

CHAPTER-IV

Compliance Audit Observations

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Compliance Audit

Important audit findings emerging from test check of transactions of the State PSUs/Corporations are included in this Chapter.

Odisha Electricity Regulatory Commission

4.1 Avoidable loss

Delay in refund of sale proceeds of DISCOMs by OERC resulted in avoidable availment of loan by GRIDCO with consequential interest burden of ₹39.82 crore

In pursuance of the Odisha Electricity Reform Act, 1995, all the assets of the Grid Corporation of Odisha Limited (GRIDCO) pertaining to the distribution business, were transferred (November 1997) to four wholly owned distribution companies (DISCOMs)⁶³. Subsequently, 51 *per cent* of shares of GRIDCO were disinvested (April 1999) in favour of private partners through competitive bidding. However, due to the unsatisfactory performance of the private partners, the Odisha Electricity Regulatory Commission (OERC) revoked⁶⁴ the licences of all the four DISCOMs, under Section 19 of the Electricity Act, 2003 (the “Act”), for failure of the licensees to operate as per the Act. Thereafter, the management and control of the four DISCOMs (*i.e.*, four utilities) were vested with GRIDCO. OERC initiated (November 2017 for CESU and July/August 2020 for the other three DISCOMs) competitive bidding process, for selection of an investor for sale of the four utilities, in terms of Section 20 of the Act. As per the terms of the Request for Proposal (RFP) and decision of Government of Odisha (GoO), the utilities were to be vested in the newly created Special Purpose Vehicle (SPV) companies, with the shareholding of investor and GRIDCO being 51 and 49 *per cent*, respectively.

Tata Power Company Limited (TPCL) was selected⁶⁵ as the successful bidder, in case of all four utilities in the tendering process. Accordingly, OERC issued orders⁶⁶ for sale of all four utilities, in favour of TPCL. As per the orders of sale, TPCL deposited their share value of ₹752.25 crore⁶⁷ with OERC. The date of vesting of the utilities, with the newly created SPV companies⁶⁸, was specifically mentioned in the orders for sale.

⁶³ (i) Central Electricity Supply Utility of Orissa (CESU) (ii) North Eastern Electricity Supply Company of Odisha Limited (NESCO) (iii) Western Electricity Supply Company of Odisha Limited (WESCO) (iv) Southern Electricity Supply Company of Odisha Limited (SOUTHCO)

⁶⁴ CESU: 01.04.2005; WESCO: 04.03.2015; SOUTHCO: March 2015 and NESCO: March 2015

⁶⁵ In December 2019 for CESU, in December 2020 for WESCO/SOUTHCO and in January 2021 for NESCO

⁶⁶ CESU: 26.05.2020; WESCO: 28.12.2020; SOUTHCO: 28.12.2020 and NESCO: 25.03.2021

⁶⁷ TPCODL: ₹178.50 crore on 16.03.2020; TPWODL: ₹255 crore on 17.12.2020; TPSODL: ₹127.50 crore on 17.12.2020; and TPNODL: ₹191.25 crore on 10.03.2021

⁶⁸ TPCODL: 06.04.2020; TPWODL: 30.12.2020; TPSODL: 25.12.2020 and TPNODL: 20.03.2021

As per the orders for sale of utilities, the amount of sale proceeds deposited by TPCL, with OERC, were to be remitted to GRIDCO within 30 days or sooner, after vesting of the utilities with the SPV and after deduction of the transaction cost. OERC remitted the sale proceeds of ₹732.25 crore to GRIDCO, after deduction of the transaction costs, with delays ranging from 199 to 367 days, in violation of the order. Audit noticed that, pending refund of the sale proceeds to GRIDCO, OERC had earned undue benefit of interest of ₹20.12 crore, by keeping the same in deposit accounts in banks.

In this regard, Audit noted as below:

- While passing orders (March 2017/2018/2019) on the Annual Revenue Requirement (ARR) of GRIDCO, OERC had noted that GRIDCO was in deficit balance, as the revenue received from the DISCOMs was not sufficient to discharge even the power dues of the generators. Further, OERC noted that interest paid by GRIDCO on the working capital loan was not allowed for reimbursement in the ARR, as OERC did not accept the interest liability on the loans availed by GRIDCO. This evidenced that, despite having knowledge of huge borrowings by GRIDCO and payment of interest thereon, OERC did not remit the sale proceeds in time.
- Had the dues been refunded by OERC to GRIDCO in time, as per the orders above, GRIDCO could have reduced the working capital loan by that extent and saved interest burden to the extent of ₹39.82 crore⁶⁹ as calculated below:

Table 4.1: Loss of interest to GRIDCO

(₹ in crore)

| Name of DISCOMs/ Utilities | Name of the SPV | Date of vesting of power with SPV | Amount remitted to GRIDCO | Due date of remittance to GRIDCO (30 days from date of vesting) | Actual date of remittance | Delay in remittance (in days) | Interest earned by OERC | Loss of interest by GRIDCO |
|----------------------------|-----------------|-----------------------------------|---------------------------|---|---------------------------|-------------------------------|-------------------------|----------------------------|
| CESU | TPCODL | 01.06.2020 | 173.50 | 30.06.2020 | 02.07.2021 | 367 | 8.72 | 12.63 |
| WESCO | TPWODL | 01.01.2021 | 250.00 | 30.01.2021 | 29.10.2021 | 271 | 5.57 | 13.29 |
| SOUTHCO | TPSODL | 01.01.2021 | 122.50 | 30.01.2021 | 03.11.2021 | 276 | 2.78 | 6.63 |
| NESCO | TPNODL | 01.04.2021 | 186.25 | 30.04.2021 | 15.11.2021 | 198 | 3.05 | 7.27 |
| Total | | | 732.25 | | | | 20.12 | 39.82 |

(Source: Ledgers of GRIDCO)

In reply to the audit observation, Government stated (January 2023) that the utilities of CESU, WESCO, SOUTHCO and NESCO were vested through a process of sales with TPCODL, TPWODL, TPSODL and TPNODL with effect from 01 June 2020, 01 January 2021, 01 January 2021 and 01 April 2021 respectively under Section 21 of the Act. The mere taking over of the management cannot be construed as closure of sale process and there was every chance of stall in the sale process. The sale of utilities cannot be treated

⁶⁹ Loss of interest has been calculated at 7.10 per cent, 7.20 per cent and 7.35 per cent for applicable period of delay during 2020-21 and 2021-22 at which GRIDCO availed working capital loan

to be completed without share acquisition agreement, bulk supply agreement, completion of audit of the accounts *etc.*

Reply of Government was not acceptable, because OERC, in its orders for sale, has stipulated that the sale proceeds would be remitted to GRIDCO within 30 days or soon after vesting of utilities with the SPV. The date of vesting has also been clearly specified in the reply. Hence, closure of the sale process was never a parameter in the order. Further, as per Section 21 of the Electricity Act, from the date of vesting of the utilities or completion of sale, whichever is earlier, the rights, powers, authorities, duties and obligations of the utilities shall stand transferred to the purchaser and such purchaser shall be deemed to be the licensee. Hence, as per the orders of sale of utilities, the sale proceeds should have been transferred to GRIDCO within 30 days or sooner, after vesting of utilities. However, OERC, in violation of its own orders and the Act, remitted the sale proceeds in a delayed manner, resulting in avoidable payment of interest ₹39.82 crore by GRIDCO.

Odisha Hydro Power Corporation Limited

4.2 Unwarranted burden on consumers

Inclusion of disallowed income tax expenditure in tariff submission by OHPC led to inadmissible reimbursement of ₹18.56 crore, resulting in unwarranted burden on the consumers of the State

Odisha Hydro Power Corporation Limited (OHPC), a wholly owned State Government Company, is engaged in the business of generation of hydro power in the State of Odisha. The entire power generated by OHPC is sold to GRIDCO Limited. For power generating companies, the Aggregate Revenue Requirement (ARR) and generation tariff are governed by the Odisha Electricity Regulatory Commission (OERC) (Terms and Conditions for Determination of Generation Tariff) Regulations, 2014⁷⁰ (Tariff Regulations, 2014). Accordingly, OHPC files application before OERC for determination of ARR and fixation of generation tariff. OERC approves the same following provisions of Electricity Act, 2003 and Tariff Regulations, 2014.

