
Chapter V
Compliance Audit on
‘Functioning of Andhra Pradesh Industrial
Infrastructure Corporation’

Industries and Commerce Department

Compliance Audit on 'Functioning of Andhra Pradesh Industrial Infrastructure Corporation'

Summary

Audit Scrutinised the records relating to “**Functioning of Andhra Pradesh Industrial Infrastructure Corporation (APIIC)**” during the period 2017-18 to 2021-22. Out of 15 zones, five zones were selected for detailed scrutiny. Vice-Chairman and Managing Director (VC & MD) is the Chief Executive head, assisted by Executive at various functional head viz., asset management, electrical, finance, etc. During the scrutiny of records, Audit noticed the following:

- *APIIC incurred wasteful expenditure towards publication charges without assessing feasibility of acquisition of private land. APIIC allotted 88 plots without obtaining approval of layout which included eleven red categories industries without having Environmental clearances.*
- *Inordinate delay in taking appropriate action in cancellation of allotments due to non-execution of sale agreements, non-commencement of projects by the allottees led to idling of land to the extent of 955.86 acres.*
- *Non-formation of Service Societies in IALAs, lack of monitoring mechanism by APIIC led inefficient working of IALAs caused non-collection of property taxes from the allottees, short remittance of property tax to the concerned local bodies, delays in identification of unauthorised constructions and incurred administrative expenditure over and above admissible limits.*
- *APIIC's improper utilisation of loan amount of ₹2,000 crore, extending unsecured short-term loan of ₹220 crore to APADCL, non-realisation of unspent land cost from Revenue Authorities, and irregular issue of No Objection Certificates to some allottees for availing loans against the provisions of allotment regulations tantamount to inefficient and ineffective financial management.*

5.1 Introduction

The Industries and Commerce (I&C) Department, Government of Andhra Pradesh (GoAP) regulates the development of industries. The I&C Department assists and guides Entrepreneurs in setting up industrial units. Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) was incorporated (September 1973) as wholly owned undertaking of GoAP, with the objective of providing industrial infrastructure through the development of industrial areas. Besides, APIIC also develops sector focused parks like apparel park/food processing parks/leather parks in the State. APIIC is the principal facilitator in Mega Projects and Nodal Agency for Government Sponsored schemes.

5.1.1 Functions of Andhra Pradesh Industrial Infrastructure Corporation Limited

(a) Functions/Duties of Andhra Pradesh Industrial Infrastructure Corporation

- Acquisition /alienation of private/government lands for Industrial Parks, identification of sites for Industrial Areas and development of layouts.
- Provision of infrastructure facilities in developed and existing layout, allotment of developed plots.
- Planning and development of projects under Project Development programme.
- Promotion of infrastructure projects under Public Private Partnership mode.
- Nodal Agency for all Industrial Infrastructure Projects including IT Parks, Biotech Parks, Apparel Parks and Special Economic Zones in the State.

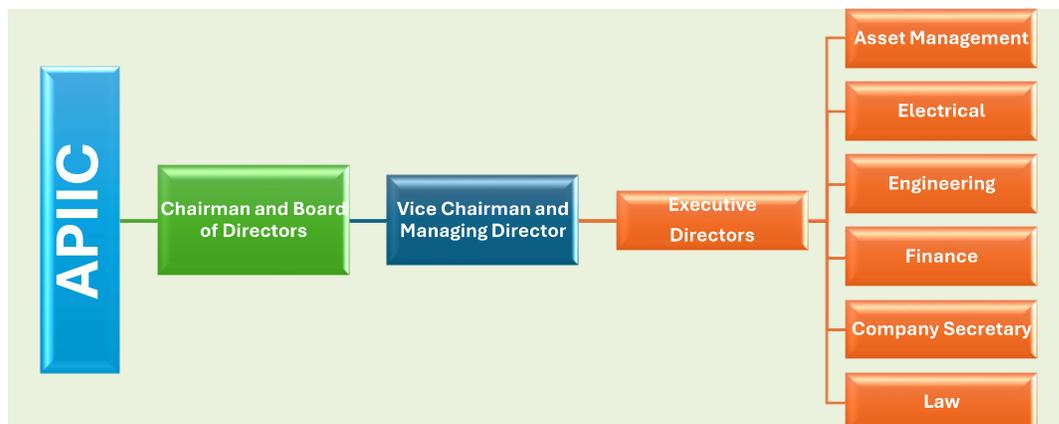
(b) Functions of Industrial Area Local Authority (IALA)

