 'bank-wise branch-wise' beneficiaries. Instead, it contained 'mandal-wise bank branch-wise' list of beneficiaries or 'had different formats'.
- It was seen that while the Director had sanctioned the total amount to each JDA, list of beneficiaries was not communicated along with the sanction. There was no mechanism for JDAs to verify whether the utilisation certificates (UCs) furnished by banks corresponded to disbursements made to actual eligible beneficiaries.
- The JDA was required to release the payment to bank branches through the nodal bank in his mandal as per the Annexure E received from the Director, Agriculture. However, the JDA released the payment on the basis of a bank-wise statement of amounts received from District Collector in violation of the scheme guidelines.

These discrepancies caused differences between the amounts claimed by banks and amounts made available to JDAs for release. Final releases were not in line with the initial lists prepared due to improper beneficiary verification. Audit test-checked the documents relating to claims and disbursements in six[9] out of 25 banks in Warangal district and observed the following deviations:

Initially, based on decisions taken in DLBC**,** District Collector had communicated (September 2014) to JDA that claims worth ₹240.11 crore were to be waived off in these six banks. Accordingly, JDA released ₹243.38 crore to these banks, though finally loans worth ₹227.62 crore were waived off till April 2015. However, as per the data made available to Director of Agriculture by SLBC for first instalment (produced to Audit in July 2016), the amount of claims received was ₹229.82 crore. No explanation was furnished to Audit regarding the discrepancy. As the list of beneficiaries were not available with the Department, Audit could not verify reasons for discrepancy in release of funds.

[9] AP Grameena Vikas Bank, HDFC Bank, ICICI Bank, Punjab National Bank, State Bank of India and Warangal District Co-operative Central Bank

As the list of supplementary claims was not furnished, Audit could not verify whether these were included in the list communicated by SLBC to the Director, Agriculture. Further, neither the list of beneficiaries for supplementary claims nor the final list of beneficiaries, to whose accounts the amounts were credited under the scheme, was available with the JDAs.

Government stated (November 2016) that there was no major deviation from guidelines in furnishing of beneficiaries' data in Annexures-A to E by SLBC. The list of beneficiaries, bank branch-wise, was prepared by banks and was available with bank branches, District Collectors, LDM and mandal level team. The Department released the actual amount only as mentioned in the Annexures of bank branches.

However, JDAs did not maintain list of beneficiaries, because of which no verification could be done by the Department.

3.2.4.3 Discrepancies in amounts waived off

Under the scheme, loan waiver was applicable to the outstanding crop loan and gold loan as on 31 March 2014, along with the interest upto 31 August 2014. Government clarified[10] that penal charges including penal interest, inspection charges, etc. would not be covered under the scheme. The only amount eligible for waiver other than the loan amount was the premium paid for crop insurance and notice charges. In the sampled districts, the UCs furnished by nodal banks showed the total eligible amount of claims, together with/without interest amount calculated upto 31 August 2014, as ₹7529.63 crore[11]

- Audit observed from UCs furnished by banks in the three test-checked districts that in 26 out of 35 banks, interest claimed upto 31 August 2014 was in excess when computed at seven *per cent* per annum[12]. On the total outstanding claim of ₹5229.33 crore as of March 2014, interest claimed was ₹336.50 crore, instead of the permissible ₹152.52 crore. Thus, there was excess claim of interest to the extent of ₹183.98 crore. The banks confirmed that they had utilised the amount to waive off the loans which had higher interest rates on account of non-repayment of loans and had included other charges like inspection charges in the outstanding loan amount. Though the banks had undertaken to refund the excess amount, neither the banks had refunded the amount on their own nor did the JDAs take any action for the recovery of the excess amount of interest charged by the banks.

[10] In Inter-departmental Committee Meeting dated 14.8.2014 and errata issued by Agricultural and Cooperation Department dated 14.8.2014

[11] Mahabubnagar district: ₹2778.64 crore, Nalgonda district: ₹2739.06 crore and Warangal district: ₹2011.93 crore

[12] Interest on crop loans

- It was observed in the test checked districts that four to 13 banks did not claim interest upto 31 August 2014 on the outstanding loan of ₹2268.28 crore as on 31 March 2014 though the scheme guidelines stipulated that the eligible amount of waiver included interest upto 31 August 2014. Due to non-inclusion of the interest amount, the eligible farmers were deprived of the benefit of interest waiver to the extent of ₹66.16 crore, as detailed below:

Table 3.5: Details of non-claiming of interest amount by banks

(₹ in crore)

District	Number of banks in which discrepancy was noticed	Eligible amount excluding interest	Interest amount up to 31.08.2014 not included
Mahabubnagar	13 out of 29	808.10	23.57
Nalgonda	8 out of 25	1084.07	31.62
Warangal	4 out of 25	376.11	10.97
Total		**2268.28**	**66.16**

*(**Source**: Utilisation Certificates furnished by banks)*

The differences in implementation of the scheme by the banks showed that instructions regarding waiver were not clearly communicated.