As per clause 4.7 of the Tariff Regulations, 2014⁷¹, “Income Tax of the generating company would be recovered from the beneficiaries. This would exclude income tax on other income streams (*i.e.*, income from non-generation and non-transmission business)”. OHPC claimed an amount of ₹185.62 crore towards income tax paid for reimbursement, while filing application for determination of ARR and generation tariff, for the financial years 2018-19 to 2021-22. Out of this amount, OHPC received approval and reimbursement of ₹138.34 crore, for the above financial years.

In this regard, Audit observed the following:

- While submitting the application for income tax reimbursement, through ARR, for the financial years 2018-19 to 2021-22, OHPC did

⁷⁰ Tariff Regulations, 2014 was in effect from 08 September 2014 to 31 March 2020 (*i.e.*, up to FY 2019-20), and subsequently revised by Tariff Regulations, 2020 w.e.f. 15 July 2020

⁷¹ Clause 21(1) of Tariff Regulations, 2020 w.e.f. 15 July 2020

not exclude the portion of income tax paid on income from ‘Interest from others’ and ‘Interest in lieu of Delayed Payment Surcharge (DPS) from GRIDCO’. As those incomes were income from other income streams (non-generation and non-transmission activities), they should have been excluded from the income tax reimbursement claim while filing ARR before OERC.

- For determination of ARR and tariff during the financial year 2017-18, the claim of OHPC on reimbursement of income tax paid on the other income streams *viz.*, ‘Interest on others’ and ‘Interest in lieu of DPS from GRIDCO’, was disallowed by OERC. Subsequently, a review petition of OHPC for considering reimbursement of income tax on the above other income streams, was also rejected (23 October 2017) by OERC.
- Despite rejection of such claims during financial year 2017-18, OHPC claimed and received reimbursement of income tax amounting to ₹18.56 crore, during the financial years from 2018-19 to 2021-22, on the above other income streams, by deviating from the Tariff Regulations, 2014.

Thus, the inclusion of disallowed income tax expenses in the application for approval of ARR and generation tariff in deviation from Tariff Regulations, 2014, resulted in inadmissible reimbursement of Income Tax expenses of ₹18.56 crore. Consequently, allowance of inadmissible reimbursement caused an unwarranted burden on the electricity consumers of the State.

Government accepted (November 2022) the fact and stated to take action for adjustment of excess claim through the ARR filing for ensuing year 2023-24.

4.3 Short payment of statutory dues

Payment of Electricity Duty at lower rate in deviation from the Odisha Electricity (Duty) Act, 1961 resulted in short payment of ₹2.36 crore

As per the Odisha Electricity (Duty) Act, 1961, Electricity Duty (ED) should be levied and paid to the Government of Odisha (GoO), on the energy supplied to consumers, at such rate as the State Government may specify by notification, from time to time. The energy consumed by any person, not being a licensee or Board, who generates such energy for his own use or consumption, is also liable to levy and pay of ED to GoO, under the said Act. Department of Energy (DoE), GoO notified (January 2017) that ED payable would be assessed by the power generators on the units used or consumed from their self-generation, including auxiliary consumption⁷². The ED is to be deposited, within thirty days of expiry of the month of generation, in the Government Treasury. Besides, the generator is to submit a monthly return within seven days from the date of expiry of the preceding month. In case of delay in payment of ED, the licensee would be liable to pay interest at the rate

⁷² Auxiliary consumption is the energy consumed by equipments of generating station used for operating plant and machinery, including switch yard of the generating station and the transformation loss in the generating station but does not include supply of power to housing colony and other facility at generating station

of 18 *per cent* per annum⁷³ on the amount of the ED remaining so unpaid, until the payment thereof was made. DoE, GoO, notified (December 2016) that the rate of ED, for any person not being a licensee, who generates energy for his own use or consumption, would be 30 paise per unit. This rate was revised vide DoE, GoO notification (May 2017) to 55 paise per unit.

Rengali Hydro Electric Project (RHEP), a unit of Odisha Hydro Power Corporation Limited (OHPC), generated electricity and supplied it to GRIDCO Limited. RHEP also distributed electricity to its colony nearby it, out of its own generation, as these areas had not yet been handed over to the electricity distribution companies. For such distribution of electricity in colony, RHEP collected ED at the rate of four *per cent* of the energy charges and deposited the same with the State Government.

Audit observed that RHEP was not a licensee and it was liable to pay ED at the rate of 55 paise per unit for colony consumption, as per the aforesaid notifications of December 2016 and May 2017. However, in deviation from the above notifications, RHEP had been depositing ED at the rate of four *per cent* of energy charges. In this connection, it was observed that, as per the notification of May 2017, the rate of four *per cent* was applicable to low tension non-industrial category consumers. Hence, payment at four *per cent* was irregular, as RHEP was a generator for whom the rate specified in the notification was 55 paise per unit. Further, a comparison with the Upper Indravati Hydro Electric Project, Mukhiguda, another hydro electric project of OHPC, revealed that it was also paying ED at the rate of 55 paise per unit for colony consumption. Application of this incorrect rate resulted in short payment of ED by ₹2.36 crore⁷⁴, for the period from April 2018 to March 2022, as calculated by audit. The arrear ED of ₹2.36 crore, along with interest thereon, was a loss to the State exchequer.

Government replied (February 2023) that for energy supplied to housing colony, ED should be charged in high tension (HT) category at the rate of eight *per cent* of energy charges. They also stated that the matter was referred to the Engineer in Chief/EIC (Electricity) and OHPC would comply with the decision on the matter and pay the ED if determined.

The reply was not acceptable as RHEP had paid ED during April 2018 to March 2022 at the rate of four *per cent* on energy charges which was applicable to low tension (LT) category consumers. That was indicative of the fact that the colony fell under LT category. Further, the RHEP, Rengali had already paid ED for the month of May 2022 at the rate of 55 paise per unit and also estimated to pay the differential outstanding ED by applying the same rate. Therefore, fact remained that the arrear ED at the rate of 55 paise per unit had not been deposited with Government for the period from April 2018 to March 2022.

⁷³ Section 5(c) of the Odisha Electricity (Duty) Act, 1961

⁷⁴ ED at the rate of 55 paise per unit ₹2.43 crore - ED actually paid by RHEP ₹0.07 crore

GRIDCO Limited

4.4 Avoidable payment of penalty

Delay in submission of Government Guarantee led to imposition of avoidable penalty, amounting to ₹6.19 crore by commercial banks

The Grid Corporation of Odisha Limited (GRIDCO), a Government of Odisha (GoO) undertaking, is engaged in the business of bulk purchase and sale of power, to four Distribution Companies (DISCOMs) in the State, as well as and trading of surplus power, through traders and energy exchanges. GRIDCO has been borrowing working capital loans from commercial banks, for the last 20 years, by submitting Government Guarantees (GGs), for making timely payments to the power generating companies (PGCs). Each year, after approval of its borrowing proposal by its Board of Directors (BoD), GRIDCO used to request banks to sanction loans and simultaneously request GoO to sanction Government Guarantees.

Scrutiny of records revealed that the BoD of GRIDCO had approved (12 May 2016) a proposal to borrow ₹1,000 crore, from commercial banks, to ensure timely payment to PGCs, for the Financial Year (FY) 2016-17. Accordingly, GRIDCO requested (July 2016) the Union Bank of India (UBI), for sanction of term loan of ₹500 crore. UBI sanctioned (September 2016) the loan of ₹500 crore and released the loan amount in four phases⁷⁵, with the condition that the GG be submitted within six months (*i.e.*, by May 2017) from the date of first disbursement (November 2016), failing which, penal interest, at the rate of one *per cent*, would be recovered for the period of delay in submission of the GG. GRIDCO accepted (November 2016) the terms and conditions of the bank.

However, GRIDCO submitted (July 2017) the proposal for sanction of GG of ₹1,000 crore, for FY 2016-17, to the Department of Energy (DoE), after 14 months of the BoDs' approval and after eight months of disbursement of first instalment. In response, DoE requested (August 2017), GRIDCO to furnish certain information and documents, for onward transmission to the Finance Department, for consideration of GG. Due to delay in compliance of the above, DoE reminded GRIDCO for compliance of same, in October 2017.