GoAP transferred (September 1994) certain powers and functions of local bodies to APIIC with respect to Industrial Parks/SEZs established by APIIC, duly amending the local bodies Acts (Andhra Pradesh Municipalities Act 1965). APIIC established Industrial Area Local Authorities (IALAs) for performing local body functions. The Commissioner/Executive Officer exercises administrative powers in maintenance of all civic services in IALA area, collection of property taxes, approval of building plan *etc.*, and discharge duties as per the powers delegated by GoAP.

5.1.2 Organisational structure

The administrative hierarchy of APIIC comprises of Board of Directors (BoDs) headed by a Chairman and Directors including Vice-Chairman and Managing Director (VC & MD), the Chief Executive head. The VC & MD is assisted by Executive Directors (EDs) at various functional head *viz.*, asset management, electrical, finance, legal and administration and engineering. The organisational structure of APIIC is as shown in **Chart 5.1** below:

Chart 5.1: Showing the administrative hierarchy of APIIC



Source: APIIC website

The functional hierarchy at field level is organised in the form of 15 Zonal offices, each headed by a Zonal Manager who is responsible for implementing programs and policies of APIIC. IALAs function under the control of VC&MD of APIIC and are headed by the Commissioners/Executive Officers.

5.1.3 Status of land bank

As land is the primary input for development of industrial infrastructure, APIIC had started its operations for land bank by adding land through acquisition/alienation of Patta/Government land from private individuals/Government through State Revenue Authorities. The lands are acquired by APIIC either at cost or free of cost.

As per Allotment Regulations 5.1 to 5.4 & 6.2 of 2015, Price Fixation & Infrastructure Committee (PF&IC) constituted by APIIC assess the value of land and determines the level of infrastructure to be developed in Industrial Park. The value of land includes cost of raw land plus ex-gratia as fixed in land acquisition award by GoAP. In addition, rehabilitation and resettlement cost, establishment charges of land acquisition unit *etc.*, and any other charges incurred during acquisition/alienation of land are included.

The PF & IC may review the value of land, in any industrial park from time to time, depending on market conditions, enhanced land compensation claims made/received, additional infrastructure costs incurred, *etc.* The VC&MD, APIIC may approve or modify land value, mandatorily recording the reasons for the same and place it before the Board for information. The land cost shall be updated on websites of APIIC & Commissioner of Industries from time to time.

The status of year-wise details of extent of land and value of land inventory held by APIIC during 2017-22 was as shown in **Table 5.1**.

Table 5.1: Showing land inventory held by APIIC

(₹ in crore)

Sl. No.	Year	Extent of land (in acres)	Land value as fixed by PF&IC	Land Development cost	Cost of construction materials	Total value of land
1	2017-18	64,962.34	2,820.21	142.74	0.44	2,963.39
2	2018-19	70,003.73	3,224.27	146.85	0.44	3,371.56
3	2019-20	63,175.80	2,988.94	220.62	0.46	3,210.02
4	2020-21	58,019.56	2,708.47	175.59	0.46	2,884.52
5	2021-22	65,071.48	3,116.17	135.51	0.46	3,252.14

Source: Information furnished by APIIC

5.1.4 Audit Framework

5.1.4.1 Audit Objectives

The Compliance Audit on 'Functioning of APIIC' was taken up to assess whether:

- Development of land was done as per the industrial park norms, the objective of APIIC to promote, aid, assist, provide and develop infrastructure facilities, *etc.* in establishment of industries was achieved as envisaged in Government Orders issued by GoAP at the

time of incorporation of APIIC and the land cost was fixed rationally as per allotment regulations.