Government stated (November 2016) that instructions were issued to all the controllers of bank branches through SLBC about the interest calculation on outstanding crop loans.

However, in both the cases, the Department took no action to recover the excess amount waived off or ensure that the beneficiaries received their dues.

3.2.4.4 Delay in remittance of unspent balances to JDAs

Utilisation certificates were to be submitted by all the bank branches to the JDAs within 30 days from the date of receipt of the amount from the Government. Unutilised amount, if any, was to be remitted to the Government accounts within 30 days of release by the Government.

Audit observed in the sampled districts that the unutilised amounts were refunded by banks to the bank accounts of JDAs directly, instead of Government account. Further, the details/reasons for refunds were also not furnished to JDA.

Audit also observed delay in remitting the amounts. In Nalgonda district, there were delays ranging from 101 days to 233 days in refund of unutilised amount by banks to JDA concerned. Banks stated that the delay was mainly due to non-finalisation of list of eligible beneficiaries and delay in reconciliation of amounts by banks.

Government accepted the delay in refunding the unutilised amounts by banks to JDAs.

3.2.4.5 Retention of unspent balances for which utilisation certificates were submitted

In Mahabubnagar district, out of the total release amount of ₹1355.37 crore, banks had furnished UCs for ₹1343.62 crore and remitted the unspent balances to JDA.

However, in nodal bank accounts of Andhra Bank and District Co-operative Central Bank, ₹61.98 lakh had been lying in the designated bank accounts[13] though UCs were furnished including this amount as 'being credited to beneficiary accounts'. The details were as follows:

Table 3.6: Details of amounts retained by the banks without waived off

(₹ in lakh)

Name of bank	Account No.	Amount retained
Andhra Bank	035011100001167	8.61
District Co-operative Central Bank	068905000514	53.37
Total		**61.98**

*(**Source**: Utilisation Certificates furnished by banks)*

Three out of eight test-checked bank branches also retained ₹28.83 lakh even after furnishing of UCs, without surrendering the amounts to their nodal bank.

Table 3.7: Details of amounts not surrendered by the banks

(₹ in lakh)

Name of bank branch	Account No.	Amount retained
State Bank of Hyderabad, ADB, Mahabubnagar	62372058659	26.52
State Bank of Hyderabad, Devarakadra	62372119716	2.06
State Bank of India, Bijinepally	34244638341	0.25
Total		**28.83**

*(**Source**: Utilisation Certificates furnished by banks)*

Audit observed that nodal branches not only failed to reconcile the released amounts with the amounts credited to beneficiaries' account by their bank branches, they also retained amounts without remitting them to Government Account. The Department also failed to detect it as the UCs were not verified by them.

Government stated (November 2016) that books of accounts of the banks relating to crop loan waiver scheme would be audited by Co-operation

[13] For the receipt of scheme funds from treasury through JDA and release of funds out of the received funds to their bank branches for crediting it to beneficiaries' loan accounts

Department in respect of co-operative banks and special audit as per Reserve Bank of India (RBI) norms would be taken up in respect of scheduled banks.

3.2.4.6 Delay in furnishing of utilisation certificates to JDAs

In the sampled districts, none of the nodal banks furnished the UCs for the utilised amount within 30 days and there were delays ranging from 137 to 266 days.

The delay in furnishing of UCs was mainly due to non-finalisation of beneficiaries and the amounts retained by banks without crediting to beneficiaries' loan account. Banks did not furnish list of beneficiaries whose accounts were credited, along with UCs.

In Nalgonda and Warangal districts, nodal banks did not furnish UCs for the second instalment even after lapse of 10 months, which indicated that the initial verification of the beneficiaries was not done properly.

Government stated (November 2016) that there was delay in sending UCs by banks to JDAs as the reconciliation of accounts and further verification of beneficiaries had taken much time for bankers.

3.2.5 Scheme implementation by Agriculture Department

3.2.5.1 Delay in remittance of unspent balances by JDAs

As per the Government instructions, unspent amounts were to be remitted into Government account within 30 days of release of funds.

The banks had remitted the funds into accounts of JDAs instead of Government account. There were delays ranging from 125 to 249 days in remittance of unspent amounts of ₹ 67.65 crore into Government account by JDAs after the stipulated time of 30 days from the release of funds.

The delayed remittance of unutilised funds into Government account by JDAs was due to delayed refund of unutilised amounts by banks. The JDAs also waited for banks to remit the entire unutilised amount, instead of remitting partial amounts as soon as they were received, thereby delaying the process.