Subsequently, GRIDCO submitted (July 2018) its proposals for two years, for sanction of GG of ₹2,015 crore, for FYs 2016-17 and 2017-18. The proposal was further revised and submitted (November 2018) for ₹3,000 crore, for three years, from FY 2016-17 to FY 2018-19. Finally, GG of ₹3,000 crore, was sanctioned (March 2019) in favour of GRIDCO.

As GRIDCO had not been able to submit GG within six months of the date of first disbursement of the loan amounting to ₹500 crore, UBI charged penal interest, at the rate of one *per cent*, on the aforesaid term loan. On the request of GRIDCO, UBI reversed (March 2020) penal interest of ₹7.97 crore, leaving penal interest of ₹2.42 crore, which was paid by GRIDCO.

⁷⁵ 15 November 2016, 31 December 2016, 02 March 2017 and 07 July 2017, in four phases of ₹200 crore, ₹100 crore, ₹100 crore and ₹100 crore respectively

Similarly, BoD approved (26 July 2019) GRIDCO's proposal for borrowing of ₹1,500 crore, from commercial banks, in FY 2019-20. Canara Bank sanctioned (August 2019) a term loan of ₹400 crore, which was disbursed in two phases⁷⁶, with similar terms and conditions⁷⁷. In this regard, GRIDCO submitted (10 September 2019) its proposal to DoE, for sanction of GG, after 46 days of the BoDs' decision. Further, due to non-submission of some documents/information⁷⁸ along with the application, DoE requested (7 April 2020) GRIDCO to submit the wanting documents/information. GRIDCO submitted the sought for documents/information on 15 April 2020. Accordingly, GG was sanctioned on 19 August 2020 and submitted to Canara Bank on 16 September 2020. Thus, due to delay in submission of the GG proposal, as well as non-submission of the requisite documents/information, there was delay in the sanction of GG, for which Canara Bank charged penal interest of ₹3.77 crore. Thereafter, GRIDCO had transferred (March 2022) the loans, from the Canara Bank to the Bank of Baroda. Hence, there was no scope for reversal of the penal interest charged by the Canara Bank, resulting in loss to GRIDCO.

Audit observed that, despite being aware of the fact that GG was to be submitted to the Banks within six months of disbursement, GRIDCO did not expedite the matter. It was also observed that there had been delays on the part of GRIDCO, in submission of its guarantee applications to DoE. Moreover, its applications had not been supported with basic information, such as information relating to its share capital, accumulated losses, outstanding borrowings, period of guarantee to be availed, plan to settle loans outstanding against GG *etc.* Consequently, GoO had to ask for this information from GRIDCO and also remind it subsequently for the same, resulting in further delay in the process of sanction of GG. Due to the above delay GRIDCO had to repeatedly revise its proposals and to submit consolidated proposals, which included proposals for subsequent financial years. This resulted in delay in submission of GGs to the concerned banks and led to payment of avoidable penal interest of ₹6.19 crore (₹2.42 crore + ₹3.77 crore).

Government stated (February 2023) that, though BoD had approved GRIDCO's proposal for availing loan, on 12 May 2016, at that time GRIDCO was pursuing GG for FY 2015-16. Therefore, it was not prudent on the part of GRIDCO to request GG for a subsequent year *i.e.*, 2016-17, as the previous year's guarantee had not been sanctioned. Accordingly, GRIDCO had made its request for guarantee for FY 2016-17, on 29 July 2017. Government further stated that, due to timely payment of dues to the generating companies, by availing loans, without waiting for GG, GRIDCO had availed the maximum rebate and had also avoided Delayed Payment Surcharge. Thus, procedural delay in approaching DoE for GG, should not be considered as a lapse.

⁷⁶ ₹200 crore on 07 August 2019 and ₹200 crore on 31 December 2019

⁷⁷ One *per cent* penal interest on non-submission of GG within six months from the date of first disbursement

⁷⁸ Cabinet memorandum, along with financial memorandum and synopsis which was to include: reasons for loss in power trading and prospects for profit in future; total borrowing of GRIDCO; revenue expenditure during the last three years; financial projections for repayment of the loans under GG *etc.*

The reply was not acceptable because GRIDCO had been borrowing from banks for several years, for which submission of GG was a pre-condition of the banks. Since delays in submission of GGs entailed levy of penalty by the banks, it was prudent to ensure timely submission of the same. Further, at the time of application for GG, GRIDCO had not submitted all the requisite information/documents. The same were only submitted after being called for and reminded of by the DoE, which further delayed the sanction of GG. Timely payment of dues, to avoid DPS, is an obligation of GRIDCO, which cannot be cited to justify the delays in submitting application for GG.

Odisha Power Transmission Corporation Limited

4.5 Excess payment to contractors

Incorrect fixation of rate contract price resulted in excess payment of ₹2.44 crore to the contractors

Odisha Power Transmission Corporation Limited (OPTCL) was incorporated in March 2004 to undertake the business of transmission and wheeling⁷⁹ of electricity in the State. It owns extra high voltage transmission system comprising transmission lines and substations. The normal and emergency works in its substations and transmission lines are executed through rate contract holders selected by open tender.

The Rate Contract Price (RCP) approved in July 2012 was valid up to July 2014. OPTCL floated a tender (March 2014) for fresh enlistment of rate contract holders for a period of two years. During evaluation of tender, OPTCL observed that in some items, the rates quoted by the lowest bidder were below the existing RCP and not workable. Hence, Board of Directors (BoD) of OPTCL approved (December 2014) to increase the existing RCP by 12.91 *per cent* based on increase in Wholesale Price Index (WPI) from July 2012 to December 2014. The Board also decided that the new RCP would be kept firm for the first year and for the second year the RCP would be enhanced on the basis of percentage increase in WPI during the first year of the rate contract. The new RCP was made effective from 3 February 2015. The BoD of OPTCL approved (June 2016) for reduction in RCP for the second year (3 February 2016 to 2 February 2017) rate contract by 0.91 *per cent* based on decreasing trend in WPI during first year of rate contract. The Board further decided that in future rate contract tender, the increase or decrease in price would be determined considering monthly average of WPI.

OPTCL again floated (December 2016) a tender for finalisation of fresh RCP for execution of normal and emergency works in its substations and transmission lines. As GST compliant price bids were to be evaluated after promulgation of GST laws from 01 July 2017, OPTCL analysed that the entire process for evaluation of tender would take considerable time to finish. Hence, OPTCL extended the existing RCP *i.e.*, 12 *per cent* (12.91 *per cent* – 0.91 *per cent*) increase over the RCP of July 2012 without any alteration of price.

⁷⁹ In electric power transmission, wheeling is the transportation of electric energy (megawatt-hours) from within an electrical grid to an electrical load outside the grid boundaries

Thereafter, the extensions were given for different time period since 03 February 2017 *i.e.*, after expiry of the previous RCP on 2 February 2017 up to 31 October 2020. During the 116th meeting of BoD, the RCP was enhanced by 5.38 *per cent* for a further period of two years with effect from 01 November 2020.

In this regard, Audit observed that non-compliance with the directions of the BoD resulted in excess payment to contractors as detailed below:

- OPTCL, in contravention of the direction of the BoD to increase or decrease the RCP considering the WPI, extended the existing RCP from February 2017 to October 2020 without any adjustment with reference to that WPI.
- The 12 *per cent* increase over the RCP of July 2012 was determined by taking the WPI data with base year 2004-05. Ministry of Commerce & Industry, Government of India revised (May 2017) the base year of WPI from 2004-05 to 2011-12 with release of monthly WPI of new series from April 2012 to April 2017. OPTCL extended the RCP from 03 February 2017 to 30 June 2017 on first occasion. After that the RCP was extended for different time periods from 01 July 2017 to 31 October 2020. However, OPTCL had not considered the new series of WPI with the base year as 2011-12 which was in force while extending the RCP from 01 July 2017.
- Had the Company determined the RCP as per direction of the BoD while extending the rate contract and considering the new series of monthly WPI with base year 2011-12, the RCP would have increased by only 7.25 *per cent* for July 2017 over the RCP of July 2012. However, the Company continued to extend the RCP from 1 July 2017 at existing rate which was 12 *per cent* over the RCP of July 2012. Consequently, the RCP was fixed on higher side by 4.75 *per cent* (12 *per cent* – 7.25 *per cent*) over July 2012 RCP. The RCP was continued to extend till October 2020 after which the BoD enhanced it during the 116th meeting.
- OPTCL awarded 196 works valuing ₹51.29 crore during July 2017 to October 2020. Due to fixation of RCP on the higher side, OPTCL made excess payment of ₹2.44 crore to the contractors.