- The provisions of Allotment Regulations were followed in allotment of land and cancellation of allotments.
- Industrial Area Local Authorities (IALAs) were established and being functioned as local bodies in compliance to the guidelines framed in this regard.
- The management of funds was in the best interest of APIIC.

5.1.4.2 Audit Criteria

The Audit findings were benchmarked against the criteria sourced from the following documents:

- Government of Andhra Pradesh (GoAP) Land Allotment Policy, 2012, APIIC Allotment Regulations 2012, 2015 and 2020.
- The rules, orders, guidelines issued by GoAP and APIIC for alienation/acquisition, allotment, fixation of land cost and functioning of IALAs.
- Terms and conditions of the agreements/Memorandum of Understandings of developers with GoAP.
- Minutes of the meetings of APIIC Board and Price Fixation and Infrastructure Committee, *etc.*
- Andhra Pradesh Financial Code and Income Tax provisions.

5.1.4.3 Audit Scope and Methodology

The Compliance Audit was conducted during June-September 2022 covering a period of five years from 2017-18 to 2021-22. The audit was focused on acquisition, development and allotment of land for industrial purpose along with collection of land cost, proper assessment, collection and remittance of property tax in industrial area. Out of 15 zones, five zones¹¹² were selected and covered based on the number of allotments and extent of land allotted. An Entry Meeting was held in June 2022 and an Exit conference in December 2023 with the Government.

Previously, a Thematic Audit on Land Allotments by APIIC was conducted on GoAP and featured in CAG's Report (Report No. 2 of 2013). The Report was yet to be discussed by the Committee on Public Undertakings.

Scrutiny of records of APIIC and zonal offices revealed various shortcomings which are discussed in subsequent paragraphs.

5.2 Development of land

Development of land involves acquisition of private lands or alienation of Government lands through Revenue Authorities, conversion of land into small/large plots and facilitate

¹¹² Ananthapuramu, Hindupur, Nellore, Tirupati and Visakhapatnam

infrastructure¹¹³ for allotment to aspiring Entrepreneurs. APIIC initiates land acquisition proposals for development of Industrial Parks (IPs)/Micro Small Medium Enterprises (MSMEs), *etc.* either on its own or as per the directions of the Government or on specific request from aspirant entrepreneur.

5.2.1 Irregularities in acquisition and development of land

5.2.1.1 Wasteful expenditure towards publication charges for acquisition of private land

As per procedural aspects for acquisition/alienation of lands issued from time to time by Lands Wing of APIIC, Zonal Managers (ZM) of respective zones shall identify the land and its feasibility and suitability along with demand analysis, verify revenue records (Revenue Survey Reports, Adangal (a type of land record), Field Measurement Books *etc.*), maps, inspection report, and submit report of joint inspection carried out with Revenue Authorities concerned. The ZM concerned shall submit report to Head office about status of land & feasibility of acquisition. Accordingly, the Lands Wing (Head Office) would process and accord permission for acquisition after approval of VC & MD, APIIC.

The Zonal Manager, Vijayawada filed (August 2015) a requisition with District Collector, Krishna for acquisition of Patta land admeasuring 12,144.86 acres¹¹⁴ for formation of Industrial Corridor for Machilipatnam Deep Water Port (MDWP). From the proceeding orders of the District Collector, it was noticed that the Revenue Authorities issued (August 2015) orders for publication of preliminary notification in local newspapers as well as at conspicuous places duly exempting conduct of Social Impact Assessment (SIA) as MDWP was under exempted projects¹¹⁵.

Scrutiny of minutes of APIIC Board meeting (August 2016) revealed that Revenue Authorities informed APIIC to deposit an amount of ₹12 crore initially towards Gazette Publication and miscellaneous charges. Subsequently, APIIC paid an amount of ₹9.18 crore (from April 2017 to June 2018) to meet preliminary notification, publication and miscellaneous charges to newspaper agencies through Revenue Authorities.