Government stated (November 2016) that the JDAs had asked the bankers to refund the unutilised amounts pertaining to the scheme.

3.2.5.2 Unauthorised operation of bank accounts by JDAs for unspent amount refunded by banks

Out of the total amount of ₹3509.23 crore[14] released to banks, the unspent amount of ₹117.66 crore was refunded by banks to JDAs, instead of remitting the amounts directly to Government account. An amount of ₹40 lakh was also credited to bank accounts of Nalgonda and Warangal JDAs towards accrued interest on scheme funds. As the amounts were released on the basis of claims, banks should have furnished reasons while refunding the amount. However, no reasons were furnished by the banks while refunding.

Further, instead of remitting the unspent amounts received into Government account, JDAs irregularly opened bank accounts and parked the unspent amounts. JDAs, Warangal and Nalgonda opened savings bank accounts and JDA Mahabubnagar opened a current account. Out of ₹117.66 crore refunded, ₹67.65 crore was remitted into Government account by JDAs and an amount of ₹45.67 crore were again released by JDAs to nodal banks for waiving off subsequent claims in three sample districts, leaving a balance of ₹4.34 crore in the JDAs accounts of Warangal and Nalgonda, though this was not permissible.

It was observed that JDA, Nizamabad had utilised ₹9.70 lakh out of the accrued interest on the unspent balances available in saving bank account for implementation of other schemes, instead of remitting it to Government account.

Government stated that JDAs had to open a bank account for depositing the unutilised amounts received from banks through demand drafts/ cheques. JDAs remitted the unspent amount to Government account after releasing the amounts for supplementary claims by banks.

However, no instructions had been officially issued allowing JDAs to open bank accounts. The amounts were to be remitted to the Government account. The reply was also silent on unauthorised expenditure incurred from the funds in these accounts.

3.2.5.3 Delay in furnishing of Utilisation Certificates by JDAs for the utilised amount

There were delays ranging from 185 to 229 days in furnishing of UCs. JDAs Nalgonda and Warangal did not furnish UCs for the second instalment due to non-receipt of UCs from nodal banks even after lapse of 10 months which indicated lack of monitoring.

Government accepted the delay in furnishing the UCs by JDAs.

14 First and subsequent releases for initial and supplementary claims. This is the gross amount released and not the net amount

3.2.6 Conclusion

The implementation of Crop Loan Waiver Scheme in the Telangana State to alleviate the hardship of the farmers due to their indebtedness through waiver of outstanding agricultural loans was not achieved fully. Proper verification of eligible beneficiaries in accordance with scheme guidelines was not done. There was no coordination between various agencies involved in implementation of scheme. There were discrepancies in claiming of interest amounts by banks on outstanding crop loans. While some banks charged higher rate of interest on outstanding crop loans, some banks did not claim interest thereby depriving the benefit of loan waiver to farmers. There was delay in remittance of unspent amounts into Government account and in furnishing of utilisation certificates. The departmental officers in some cases parked the unspent amounts received from banks unauthorizedly in separate bank accounts and in one case part of interest received was utilized for implementation of other schemes.

Transport, Roads and Buildings Department

3.3 Telangana Road Sector Project

3.3.1 Telangana Road Network

The Roads and Buildings Department, Telangana has its jurisdiction over National Highways (NHs) - 2592 Km, State Highways and Major District Roads (MDR) - 11211 Km, Rural Roads - 9014 Km, and Core Road Network[15] (CRN) - 4020 Km, totalling 26837 Km. In the combined State of Andhra Pradesh, CRN was managed and maintained by the Andhra Pradesh Road Development Corporation (APRDC). After the State of Telangana was formed in June 2014, it is being managed and maintained by the Roads and Buildings Department of Telangana.

In order to reduce the growing funding gap in road sector, a Loan Agreement (January 2010) was entered into between International Bank for Reconstruction and Development (IBRD) and Government of India (GoI). After bifurcation, the loan was divided and a separate Project Agreement was concluded between IBRD and Government of Telangana (5 May 2015), fixing Telangana's loan at 66.5 Million USD, including expenditure incurred on the project during the period before bifurcation. As per the original agreement, the project was to be completed by June 2015. After bifurcation of State into Andhra Pradesh and Telangana, it was rescheduled to May 2017.

3.3.2 Project Components

As per the terms of loan agreement, the project comprised (a) Road Improvement component, (b) Public Private Partnership (PPP) facilitation support component, (c) Institutional Strengthening component and (d) Road Safety component.

3.3.3 Implementing agencies

The Roads and Buildings Department, Telangana (T-RBD) was entrusted with the overall responsibility for implementation[16] of the project. Audit of the implementation of the Project was conducted to ascertain whether the Project components were effectively implemented in a timely manner and the objective of providing better quality, higher capacity and safe roads to users in a sustainable manner through enhanced institutional capacity had been achieved.