Government replied (May 2022) that increase of WPI between February 2017 (113.0) and October 2020 (123.6) was 9.38 *per cent* which was not allowed to the contractors. The price was kept firm and that was beneficial to OPTCL. The reply was not correct because the increase in WPI between February 2017 and October 2020 would be applicable for subsequent period starting from November 2020.

Odisha Mining Corporation Limited

4.6 Avoidable expenditure

Avoidable payment of penal Net Present Value of ₹47.12 crore

Odisha Mining Corporation Limited (OMC) executed (November 1963) Mining Lease (ML) with Government of Odisha (GoO) for an area of 366.311 ha at Khandabandha iron ore mines having 345.189 ha of forest area for a period of 30 years up to November 1993. Subsequently, on application of OMC, the lease period was extended (June 2018) upto 29 November 2033 subject to execution of supplementary lease deed by the company. However, the supplementary lease deed had not been executed till date (December 2021).

As observed in audit, OMC selected an agency through tender for mining operation. An agreement was signed (February 2008) with the agency for mining operations at Khandabandha mines. The allotments of quarries to the agency for the mining operations were to be made by OMC. The mines manager had to certify that the agency had complied with all applicable provisions, while recommending the bills for payment. The mines manager had full power and authority to inspect the work at any time when it was in progress. Hence, the mines manager was primarily responsible for lawful execution of mining contract under the control of the Regional Manager of the mines.

As per Section 2(ii) of the Forest Conservation Act (FCA), 1980, it was obligatory to take prior approval from Ministry of Environment, Forest and Climate Change (MoEF&CC) for non-forest use of forest land. OMC submitted (October 1995) a Forest Diversion Plan (FDP) for Khandabandha mines to the DFO, Keonjhar for onward submission to the MoEF&CC. While dealing with the aforesaid plan for diversion of 77.173 ha of forest land, the Forest Conservator, GoO, observed (August 1996) that, OMC had already broken up 15.349 ha of forest land for mining operations without approval in violation of the aforesaid Act. Temporary working permission was, however, granted (May 1997) for nine months seeking an explanation for the violation. Specific direction was also issued that no fresh forest area would be broken up during the period of temporary permission. Subsequently, the permission was cancelled (January 2001) by GoI due to non-furnishing of required information sought for by MoEF&CC. In contravention to the direction, OMC continued mining in additional 113.746 ha of forest area.

The Divisional Forest Officer, Keonjhar issued (December 2009) closure notice to OMC to stop mining operations in both virgin and broken up forest lease area since forest clearance had not been obtained from GoI as required under the Act and the mining operations were discontinued with effect from 05 January 2010. The GoI while conveying its in-principle (Stage-I) approval (January 2019) for diversion of 345.189 ha of forest land, directed the GoO to collect applicable penal Net Present Value⁸⁰ before Stage-II clearance.

⁸⁰ When forest land is diverted for other use without permission penal NPV is payable

Accordingly, GoO demanded penal NPV of ₹47.12 crore over 129.095 ha of diverted forest land utilised for illegal mining during the period from 1994 to 2009 and the same was deposited by OMC in September 2019.

Audit noticed that mining in forest area by OMC without required approval resulted in payment of penal NPV of ₹47.12 crore as below:

- It was observed that, OMC did not adhere to the stipulation of the FCA, 1980 and initiated mining in 15.349 ha of forest land without obtaining approval of GoI and continued mining operations in additional 113.746 ha of forest area in violation of the conditions of temporary permission till closure of the mine on 05 January 2010.
- While ratifying the payments of penal NPV, it was submitted (August 2020) to the Audit Committee of OMC that although OMC was well aware of the illegal mining, they had never foreseen such consequences. Hence, Audit opines that illegal mining was wilful and there was no systematic arrangement to prevent it.
- The company took about 24 years to obtain (January 2019) the Stage-I approval for use of the forest area due to frequent changes and resubmission of FDP as well as delay in submission of compliance/information to MoEF&CC.

Government accepted the facts (June 2022) that after expiry of lease, mining operations were continued in 113.746 ha of broken up forest area till 1998. Further, the delay caused in obtaining Stage-I forest clearance was beyond the control of OMC and was only a procedural delay such as discrepancies in certified land schedule for detailing forest land status, delay in obtaining certificate for diversion of forest area under Forest Right Act, 2006, frequent submission of FDP from 1995 to 2017 (five times), land identification for Compensatory Afforestation (CA) *etc.*

The reply was not acceptable as there was severe delay in compliance with the GoI instructions, which was very much within the control of OMC. Moreover, delay in obtaining clearance did not entitle the company to violate the statute and continue with illegal mining. No responsibility was fixed for such wilful violation of the Acts on any official who was in charge of execution of the mining contract till date. It is also pertinent to mention that Audit had reported similar issue of diversion of forest area for mining without MoEF&CC clearance in respect of Daitari iron ore mines in Audit Report No. 3 of 2015 (PSUs) for the year ended March 2014.

Hence, in cases of such violations, responsibility needs to be fixed on the officers to prevent recurrence of this persisting irregularity. While accepting the audit recommendation, Government stated in its reply, that all concerned Mine Managers and Regional Managers who were working during the said periods have already been retired from service and the company has been instructed to relook into the matter with minute investigation at their end and confirmation of no further recurrence of such illegal mining in future.

4.7 Imprudent expenditure

Avoidable expenditure of ₹7.40 crore on exploration work

The Odisha Mining Corporation Limited (OMC) executed a chromite mining lease, in November 1976, in Birasal (Dhenkanal district), for a period of 20 years (1976 to 1996). The lease area of 583.021 ha included 504.310 ha of forest land and 78.711 ha of non-forest land. Subsequently, OMC obtained extension of the Birasal mining lease, for a further period of 20 years (till 2016).

For compliance with the provisions⁸¹ of the Mineral Conservation Development Rules (MCDR) 1988, OMC engaged (September 2004) M/s Mineral Exploration Corporation Limited (MECL), a Government of India undertaking, to carry out exploration work, to delineate the chrome ore mineralisation zones and carry out a quantitative and qualitative assessment of the chrome ore deposits in the lease area. MECL carried out geological mapping and geophysical prospecting, over the entire mining lease area of 583.021 ha. The geophysical magnetic surveys revealed a promising mineralised area of only 80 ha, located in the eastern and central part of the lease. Thereafter, MECL conducted down-the-hole drilling, of 81 bore holes, in the 80 ha of the promising mineralised area and found that only a small area in the eastern part had mineral deposits of low grade. The estimated quantity of deposits was 12,695 MT of sub-grade ore quality with below 40 per cent chrome content. In view of the small mineralised area and low grade of deposits, MECL reported (September 2006) that the Birasal leasehold area was not promising for chromite mineralisation.

Subsequently, when the lease was expiring in 2016, an Internal Committee proposed (report dated 26 August 2016) that the Birasal chromite mine was not economically viable. As per OMC's approved mining plan (FYs 2011-12 to 2015-16), the total mineral reserves for the Birasal mine were 12,695 MT, with sub-grade ore, valuing ₹2.76 crore at the prevailing prices. Another Internal Committee (report dated 15 January 2018) also recommended that the lease should not be renewed. However, OMC did not analyse this report and did not take action to surrender the lease.

Instead, disregarding the MECL report and the recommendations of the Internal Committees, it was decided (April 2018) that views of an outside Government agency, regarding non-potentiality of the lease, should be obtained, before considering surrender. Simultaneously, contending that exploration data pertaining to the entire mining lease area was not available and detailed exploration and statutory approvals were required for resuming mining operations, OMC applied and obtained (November 2018) the approval of the State Government, for extension of the lease till November 2026. The

⁸¹ As per MCDR, 1988 and MCDR (Second Amendment), 2003, a brief account of the geological feasibility, economic viability studies and estimate of reserves, in respect of the concerned mine, is to be submitted to the Indian Bureau of Mines (IBM). According to the revised MCDR, 2017, detailed exploration is to be carried out, over the entire potentially mineralised area, under the mining lease

rationale was not convincing, as MECL had already conducted exploration activities, equivalent to preliminary exploration⁸², over the entire lease area and detailed exploration⁸³ over the identified potentially mineralised area.