Subsequently, Machilipatnam Urban Development Authority (MUDA) informed (June 2018) that the notification to acquire 12,144.86 acres of Patta land is not required currently as 21,542.23 acres of alternate land was available for industrial corridor and related infrastructure. Further, preliminary notification for acquisition of land (12,144.86 acres) was under consideration by the Government for cancellation owing to the resistance from the farmers. The status of acquisition of land measuring 21,542.23 acres by the APIIC was not on record.

Government replied (December 2023) that based on the information received from Land Acquisition Officer/Revenue, APIIC had filed requisition for acquisition of Patta land. Subsequently, the Government had issued orders (March 2017) to allot Government vacant

¹¹³ roads, water supply, drainage, and electricity

¹¹⁴ in 22 villages of Machilipatnam and Pedana mandals of Krishna District

¹¹⁵ Section 10(A) of Right to Fair Compensation and Transparency in Land Acquisition & Rehabilitation and Resettlement Act, 2013 being an Industrial corridor

land to APIIC on free of cost basis. Further, District Collector informed (November 2019) to MUDA that alternate Government & assigned land was available for formation of industrial corridor usage and further several farmers had filed representations to de-notify the lands requisitioned by APIIC. In view of the above, APIIC had not initiated further steps for acquiring Patta land to minimise the budget on requisition of lands. The APIIC had acted as per directions of higher authorities.

It is evident from the reply that APIIC had not followed the due procedure (as prescribed by Land Wing of APIIC) of verifying revenue records, maps, inspection reports and conduct of joint physical verification with Revenue Authorities prior to acquisition of land to ascertain the feasibility of acquisition and suitability of land. Further, there was no documentary evidence on record in support of instructions (issued in March 2017) of GoAP, as replied.

Had APIIC followed the laid down procedure prior to placing of requisition for acquisition of Patta land, which involves cost of compensation, the wasteful expenditure of ₹9.18 crore made towards publication charges for acquisition of Patta land could have been avoided.

Thus, APIIC incurred wasteful expenditure of ₹9.18 crore towards publication charges without assessing feasibility of acquisition of private land.

Recommendation 5.1: Government may instruct APIIC to make proper survey prior to acquisition of private lands to ensure feasibility of acquisition and suitability of land.

5.2.1.2 Unfruitful expenditure towards infrastructure development without obtaining approval of layout

As per Clause 2.1 of Allotment Regulation of 2012 & 2015, for the purpose of allotment of lands, APIIC shall prepare layout as per applicable norms and get it approved by the Competent Authority.

The APIIC planned (July 2015) to develop/modernise Information Technology (IT) Layout at Kapuluppada village of Visakhapatnam district. The Zonal Manager, Visakhapatnam requested (July 2015) Visakhapatnam Urban Development Authority (VUDA), the Competent Authority to process for change of land use measuring 1,350 acres from Hill/forest area to mixed-land use to develop an IT layout in the Kapuluppada village. APIIC paid (April 2017) an amount of ₹16.68 crore to VUDA towards change of land use. Accordingly, Government approved (May 2017) the conversion to mixed land use subject to approval of layout as per norms of VUDA.

Subsequently, Zonal Manager informed (November 2017) APIIC Head Office that VUDA demanded an amount of ₹2.94 crore towards cost of processing, development, notification charges for approval of layout (Phase-I) to an extent of 250.43 acres and requested to accord sanction for payment to VUDA, which was still pending. Meanwhile, as of July 2022, Zonal office without obtaining layout approval, incurred an expenditure of ₹48.13 crore towards providing infrastructure facilities on the said land.

Government replied (December 2023) that to comply the statutory norms as mandated in government order, it is mandatory to complete all developmental works. On obtaining necessary consent from Information Technology Electronics & Communication (ITE & C) with a budget of ₹24.60 crore, APIIC had complied all relevant norms for development of infrastructure. However, there was no concurrence from ITE&C Department for allotment of land. Since APIIC is a nodal agency, it implements the orders of ITE&C Department.

Thus, despite incurring an expenditure of ₹48.13 crore towards infrastructure, the land remained unutilised even after a lapse of more than five years, as layout was not approved by VUDA.