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[15] The roads with high traffic and strategic importance selected from the State Highways and Major District Roads

[16] In the combined State of Andhra Pradesh, the Roads and Buildings Department of Andhra Pradesh assisted by APRDC was the implementing agency

Audit examined the project records since inception (January 2010) to March 2016 at Roads and Buildings Department, Telangana Headquarters Office[17] and seven field Divisions[18] during the period from January to February 2016 and during June to July 2016. Six out of 11 Long-term Performance Based Maintenance Contracts (LTPBMC) works and all upgradation packages were selected for test check.

Audit findings

3.3.4 Road Improvement Component

The component comprised upgradation of 125 km of priority state highways and maintenance of 1717 km of the CRN under Long-term Performance based Maintenance Contracts.

3.3.4.1 Upgradation packages

APRDC had engaged a consultant (2007) for feasibility study, design and detailed engineering of 2000 km of state roads. Based on the recommendations of the consultant, Andhra Pradesh Road Development Corporation had identified Kandi – Shadnagar (KS-05) road and Jagityal – Peddapalli (JP-06) road for upgradation under the project.

(i) Kandi – Shadnagar Road**:** The Kandi – Shadnagar (KS-05) road provides connectivity between NH 7 and NH 9. The road starts at Kandi on NH 9 and passes through Shankarpalli, Chevella and ends at Shadnagar on NH 7. The upgradation work was awarded to a contractor in August 2012 at a contract value of ₹ 163.03 crore for completion by March 2015. The cost was later revised (September 2015) to ₹ 192.31 crore due to the proposal for four laning of the road stretch from 12.540 km to 35.050 km.

The observations on this up-gradation work are discussed below:

- **Granting of extension of Time without delay damages:** As per the agreement, the work was stipulated for completion by March 2015. Extension of Time (EoT) for the work was given (March 2015) upto 30 September 2015, based on the request of the contractor. The consultant appointed for supervising the work recommended (November 2015) termination of the contract, owing to dismal progress. The Department accordingly requested (December 2015, April 2016 & May 2016) the Government to terminate the contract and entrust it to a new contractor so as to utilize the loan amount before closure of the agreement with IBRD

17 Engineer-in-Chief (R&B), Roads, CRN & Joint MD, APRDC, Hyderabad
18 EE, R&B Divisions at Bodhan, Hyderabad, Jagtial, Kalwakruthy, Nirmal, Sangareddy and Wanaparthy

(May 2017). Government, however, instead of terminating the contract, decided (June 2016) to grant EoT up to May 2017 without levying damages on the condition that the contractor would furnish additional performance security of ₹ 10 crore.

Audit observed that granting of EoT on furnishing of additional performance security was not governed by the contract. As per clause 8.7 of the agreement, delay damages upto a maximum of 10 *per cent* of final contract price had to be levied for non-completion of work within stipulated time. Despite continued slow progress, the Department had not levied delay damages of ₹ 19.23 crore while extending the completion time. This resulted in extension of undue benefit to the contractor.

- **Changes in the scope of work at the fag end of loan closure period:** During execution, the Government accorded approval (May 2015) for modification of the existing proposal of upgradation from double lane between Kandi – Chevella to four-lane from Shankarpalli to Chevella deleting the stretch from Kandi to Shankarpalli and entrusted the work to the existing contractor.

  It was observed that though the contractor had not shown interest in completing the original work and the consultant as well as the Department had recommended termination of the contract due to slow progress, the additional work of four-laning was also awarded (October 2015) to the same contractor with additional scope worth of ₹ 29.28 crore at the fag end of the loan closure period. During the extended period upto September 2015, the contractor completed only 40 *per cent* of the original scope of work. Despite dismal progress, awarding the additional work to the same contractor was injudicious. The contractor's work progress till July 2016 was only 39 *per cent* inclusive of additional work.

(ii) Jagityal – Peddapalli Road: The work of Jagityal- Peddapalli road (JP-06) for a length of 58.750 Km was awarded to a contractor in March 2010 for ₹ 64.01 crore and the work was completed in December, 2013.

The observations on this upgradation work are discussed below:

- **Irregular Issue of Taken Over Certificates:** The Department had issued Taken Over Certificates (TOC) for the Sections as per clause 10.1 of the agreement. The date of TOC of Section I comprising 31.360 Km was 5 July 2013. Similarly, the date of TOC of Section II comprising 27.390 Km was 31 December 2013.

However, some components were still pending for completion when TOCs were issued. This included works worth ₹ 1.01 crore for Section I and ₹ 1.89 crore for Section II. Details are given in ***Appendix 3.4.***

While granting TOC for Section I, the department had instructed the contractor to complete the balance works by October 2013. However, these works remained unattended even though TOC of Section-II was issued. It may be mentioned here that the consultant appointed for monitoring the work had issued many notices to the contractor to complete the works. Though the Department extended the Defect Notification Period[19] (DNP) upto June 2015, the contractor has not completed all the balance works.