Further, disregarding the views of a Government agency (MECL), OMC appointed (July 2019) a private party viz., M/s Maheshwari Mining Private Limited, at a cost of ₹7.40 crore, for carrying out exploration of the lease area, till January 2021, to assess the potentiality of the lease, without carrying out any cost-benefit analysis of such exploration.

Eventually, the report submitted (March 2021) by M/s Maheshwari Mining Private Limited estimated that the lease area had chrome ore deposits of only about 6,697 MT, with below 40 *per cent* chrome content, thereby confirming the fact that the Birasal mining lease was not promising for chromite mining, which was already known from the MECL report and had been reiterated by two Internal Committee reports. OMC subsequently, decided (October 2021) to surrender the lease.

Thus, disregarding the MECL report findings and the recommendations of Internal Committees, in regard to non-potentiality of the Birasal mining lease for chromite mining, without any basis and, instead, commissioning another exploration of the lease area, by a private party, led to avoidable expenditure of ₹7.40 crore.

The draft paragraph was issued to Government on 19 January 2023. The reply had not yet been received (as of February 2023).

4.8 Loss of revenue

Loss of revenue of ₹2.98 crore due to improper fixation of floor price of iron ore fines at Gandhamardan region of OMC

Odisha Mining Corporation Limited (OMC) supplies different minerals like iron ore, chrome ore, bauxite ore, manganese ore, *etc.* to e-auction buyers as per the rates derived through e-auction conducted at regular intervals and to Long-Term Linkage (LTL) buyers through weighted average price⁸⁴ obtained in the e-auction. The floor price for e-auction are fixed by ‘Sales Committee of the OMC Board (SCB)’ based on the market intelligence report, prices of finished products published by Steel Mint website along with the allotment and lifting status of stock of the last e-auction.

As per the e-auction conducted on 21 October 2019 against floor price of ₹1,000 per MT, OMC sold⁸⁵ iron ore fines (IOF) to e-auction buyers at

⁸² Preliminary exploration involves the initial delineation of an identified mineral deposit area of previous stage by furthering the exploration to extend and identify both laterally and vertically down (third dimension) of the ore body.

⁸³ Detailed exploration involves the detailed three dimensional delineation of a known mineral deposit achieved through sampling, such as from outcrops, pits, trenches, boreholes, shafts and tunnels *etc.*

⁸⁴ Weighted average price is calculated by price bids obtained in the e-auction along with quantities as $\{(price1 \times quantity1) + (price2 \times quantity2)\} / (quantity1 + quantity2)$.

⁸⁵ During the period from 23 October 2019 to 20 December 2019

₹1,100 to ₹1,150 per MT and to the LTL buyers at ₹1,109 per MT at its Gandhamardan region. However, for subsequent e-auction (21 December 2019), the SCB decided (17 December 2019) to keep the floor price same as of the last e-auction (21 October 2019) at ₹1,000 per MT of the Gandhamardan region without assigning any specific reason. The SCB did not consider the market intelligence report of Gandhamardan region, however, in the same meeting, SCB considered the market intelligence report for Koira region and enhanced floor price of the IOF from ₹950 to ₹1,100 (16 per cent increase). It is also pertinent to mention that despite this higher floor price at Koira region, the company actually received bid price of ₹1,650/₹1,700 per MT (50 per cent higher than revised floor price). This indicated the rising trend in the market price of IOF.

Audit observed that due to non-consideration of market condition in terms of both demand and price, OMC suffered a loss of ₹2.98 crore as detailed below:

- As per website of Steel Mint there was increasing demand for finished products for the period from October to December 2019. Further, despite increase in the floor price of Koira region, the company failed to increase the floor price of Gandhamardan region.
- In view of higher demand and increase in floor price of Koira region, the floor price of IOF of Gandhamardan region should also have been increased to the minimum price of ₹1,100 per MT which was already discovered through last e-auction (21 October 2019) *i.e.*, ₹1,100 to ₹1,150 per MT. However, OMC sold IOF to e-auction buyers at ₹1,000 to ₹1,050 per MT and at ₹1,028 per MT to LTL buyers at Gandhamardan region during the period from 31 December 2019 to 20 February 2020.

Thus, fixation of floor price at lower rate resulted in loss of revenue of ₹2.98 crore on account of sale of 4,11,323.700 MT at Gandhamardan Block B during the period from 31 December 2019 to 20 February 2020.

Government replied (June 2022) that, the fixation of floor price was independent of e-auction bid value and lifting by LTL and e-auction buyers.

The reply was not acceptable because while increasing the floor price of Koira region considering the increase in demand for finished product, the Committee failed to increase the floor price for Gandhamardan region. It maintained the price at the level of previous auction despite the fact that the company had already fetched bid price in the previous auction which was 10 per cent higher than the floor price. Non consideration of market intelligence report also indicated lapses in fixation of floor price resulted in loss of revenue. Further, it is stated that fixation of lower floor price foreclosed the chances of higher bids by the bidder in the e-auction.

Government further stated that, the price trend of finished products in Steel Mint website during the period from October to December 2019 showed a marginal/negligible variation.

This reply was also not acceptable because as per Steel Mint website the price of finished product had increased from ₹5,100 to ₹5,500 *i.e.*, by eight *per cent* during the period from November to December 2019, which was not negligible.

The Government should advise OMC to duly factorise overall market trend and lifting status for fixation of the floor price.

4.9 Incorrect fixation of floor price of chrome ore

Under realisation of revenue of ₹1.97 crore, due to incorrect fixation of floor price for sale of chrome ore

Chrome ore⁸⁶ is extracted and produced from mines. The produced chrome ore, on the basis of its chromium content, is categorised as ‘graded’ (40 *per cent* or above chromium content) or ‘sub-graded’ (below 40 *per cent* chromium content). ‘Graded’ ore is directly sold in the market through e-auction, while the ‘sub-grade’ ore needs to be enriched in chrome content, through a process termed as ‘beneficiation’. ‘Beneficiation’ is done through a Chrome Ore Beneficiation Plant (COBP), which produces chrome concentrate having a higher percentage or grade of chromium content, equivalent to graded chrome ore. In the process, some waste is generated and there is loss of volume, which is termed as ‘tailing loss’. The recovery rate of concentrate, out of the sub-grade ore, is considered after deducting the tailing loss. Chrome concentrate is sold in the market, for production of High Carbon Ferro Chrome (HCFC) which is utilised by the stainless steel industry.

The Odisha Mining Corporation Limited (OMC) has a COBP, situated within the mining lease area and according to its design, it could produce chrome concentrate with a recovery rate of 87 *per cent* and 13 *per cent* is lost in process. The COBP was closed with effect from 01 April 2017, due to non-compliance with the environment conditions prescribed by the MoEF&CC, Government of India. Sale of sub-grade chrome ore, through national e-auction, was not possible, as there was no provision in the Mining Plan of OMC chromite mines, for direct selling of sub-grade chrome ore. Neither had OMC sought permission for its disposal through direct sale. As a result, there was huge accumulation of sub-grade chrome ore, awaiting beneficiation, in the mining lease area, creating hurdles for mining operations. Accordingly, OMC decided (October 2019) to dispose of the accumulated sub-grade chrome ore, by sale through e-auction, after obtaining permission from the Indian Bureau of Mines and fixed a methodology for fixation of the floor price for e-auction (May 2020).

As per the aforesaid methodology, OMC first collected the market price of HCFC. From the market price, prices were derived for various grades of chrome concentrate. From these prices, the price of sub-grade chrome ore was derived, through backward calculation, after adjusting the cost of

⁸⁶ The important applications of chromium ores are in the manufacture of stainless steel, gray cast iron, iron-free high-temperature alloys and chromium plating for surface protection

beneficiation. This price was designated as the floor price, for e-auction of sub-grade chrome ore. While determining the floor price of sub-grade chrome ore, OMC decided to adopt the average production price of chrome concentrate, from its COBP, during the period 2014-15 to 2016-17, as the COBP had remained non-functional from 01 April 2017 onwards. The average recovery rate was estimated to be 42.30 *per cent*. For the sale of sub-grade chrome ore, through two e-auctions in May 2020 and August 2020, the floor prices were fixed at ₹1,941 per MT and ₹2,181 per MT, respectively. OMC sold a total of 88,338.42 MT of sub-grade chrome ore, through the two e-auctions, at the aforesaid floor prices.