The department deleted (March 2015) certain items of works like construction of bus shelters, drains, access roads, and minor bridges etc., worth ₹ 1.46 crore from the scope of work after issuing TOCs citing reasons such as problems in land acquisition, shifting of utilities etc. The financial implication of some of the works like construction of minor bridges and construction of slab culverts has not been included in the above figure. However, the problems cited for deletion were not mentioned either in the records relating to these components or in the notices issued to the contractor. These deleted works will have to be taken up through separate contracts, which may lead to increase in cost. The situation could have been avoided had the Department insisted upon the contractor to complete the work before issuing TOCs.

- **Non submission of Maintenance Manual:** As per Task 4.7 of Consultant's Methodology[20], the Construction Supervision Consultant (CSC) supervising the work was to prepare a Maintenance Manual outlining the routines to be adopted for maintenance of the roads and bridges which would be adopted during and beyond DNP. It was to be submitted within 12 months from the date of commencement of the work being supervised by him. However, the same had not been submitted by the consultant though the Jagityal-Peddapalli road has been taken over by T-RBD and DNP was over in December 2015.

  The Department replied that the Manual was under preparation and would be submitted. However, the Manual was to be adopted during the DNP.

[19] the time line to complete the balance works
[20] Agreement with the Consultant

3.3.4.2 Long Term Performance Based Maintenance Contracts

Telangana Roads and Buildings Department had taken up 11 works across various districts in Telangana under Phase - I & II under Long Term Performance Based Maintenance Contracts which provided for maintenance of CRN. The stated economic benefits of these works were savings in vehicle operating costs, travel time costs, distance and maintenance costs. While the Phase-I works were completed by March 2014, Phase-II works were nearing completion.

As per the Project agreement, the T-RBD had to maintain a length of 1717 Km for a five year period under LTPBMC. It was, however, observed that the works were awarded only for a length of 1663 Km. Thus there was a shortfall of 54 Kms in initial award of works. The Department had not stated specific reasons for short award of work.

(i) Absence of Strategic Road Development Plan**:** Audit observed that T-RBD had no strategic plan in place for improvement/ widening of MDR/Rural Roads. The maintenance works were brought under other schemes on ad hoc basis.

It was observed that in the absence of a strategic plan, out of the 921.243 Km of road length test-checked under LTPBMC works, 43.600 Km had been proposed to be upgraded as National Highways and another 88.200 Km were taken up for widening/ improvement by the State Government. Both these roads were deleted from the scope of the project and the Department had not evolved any replacement plan for the packages, though the terms of the loan as well as the agreement did not prohibit taking up of other reaches for maintenance. This resulted in deletion of stretches from LTPBMC packages and short utilization of loan to the extent of the length deleted.

For example, for the LTPBMC Package no. 23 in Medak District, proposal for improvement of 114 Km was administratively sanctioned for ₹ 36 crore. After bid evaluation (September 2012), the package was cancelled by the IBRD (May 2013) on the request of the Department, due to declaration of a major stretch under this package as National Highway. Subsequently, the Department had not taken any action to identify any other stretch under CRN for maintenance and failed to utilise the related loan amount.

Absence of strategic road development plan led to deletion of stretches of road after awarding the work and consequent short utilization of the loan.

(ii) Non evaluation of benefits**:** As per Section II.A.1 of the Project agreement, the T-RBD was to monitor and evaluate the progress of the project on the basis of indicators agreed with the IBRD. Though Phase-I works under

LTPBMC were completed upto March 2014, no study on evaluation of benefits was carried out. It was also observed that no analysis was conducted to study the trend of accidents. Hence audit could not assess decrease/increase in road accidents in respect of completed Phase-I works.

The Department replied that the APRDC report on the same would be used for future guidance. However, applying the results obtained in Andhra Pradesh to Telangana would be injudicious as the problems faced by the states might not be the same.

***(iii) Remedial actions not taken despite survey results showing marginal/ no improvements in LTPBMC works*:** The APRDC had appointed (December 2010) a consultant to carry out the Road User Satisfaction Survey (RUSS) for all the package works taken up under the Project. The goal was to help in improving road transport in State by giving senior management in the RBD an insight into the issues raised by road users and thereby making better future strategic and operational decisions. The survey on these roads was to be conducted twice, i.e. before implementation (RUSS-I) and during implementation (RUSS-II) of works. The consultant had submitted reports for RUSS-I in March 2013, RUSS-II in August 2015 for the combined State and RUSS-II in June 2016 exclusively for Telangana State. The report was to be made public as per clause 3.2 of the contract agreement with the consultant.