Audit observed that even within the methodology adopted by OMC, the fixation of floor price was incorrect. Although the average recovery rate during 2014-17, worked out by OMC, was 42.30 *per cent*, the same had been taken as 38.76 *per cent*, in the actual computation. As a result, the floor prices were reduced by ₹211 per MT and ₹230 per MT, for the two e-auctions. Fixing of lower floor price attracted lower bids, resulting in under-realisation of sale value, amounting to ₹1.97 crore, for sale of 88,388.42 MT of sub-grade chrome ore (calculation detailed in *Appendix 19*).

Thus, application of incorrect calculation, within the adopted methodology, led to fixation of a reduced floor price for the sub-grade chrome ore and resulted in under-realisation of revenue, amounting to ₹1.97 crore.

Management replied (December 2022) that OMC had not decided the price, but had only set a floor price and the price of the product had been decided by the market, in a competitive and open bidding process, through e-auction. The reply is not acceptable, because sub-grade chrome ore is not a regularly marketed product and fixation of lower floor price implied offering the product at a lower price. As such, the fixation of the floor price should have been done with utmost care, with due reference to the recovery rate of 42.30 *per cent* as decided by OMC. Secondly, the market information that sale had been at the floor price itself, in the first e-auction (May 2020), should have been considered, to effectively set the floor price for the second e-auction, to enhance revenue. However, it was not done.

The draft paragraph was issued to Government on 06 January 2023, followed by reminder on 22 February 2023; reply had not yet been received (as of February 2023).

Odisha State Police Housing and Welfare Corporation Limited

4.10 Avoidable loss of interest

Loss of ₹3.12 crore due to excess payment of GST

The Odisha State Police Housing and Welfare Corporation Limited (OPHWC) executed different building projects of the Home Department and other departments, under the Central as well as the State Government. OPHWC was registered under the Goods and Services Tax (GST) Act, 2017 and was liable to pay GST at the rate of 12 *per cent* for supply of construction services (work

contract services) to different Government agencies and 18 *per cent* GST on services other than construction services *i.e.*, house rent, penalty recovered, sale of tender papers⁸⁷ *etc.*

Scrutiny of records revealed that OPHWC had filed (25 September 2019) one return (GSTR-3B), indicating the summary of GST liabilities (*i.e.*, inward and outward supplies), for the month of March 2019, by declaring GST at 12 *per cent* for the supply of construction services to different Government agencies. However, while filing (2 March 2020) the other return (GSTR-1) for the same month, indicating the details of only outward supplies of goods and services, OPHWC declared the GST rate at 18 *per cent*, instead of the applicable rate of 12 *per cent* for such work. Accordingly, ₹67.88 crore GST was paid, against due of ₹45.33 crore, by utilising the Input Tax Credit (ITC) balance available in the Electronic Credit Ledger⁸⁸. Thus, incorrect adoption of GST rate resulted in excess payment of GST, amounting to ₹22.55 crore, for the month of March, 2019.

Subsequently, OPHWC was not able to file return for March 2020, due to insufficient ITC balance in the credit ledger, as the ITC was used during filing of return for the month of March 2019. OPHWC prematurely encashed fixed deposits, amounting to ₹24.63 crore, for payment of GST liability of ₹24.51 crore.

OPHWC rectified the erroneous filing (4 September 2020) with amendment on GSTR-1 for the month of March 2019 and filed an application (10 September 2020) for refund of excess GST paid of ₹22.55 crore. The same was rejected (10 November 2020) by the adjudicating authority, on the grounds of ineligible claim. OPHWC filed an appeal against this order before the Additional Commissioner, GST (Appeals), Bhubaneswar, and got approval (10 November 2021) for refund of excess GST of ₹22.48 crore, in the form of credit (10 December 2021) in Electronic Credit Ledger (after adjustment of short payment of ₹0.07 crore), which could only be used for adjustment of tax liability in subsequent years.

Audit observed the following:

- As the excess paid GST was refunded in the form of ITC in the EC ledger, that amount was to be utilised for clearance of future GST liability only. OPHWC paid GST of ₹3.90 crore for 2021-22 from the balance available in the EC ledger. The utilisation pattern of ITC indicated that, OPHWC would take another four years to fully utilise the refunded amount. Hence, the excess payment of GST resulted in blockage of funds. This resulted in loss of interest of ₹3.12 crore⁸⁹ (*Appendix 20*), due to premature closure of FDs for excess payment of GST.

⁸⁷ As per Ministry of Finance, GoI notification dated 21 September 2017

⁸⁸ All input tax credit accrued for inward supplies made by a taxpayer are accumulated and the amount availed in the Electronic Credit Ledger can be utilised for paying of tax liabilities

⁸⁹ Rate of interest of Fixed Deposits was 5.1 *per cent*

- Further, OPHWC failed to adhere to the timelines and delayed filing of GSTR-3B for the period from 2019-20 and 2020-21 for 164 and 24 days, respectively, for which demand for penalty of ₹2.88 crore, under Section 50(1) of the CGST Act, 2017, was received on 9 February 2022. Despite engagement of a GST consultant for filing of GST returns, OPHWC incurred liability to pay the above penalty, reflecting poor financial management.

Thus, OPHWC had sustained a loss of ₹3.12 crore due to excess payment of GST and potential penalty ₹2.88 crore for delayed filing of GST return during the period 2019-20 and 2020-21.

Management stated (October 2022) that, while filing the GSTR-1 for the month of March 2019 the GST consultant mistakenly considered the GST rate for entire revenue at 18 *per cent*, instead of applicable rate of 12 *per cent* for Government contracts. The additional GST liability of ₹22.55 crore would be adjusted from the ITC of subsequent financial years *i.e.*, from 2019-20. Management also stated that ₹7.70 crore would be adjusted for the year 2022-23, considering the higher projected turnover of ₹535 crore.

The reply of the management was not acceptable, because the turnover of ₹535 crore, for the financial year 2022-23, has been projected without any analysis being furnished to Audit. Further, the average turnover of the corporation, during the last four years, from 2018-19 to 2021-22, was ₹343 crore and OPHWC utilised only ₹3.90 crore from the electronic credit ledger and the balance in the electronic credit ledger was ₹18.65 crore as on March 2022. Thus, financial mismanagement led to loss to OPHWC, which warrants fixation of responsibility for the lapses.

The observation was issued to the Home Department, Government of Odisha, during October 2022 followed by reminder during December 2022. The reply had not yet been received (as of March 2023).

Bhubaneswar Smart City Limited

4.11 Idle expenditure

Procurement of On-Board Bus units for Smart Tracking System without ascertaining technical feasibility resulted in idle expenditure of ₹4.50 crore

Bhubaneswar Smart City Limited (BSCL) selected (December 2017) M/s Honeywell Automation India Limited (HAIL) as their Master System Integrator (MSI) for implementation of Smart Solutions under Smart City project. As per the guidelines issued (January 2019) by Ministry of Housing and Urban Affairs (MoHUA), GoI, in case of smart city projects executed through Government Line Departments/Agencies, the Smart City SPV (*i.e.*, BSCL) should enter into a Tripartite Agreement with the Government Line Department/Agencies and the prospective bidder.

Smart Tracking System was one of the components under this scheme for tracking of buses through On-Board Bus Units (OBUs). The OBUs were to be supplied by the MSI and installed by them in the buses being operated by

Capital Region Urban Transport⁹⁰ (CRUT). Further, The MSI was also required to develop and implement Central Automatic Vehicle Location System (AVLS) for tracking of buses through OBUs. As per the detailed design report of MSI, installation of OBUs required vehicle availability, vehicle wiring changes *etc.*, which were to be provided by BSCL.

Audit observed that BSCL procured (September 2018) 160 OBUs devices valuing ₹7.15 crore for installation in the buses under operation by CRUT. However, at the time of supply of OBUs, CRUT was operating 200 new buses which were already pre-fitted with OBUs supplied by bus manufacturers.