As per the survey results, the Project had not shown considerable improvement over the existing road features (before commencement of these works), in terms of overall user satisfaction and in particular road safety aspect. Despite this, the Department had neither taken any action on the recommendations/ suggestions made therein nor made the report public.

The Department stated that the Report would be made public after incorporation of all suggestions/ information.

3.3.5 Public Private Partnership Facilitation Component

The component was included to strengthen the capacity of the Government to develop selected high traffic density corridors under Public Private Partnership (PPP), via toll revenues and viability gap support from the Central Government. Except for one PPP in Telangana i.e. Hyderabad – Karimnagar–Ramagundam road, for which agreement had been executed by APRDC in August 2010, Audit observed that no further studies were conducted to identify high traffic density corridors under PPP arrangement by T-RBD.

3.3.6 Institutional Strengthening Component

This component was to provide technical assistance, training and advisory services for strengthening of T-RBD, with requisite capacity for its responsibilities in managing the CRN and aiding in various aspects of project implementation, including the Asset Management Program, the Governance and Accountability Action Plan (GAAP) and the Institutional Strengthening Action Plan (ISAP), plus associated monitoring and coordination. The following observations are made:

3.3.6.1 Non-formation of Project Implementation Unit

A Project Implementation Unit (PIU) was to be established within T-RBD for assisting it in the implementation of the Project in the areas of procurement, contract management, financial management, safeguards, environment and social management, etc.

It was observed that PIU and sub-committees were not formed even after lapse of more than a year after conclusion of the amended loan agreement. Thus the assistance/ support in implementation of the project, envisaged in loan agreement, was not utilized.

The Department replied that the CRN wing was functioning as the PIU for the Project and though a sub Committee was not formally constituted, the works were being reviewed periodically.

However, the CRN wing had no staff with background in financial, environmental or social management which adversely affected the implementation of the Project.

3.3.6.2 Non-implementation of recommendations of consultant

The Government of Andhra Pradesh had accorded Administrative Sanction[21] (February 2011) for the work "Consultancy Service to Institutional Strengthening Action Plan" (ISAP) for ₹5.50 crore. The work was awarded (March 2011) to a consultant for ₹9.49 crore for completion by December 2013.

The Consultant had submitted (February 2014) recommendations for the combined State. The Department did not take any action on the final report stating that the Policy of the State was under development. However, after two years, the Government extended the services of the consultant (June 2016), though the contract had not been awarded. The loan period is due to end in May 2017 and the State may lose the opportunity to utilize this component in

[21] G.O.Ms.No.28, TR&B R(IV) Department, dated 18 February 2011

case immediate action is not taken. Due to non-implementation of the recommendations and delay in policy formulation, the intended objective of institutional strengthening could not be achieved.

3.3.6.3 Non-revision of Institutional Strengthening Framework

As per Section-I (E) of the Project Agreement, the Project Implementing Entity was to ensure that the Project was carried out in accordance with the terms, conditions and procedures set forth in the Environmental and Social Management Framework (ESMF), Resettlement & Rehabilitation (R&R) Policy Framework, Environmental Management Plans (EMPs), Resettlement Acton Plans (RAPs), Governance Accountability Action Plan (GAAP) and Institutional Strengthening Action Plan (ISAP) etc. In the light of incorporation of Telangana as a new State, the Project Implementing Entity was to revise and re-disclose the content of the above policy frameworks so as to reflect the new implementation requirements on or before 31 May 2015. Further, the project envisaged formation of an Institutional Strengthening (IS) Cell to provide support on ISAP implementation, coordination and progress monitoring.

Audit observed that neither the revised policy framework was prepared nor the IS cell formed.

The Department replied that revisions were being examined in consultation with the Bank experts. The proposal for engaging consultants for ISAP had been submitted to IBRD and the IS cell would be initiated after the formulation of ISAP.

However, as the loan period is due to end in May 2017, it is unlikely that the component would be completed due to paucity of time.

3.3.6.4 Non-adherence to Governance Accountability Action Plan (GAAP)

The GAAP referred to the governance and accountability action plan of the Project Implementing Entity adopted on April 1, 2009 which set out the key actions to be undertaken by it to strengthen governance, transparency and accountability under the Project. The same plan was adopted by Telangana State after bifurcation.

However, the GAAP was not adhered to as discussed below:

(i) As per the agreed disclosure policy under GAAP, the Department needed to disclose information related to the Project for allowing greater access to information including disclosure of mid-term review reports, environmental and social safeguard information/policies, audit reports, results of the road user satisfaction surveys etc. The expectation for the RBD, besides complying with on-demand access to information, was to fully comply with provisions on *suo motu* disclosure under section 4 of the RTI Act.

Audit observed that the Department had not established a website, though required as per the policy for disclosure of the project related information.

(ii) The GAAP *inter alia* included third party field-based physical verification of quality by reputable engineering university professors and their post-graduate students to ensure that the contractor, the supervision consultant and the Department were following the agreed engineering design in the construction of the proposed roads projects. However, such a monitoring of the project works was not undertaken, though Phase-I of the LTPMBC works were completed (2014) and Phase-II works were nearing completion (2017).

The Department replied that as per Supervision Matrix in the Project Appraisal Document, the need for engaging university professors and students had to be assessed by IBRD. As such, it had no role in it.

The reply was not tenable since as per the Procurement Plan approved by IBRD, the third party field-based physical verification was to be done and the Government had given administrative sanction for the same.

3.3.6.5 Road Management System

As a part of institutional strengthening, a Road Management System (RMS), to significantly improve the Road Development Corporation (RDC)/T-RBD planning for both capital and maintenance budget received from various sources, was to be rolled out.

The consultancy work to establish RMS was awarded (April 2011) to a consultant for ₹ 6.18 crore. The consultant had not delivered the output owing to non-furnishing of basic road data by the APRDC in the erstwhile combined State. After bifurcation of State, though T-RBD had compiled road data relating to 9000 Km out of a total requirement of 24,245 Km, the Department neither engaged a consultant for establishing the RMS nor took any action to complete the balance road data collection. It was observed that the draft Request for Proposal (RFP) for appointing the consultant had been submitted to IBRD for no-objection in July 2016 and the contract was yet to be awarded.

3.3.7 Road Safety Component

This component was to help in providing safer road corridors by initiating measures to reduce road accidents on major corridors by assisting the T-RBD to:

(a) Undertake 'demonstration projects' on selected CRN corridors;

(b) Carry out an extended black-spot[22] improvement program; and

(c) Implement institutional and policy action plans for improving the State's road safety responsibility framework and capacities.

3.3.7.1 Development of a demonstration corridor

The Demonstration (demo) corridor was to be a model corridor to be developed with multi sector road safety measures adopted by different Departments viz., Roads and Buildings, Transport, Police and Medical & Health. Taking into account the results of the demonstration project, the Department was to develop and adopt a policy and strategy for improving road safety in Telangana by 31 December 2016.

Considering the increase in number of accidents due to high traffic and also due to diversion of traffic from NH9 to NH7, the Government of Andhra Pradesh had identified (January 2010) Hyderabad - Bijapur Road as the demo corridor to test and implement a new road safety programme. It was proposed to undertake geometric improvements to the road, street lighting, translocation of trees etc. The work was awarded (February 2014) to a contractor for ₹ 13.37 crore for completion in 12 months. On scrutiny of records relating to the work, the following audit observations are made:

- The financial progress of the work after more than 29 months was only 71 *per cent*. Three curve improvement works were not taken up for want of forest clearance and two junction improvement works were not taken up as the utilities had not been shifted.

- Procurement of goods/services by other stakeholder Departments was not done due to multiple modifications and delay in submission of estimates. The civil works were yet to be completed. Lack of co-ordination among the stakeholder Departments resulted in delay in procurement of goods/ services for demo corridor.

The Department in its reply accepted that finalization of the specification/estimate and co-ordination with other Departments had taken time. It also stated that the estimates had since been finalized and procurement had already been initiated. The entire process would be completed well before the loan closure period.

[22] a location on a road where accidents are highly concentrated based on historical data

3.3.7.2 Improvement of Black Spots

A black spot is defined as a location on a road where accidents are highly concentrated based on historical data. A black spot could be a curve, intersection or a regular stretch of a road and can vary in length, but usually is about 200 - 400m. It was proposed to take up 10 black spots improvement works under the amended loan agreement and ₹38.84 crore was allocated under the programme.

Though the Department had instructed (April, 2013) all Superintending Engineers(SEs) to furnish information regarding five black spots in each District along with details for the previous five years, only one out of eight SEs had submitted the required information, based on which the Department identified two black spots against the target of 10. The work was awarded (May 2014) for ₹3.33 crore and completed at a cost of ₹3.27 crore. However, no evaluation study was taken up to ascertain the reductions in number of accidents to assess the effectiveness of the improvement works. Besides, the loan component was also not fully utilized.

The Department in its reply stated that the remaining eight black spots had been identified on Hyderabad-Medak-Bodhan road and the design and estimate have been finalized. It was also stated that the road stretch passed through forest area and action was being taken for getting permission from the Forest Department.

3.3.8 Non adherence to Procurement Plan timelines

The Procurement Plan which included different procurement methods or consultant selection methods was to be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

It was observed from the records that though timelines were given in the procurement plan, they were not being adhered to. Timelines for some of the components were not provided and those of others were revised multiple times. This led to delay in completion of various component/sub-components of the project.