Due to mismatch between the pre-fitted OBUs and AVLS system, the OBUs supplied by MSI could not be installed in these buses. In order to resolve the technical issues, BSCL requested CRUT to consider the replacement of existing OBUs fitted in the buses with the OBUs which were supplied by MSI or to put in parallel to improve the tracking system. However, in the 14th Board Meeting (October 2019) the representatives of bus manufacturers (Tata and Ashok Leyland) had stated that in case of the above proposed action the original equipment manufacturers of the pre-fitted OBUs would make the warranty and insurance of the new buses invalid.

Audit observed that in a meeting (July 2019) with the representatives of CRUT and MSI, BSCL had decided that the OBUs delivered by the MSI would be fitted on new buses to be procured by the CRUT. However despite lapse of more than three years from purchase of OBUs no new buses were procured and no such alternative use was made possible till date.

Audit noticed that there was lack of planning and co-ordination between BSCL and CRUT which resulted in loss of public money as detailed below:

- The availability of buses with CRUT which needed to be fitted with OBUs was not ensured. It was revealed in the 14th Meeting (October 2019) of Board of Directors of BSCL that CRUT had confirmed regarding the readiness and availability of buses for installation of OBUs. However, BSCL failed to take formal communication from CRUT for availability and readiness of buses for installation of OBUs.
- Feasibility for required wiring changes as suggested by MSI was also not undertaken. Consequently, BSCL failed to utilise the assets procured for ₹7.15 crore out of which ₹4.50 crore had already been paid (February 2020). Non-installation of OBUs due to not undertaking required technical study for their utilisation and for not ensuring availability of buses with CRUT resulted in idle expenditure of ₹4.50 crore.
- No agreement, as required in terms of GoI guidelines was signed by BSCL with CRUT for whom the system was procured. Hence, BSCL could not make CRUT responsible for their failure in making buses available.

⁹⁰ A Special Purpose Vehicle (SPV) created by the Housing and Urban Development (H&UD) Department, GoO, for providing public transport services in capital region areas

Government replied (June 2022) that, CRUT had provided only 30 buses in which these OBUs were installed. However, during the course of audit no documentary evidence about installation of OBUs in 30 buses was made available. It could also not be clarified that how the OBUs, which were not technically compatible with the buses and manufacturers had warned that such installation would lead to warranty and insurance of the buses invalid, were installed.

4.12 Wasteful expenditure

Funding of projects without securing financial interest resulted in wasteful expenditure of ₹1.91 crore

Bhubaneswar Smart City Limited (BSCL) was constituted by Government of Odisha (GoO) as Special Purpose Vehicle company for implementation of Smart City projects of Bhubaneswar under Smart City Mission programme. The guidelines issued (January 2019) by MoHUA, GoI, stipulated that in case of such smart city projects executed through Government Line Departments/Agencies, the Smart City SPV (*i.e.*, BSCL) should enter into a Tripartite Agreement with the Government Line Department/Agencies and the prospective bidder for the project.

BSCL decided (November 2017) to introduce Public Bicycle Sharing (PBS) system under smart city project to reduce vehicular emission, management of traffic congestion and to provide last mile connectivity to people. It was envisaged (September 2018) that 2,000 bicycles would be funded by BSCL at the price of ₹25,000 per bicycle⁹¹ to be paid on deployment. In addition to that a sum of ₹5,000 per bicycle would be paid for each of the five years of operation.

Accordingly, offers were invited (12 September 2018) on technical parameters like design, supply, installation and maintenance of bicycles against predefined price. In addition to their offers, the bidders also gave presentation before the evaluation committee which awarded marks on the basis of which three bidders were selected (October 2018) to deploy and operate 2,000 bicycles *viz.*, Hero Youon Private Limited (1,000 nos. bicycles), Dharani Enterprise (500 nos. bicycles) and Yulu Bikes Private Limited (500 nos. bicycles). In view of integration requirement of the project with the overall city transport system, it was decided that the project would be operationalised through Capital Region Urban Transport (CRUT). The project was launched through CRUT on 26 November 2018. As per clause 17.5 of the Service Level Agreement (SLA) signed by CRUT with the Hero Youon Private Limited (HYPL), the agency was responsible for the repair and maintenance of the bicycles. The SLA *inter alia* provides for 100 *per cent* availability of operation fleet, maintenance of workshop and depot *etc.*, by the agency.

⁹¹ Manual bicycles with GPS based tracking system, smart phone application based unlocking system *etc.*

Consequent upon deployment of bicycles, BSCL released (02 March 2019) ₹4.80 crore to CRUT for payment to the agencies. The performance of two agencies *i.e.*, Yulu and Dharani were satisfactory, however performance of HYPL was poor from the beginning of the contract. Subsequently, as per the decision (16 September 2020) of Board of Directors of CRUT, the PBS project was retransferred to BSCL on 06 October 2020. During physical verification (05 November 2020) for transfer of the project, it was observed that out of 1,000 bicycles supplied by HYPL, 303 bicycles (30 *per cent*) were missing and 459 bicycles (46 *per cent*) were in defective condition.

Audit observed that impropriety in the execution of the PBS project resulted in wasteful expenditure of ₹1.91 crore as detailed below:

- HYPL defaulted in the contractual obligations for maintenance of bicycles, non submission of MIS reports *etc.* as per agreement for which penalty of ₹94.66 lakh imposed by CRUT. The same could not be recovered from HYPL till date (May 2022), because as required under the guidelines of MoHUA, tripartite agreements were not entered by BSCL with CRUT and the three bidders. Agreement for execution of PBS project was only signed by the CRUT with the agency, therefore, BSCL could not enforce HYPL for complying with the contractual obligations. Neither did BSCL impress upon CRUT to execute the terms of the agreement with HYPL.
- In compliance with clause 1(jj) of the agreement between CRUT and HYPL, the agency submitted a bank guarantee of ₹25 lakh in form of Performance Security which was valid upto 04 December 2021. Since the performance of the agency was poor and the 303 bicycles valuing ₹75.75 lakh were missing (05 November 2020) and other 459 bicycles valuing ₹1.15 crore were in defective condition requiring maintenance, CRUT should have recovered penalty by encashment of the performance bank guarantee. However, the performance bank guarantee was not invoked despite issue of show cause notice (23 February 2021) to the agency for forfeiture of the bank guarantee for no reasons on record. In absence of the agency, no action was also taken for repair of the damaged bicycles by the company itself.
- As per Clause 20 of the General Conditions of Contract, the agency was required to take insurance of the bicycles at its costs which would cover the damage due to burglary, theft, vandalism *etc.* It was observed that Dharani enterprises and Yulu Bikes had taken insurance for the bicycles. However, no information was furnished by BSCL, whether the insurance was taken by HYPL.

It is thus evident that BSCL did not exercise ordinary prudence while spending the money for the project by excluding itself from the agreement for execution of the project. This resulted in total wasteful expenditure of ₹1.91 crore in respect of missing and defective/damaged bicycles for which the agency was responsible.

The observation was issued to the Government on 27 May 2022. Response of the Government had not yet been received (as of March 2023).

Odisha Industrial Infrastructure Development Corporation

4.13 Undue favour

Loss of ₹1.82 crore due to allotment of land for logistic park at lower rate

The Odisha Industrial Infrastructure Development Corporation (IDCO) was established with the objective of creating infrastructure facilities for setting up industries. Industrial Policy Resolution (IPR) 2015 stipulated that, Government land earmarked for industry under the land bank scheme and other Government land wherever available may be allotted for industrial units including infrastructure projects. As per IPR 2015, infrastructure projects also included storage facilities for use by industrial units and warehouses. IDCO makes allotment of land to industries in Industrial Estates/Industrial Areas (IEs/IAs) and also outside the IEs/IAs *i.e.*, from land bank created for this purpose at strategic locations. The provisions of the Land Regulations, 2016 of IDCO outlined the methodology for fixing land rates for allotment of land to industrial units.

IDCO in its 101st BoD meeting (29 May 2015) approved the land rates for warehousing projects at 1.5 times of the prevailing industrial land rate without differentiating the aforesaid sources of land *i.e.*, inside and outside the IEs/IAs. However, IDCO in its 115th BoD meeting (10 January 2019) differentiated between land inside IEs/IAs by considering logistics related activities like warehousing and cold chain at par with industry and approved the normal land rate for allotment of land to these projects at the industrial rate in any IE/IA.