3.3.9 Conclusion

The Project was taken up to remedy the funding gap in road sector in the State. However, significant deficiencies were observed. Despite continued dismal progress, the Department had not levied damages on the contractor in one case and, instead, had given EoT. Additional work was also awarded to the same contractor without considering his poor performance. The JP-06 *upgradation package, although stated to have been completed, remained incomplete and certain amenities were deleted, instead of getting them executed by the contractor. Due to absence of strategic road development plan, road stretches were deleted from the scope of contract due to their conversion as NHs or having been taken up under other State schemes resulting in short utilization of the loan. No efforts were made by T-RBD to fill the gaps by identifying alternate roads in lieu of the deleted stretches. The PPP Component of loan was underutilized. After bifurcation, sufficient efforts were not made towards Institutional Strengthening and separate PIU was not formed. The works relating to Demo corridor remained incomplete, two works in respect of black spot improvements were completed against the proposed 10 and road safety action plan was lagging behind the schedule.*

Irrigation and Command Area Development Department

3.4 Excess payment of price escalation for fuel and lubricants

The work "Investigation, Design, Execution of Tunnel of minimum internal diameter 4.00 m 'D' shaped/modified horse shoe with carrying capacity of 15.30 cumecs water from Dharmasagar tank to Railway Station Ghanpur in Warangal district (Package-IV/Phase-III of JCRDLIS[23])" was entrusted (February 2009) to an agency under EPC[24] turnkey system for ₹ 855.87 crore for completion by February 2012. Extensions of time were granted from time to time by the Department up to August 2016. Total value of work done and paid to the agency was ₹ 725.92 crore (July 2016), including price adjustment.

Agreement clause 14.16.1 provided price adjustment of contract prices for increase/decrease in cost of fuel. The rates prevailing in the nearest fuel station/stations to work spot on the last day of filing bids were to be adopted as base rates. Any increase or decrease of more than five *per cent* over base rates was to be compensated in accordance with the following formula.

$$V_f = 0.85 \times P_f/100 \times R_1 (F_1 - F_0)/F_0$$

Where

V_f = Increase or decrease in the cost of work done during the quarter under consideration due to change in the rates for fuels and lubricants;

[23] JCRDLIS – J.Chokka Rao Devadula Lift Irrigation Scheme
[24] EPC - Engineering, Procurement and Construction

P_f = Percentage of fuel and lubricants component of the work;

R_1 = Value of work done during the quarter;

F_0 = The average official retail price of High Speed Diesel (HSD) at the existing consumer pumps of IOC/IBP/HP/ Reliance nearest to the work spot on the last day of filing the bids; and

F_1 = The average official retail price of High Speed Diesel (HSD) at the existing consumer pumps of IOC/IBP/HP/ Reliance nearest to the work spot on the 15th day of the middle calendar month of the quarter under consideration.

The State Level Standing Committee (SLSC) constituted by the Government was to decide the "Percentage of fuel and lubricants component of the work (P_f)" based on the inputs furnished by the Department for each work. For computing the percentage of fuel and lubricants, SLSC was to consider the components of total value of fuel in the work and total value of the work.

Scrutiny of calculations relating to computation of the P_f factor for this work showed that for arriving at the P_f factor, the SLSC had considered the value of civil works only and had excluded the components of electro-mechanical works and hydro-mechanical works from the total value of the work. As a result, the P_f factor arrived at was 9.283 *per cent*, instead of 6.273 *per cent* as explained in the table below:

Total value of the work	₹ 855,86,72,500
Total value of civil works excluding value of Electro-mechanical works and Hydro-mechanical works	₹ 578,31,60,000
Value of fuel and lubricants for the work as worked out by Department	₹ 53,68,47,379
Fuel factor (P_f) approved by SLSC	₹ 53,68,47,379 X 100 / ₹ 578,31,60,000 = **9.283** *per cent*
Fuel factor (P_f) to be taken (as computed by Audit)	₹ 53,68,47,379 X 100 / ₹ 855,86,72,500 = **6.273** *per cent*

The Department, as a result of this, paid ₹ 13.48 crore calculated at 9.283 *per cent* towards price adjustment for fuel to the agency on total value of work done for the period from July 2009 to March 2016 (upto Running Account bill No.74) paid in July 2016 against admissible amount of ₹ 8.74 crore calculated at 6.273 *per cent*.

Thus, incorrect adoption of 'total value of the work' by the Department for computation of percentage of fuel and lubricants for the work, resulted in excess payment of ₹ 4.74 crore towards price adjustment for fuel.

Department accepted (December 2016) the error in calculation of price escalation for fuel. However, the Department was silent on recovery of excess amount paid to the agency.

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The 20 JAN 2017

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
The 23 JAN 2017