Audit noticed that IDCO filed (December 2020) a proposal for leasing of non-forest Government land measuring 60.405 acres in village Giringaput under Bhubaneswar Tehsil of Khordha District under the Land Bank Scheme for establishment of industrial and allied activities. The land rate for the said land bank patch was approved in the 119th BoD meeting (22 December 2020) at ₹45.50 lakh per acre for allotment for establishment of industries. Subsequently, IDCO allotted (31 March 2021) 8.00 acres of Government land for setting up a logistic park unit at Giringaput land bank scheme to M/s Maa Mangala Flour Mills Private Limited at industrial rate of ₹45.50 lakh per acre.

Audit observed that since allotment of land to M/s Maa Mangala Flour Mills Private Limited was outside any IE/IA, the price charged should have been fixed at 1.5 times of prevailing industrial land rate in terms of the decision of 101st BoD meeting as stated supra. In violation of the above BoD decision, IDCO allotted the land at the industrial rate of ₹45.50 lakh instead of ₹68.25 lakh per acre (*i.e.*, 1.5 times of industrial rate) as prescribed for the warehousing projects. This had resulted in short recovery of ₹1.82 crore (8.00 acres x ₹22.75 lakh).

Government replied (July 2022) that as there was heavy demand of land nearby Bhubaneswar, IDCO identified this patch of land and subsequently allotted to entrepreneurs pending declaration of the land as IE/IA. The land cost was charged at par with industrial rate according to the decision of BoD, IDCO in their 115th meeting. The reply was not acceptable as BoD in 115th meeting

decided to allot land for warehousing in any IE/IA at industrial land rate and it is not applicable in the instant case as land at Giringaput was outside IE/IA.

4.14 Loss of revenue

Imprudent allotment of land, inadequate monitoring of its utilisation and non-realisation of dues of ₹16.19 crore

In pursuance of its commercial objectives, the Odisha Industrial Infrastructure Development Corporation (IDCO), had been mandated to allot land to industrial units, in its Industrial Estates (IEs), as per Government guidelines and the norms fixed by its Board of Directors (BoD). The Industrial Policy Resolutions of Odisha had also entrusted it with the responsibility of identifying land and allotting the same to industries, for industrial development in the State. It was further noted that:

- (i) As per the decision (May 2012) of the Revenue and Disaster Management Department (R&DM), GoO, IDCO was to go by a realistic assessment of the land requirements for industrial projects to avoid situations wherein agencies succeeded in getting more land than it actually required.
- (ii) Further, as per Section 34 of the OIIDC Act, 1980, the BoD of IDCO, was to carry out six-monthly reviews to ascertain that the plots allotted in the IEs were being utilised for the intended purposes so that any unutilised areas could be allotted to other industries, for industrial development.

Under the Industrial Infrastructure Upgradation Scheme (IIUS) of the GoI, the North Odisha Chamber of Commerce and Industry (NOCCI) formed (January 2010) a special purpose vehicle (SPV) company *i.e.*, M/s NOCCI Balasore Infrastructure Company (NBIC), for providing quality infrastructure, for the plastic, polymer and allied cluster at Balasore. The said scheme stipulated that the State Government would provide necessary assistance to the SPV, for procurement of land. Accordingly, IDCO approved (March 2010) allotment of 25 acres of land to NBIC on a long term payment basis, as per the project report submitted by it.

However, based on the requisition of NBIC, IDCO allotted (1st allotment) land, measuring 32.50 Acres⁹², to NBIC (August 2010 to October 2013), out of its own IEs⁹³, against the project requirement of 25 acres (30 *per cent* excess), without any reasons on record. Subsequently, NBIC requested (January 2014) IDCO to exchange 17.5 acres of land, out of its 1st allotment, as the land was stated to be unsuitable for railway siding. Thereafter, NBIC proposed (July 2014) that IDCO buy a piece of land, available with M/s Balasore Alloys Limited (BAL), for this purpose, against NBIC's firm commitment to pay the price to IDCO. Accordingly, IDCO purchased

⁹² Five acres at Bamapada, on outright purchase basis, and the remaining 27.50 acres (22.50 acre at Somanathpur + 2.50 acres and 2.50 acres at Bamapada), on long-term payback basis, at a fixed amount of annual premium, including interest, payment for ground rent, cess and maintenance charges, for a period of 20 years

⁹³ IDCO acquires land, develops IEs, and allots plots in such IEs, to various industries, for industrial development

(January 2015), 32.51 acres of land, available with M/s BAL, at cost of ₹7.59 crore and allotted (April 2016) the same to NBIC, against its demand of 17.50 acres, without any reasons on record. Thus, in total, IDCO allotted 65.01 acres of land to NBIC, with only 5 acres having been allotted on the usual mode of payment *i.e.*, outright purchase basis, and the remaining 60.01 acres of land, having been allotted on long-term payback basis, with annual payments being made by NBIC for 20 years.

In this regard, Audit observed the following:

- While allotting excess land to NBIC, IDCO had not carried out necessary review of utilisation of land and payment of stipulated dues in time. It was only subsequent to NBIC's request (February 2019) *i.e.*, after six to seven years of allotment, for waiver of land dues, due to uneconomical operations, that IDCO conducted (November 2020) an inspection of the allotted lands. IDCO found that 25.90 acres of allotted land (9.240 acres from 1st allotment and 16.660 acres from the 2nd allotment) was surplus/unutilised and demanded (April/November 2021) surrender of the said surplus/unutilised land. However, only 16.660 acres of land was surrendered (July 2021), from the 2nd allotment. Although NBIC had agreed (October 2021) to surrender the remaining 9.240 acres, the same was not taken back resulting in loss revenue of ₹3.69 crore being the cost of that land.
- In regard to 1st allotment of 32.50 acres, NBIC had paid its dues for 22.50 acres up to 2017-18. The unpaid dues on that account till 2022-23 was ₹2.19 crore. Out of the remaining 10 acres, lease deed for 2.50 acres was not executed and dues of ₹0.53 crore⁹⁴ was not recovered.
- Further, in regard to the 2nd allotment of 32.51 acres (April 2016), after purchase from M/s BAL, IDCO failed to recover the cost of land from NBIC despite their commitment to pay. Although, 16.660 acres were surrendered, the land cost of the remaining 15.850 acres, amounting to ₹9.78 crore⁹⁵, upto FY 2022-23, was not recovered from NBIC.

Thus, lack of commercial prudence, in terms of assessment of requirement of land prior to allotment and lapses in the monitoring of utilisation of allotted land, resulted in undue favour to the agency and non-recovery of dues, amounting to ₹12.50 crore (₹2.19 crore + ₹0.53 crore + ₹9.78 crore), as well as non-realisation of ₹3.69 crore, being the current value of unutilised land, measuring 9.240 acres, under the possession of the agency.

Management stated (March 2023) that, based on the request of NBIC, IDCO had purchased the 32.510 acres of land from M/s BAL and allotted the same to NBIC on long-term payback basis. Further, due to non-completion of their revenue generating projects and non-contribution from major industries, NBIC had been unable to generate the required operational profits due to which, it was not making payment of the IDCO dues.

⁹⁴ Annual instalment of land cost ₹5,02,506 and annual ground rent/cess/annual IMC of ₹24,500, for 10 years, from October 2013 to October 2022

⁹⁵ Including interest on land cost (upto FY 2020-21) and other statutory dues *i.e.*, ground rent, cess and administrative expenses *etc.*

The reply of IDCO was not acceptable, because IDCO had allotted the entire land of 32.51 acres to NBIC, against NBIC's demand of only 17.50 acres, without any realistic assessment of NBIC's requirements, leading to 16.660 acres being surrendered (July 2021), due to non-utilisation. Moreover, despite the firm commitment of NBIC for paying the land cost and other statutory dues, IDCO had failed to recover the same from NBIC, which had resulted in loss of revenue. Further, the reply was silent about the excess allotment of land and non-recovery of outstanding dues against the first allotment of 32.50 acres of land.

The observation was issued to Industries Department on 15 February 2023. However, the response of the department had not yet (as of March 2023) been received.

Bhubaneswar
The 30 April 2024

(VISHWANATH SINGH JADON)
Accountant General (Audit-II), Odisha

Countersigned

New Delhi
The 06 May 2024

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