5.2.1.3 Non-Preparation of Detailed Project Reports for Industrial Parks

As per Government Land Allotment Policy 2012, APIIC shall prepare Detailed Project Reports (DPRs) for Industrial Clusters in different parts of the State to meet the industrial land requirement. GoAP allots land to APIIC based on DPRs which details the extent of land required, proposed investment, employment potential, infrastructure needs and the impact on environment. Based on DPR, land alienation proposals are submitted to the concerned District Collectors.

To verify the preparation of DPRs for Industrial Clusters, Audit requested APIIC to furnish DPRs in respect of five Industrial Parks¹¹⁶(IPs).

APIIC did not furnish the required DPRs called for. Further Zonal Manager Anakapalli without furnishing the required DPRs to audit, replied that for tapping of Central/State Government funds for establishment of Industrial Parks/Clusters in the State, DPRs are prepared and submitted to the respective Departments. However, the procedure for preparation of DPRs prior to development of IPs would be followed henceforth. Zonal Manager, Vijayawada stated that henceforth prior to the development of IPs, DPRs would be prepared.

During Exit conference (December 2023), Government stated that APIIC does not acquire land for specific purposes. APIIC acquires land based on demand survey, develops land for allotment to Entrepreneurs. Generally, wastelands are identified which are not required for agriculture and requisition is placed with Revenue Authorities for acquisition. Detailed Project Report is submitted by the prospective Entrepreneur for development of Industry. Government did not insist APIIC for DPR for acquisition of land. Lands acquired for any GoI assisted Schemes/Projects, DPRs are prepared and submitted to GoI.

Thus, it is evident from the above that APIIC did not prepare DPRs for development of IPs, as stipulated in land policy guidelines, to assess the extent of land requirement, infrastructure needs and impact on environment. Due to non-preparation of DPRs for IPs, Audit could not ascertain whether the objectives of acquiring the land, creating infrastructure, attracting investment and generating employment were fulfilled and whether there was any adverse impact on the environment.

¹¹⁶ IP Veerapanenigudem, IP Peddavaram, IP Parawada (Phase-III), IC Pudi, YSR Jagananna Mega Industrial Hub

5.2.1.4 Irregularities in Development of Industrial Park, Parawada (Phase-III)

(a) Allotment of plots to entrepreneurs without obtaining approval of layout

As per Clause 2.1 and 3.2 of Allotment Regulation of 2012 & 2015, for the purpose of allotment of premises, APIIC shall prepare layout as per applicable norms and get it approved by the Competent Authority. Bifurcation of plots shall not be allowed, without the permission of the Competent Authority.

Jawaharlal Nehru Pharma City (JNPC) at Parawada, Visakhapatnam district was developed in an extent of 2,443.20 acres. Out of 2,443.20 acres, the layout was approved (2007) by the then VUDA for an extent of 2,143.23 acres duly reserving an extent of 249.05 acres for Summer Storage Tank (SST) and 50.92 acres for road widening. Out of reserved 249.05 acres, APIIC constructed SST in an extent of 125.00 acres under phase-I and remaining extent of 124.05 acres was left for Phase-II development of SST.

The Zonal Manager (ZM) addressed (August 2019) VC&MD for development of an Industrial Park Phase-III in reserved area of SST and submitted modified layout plan for an extent of 123.27 acres.

Subsequently, Chief Engineer, APIIC Head office, communicated (March 2022) that Vice Chairman & Managing Director (VC&MD) had accorded approval for preparation of revised layout plan and requested for submission of revised layout plan to the Competent Authority *i.e.*, Visakhapatnam-Kakinada Petroleum, Chemical & Petro-Chemical Investment Region (VKPCPIR). Subsequently, ZM requested (March 2022) VKPCPIR to arrange to change the land use from water storage reservoir to industrial zone in VKPCPIR Master Plan so as to submit the revised layout plan of IP, Parawada, Phase-III for approval.

In response, VKPCPIR informed (December 2022) Zonal Manager to obtain clearance from the State Environmental Impact Assessment Authority (SEIAA) or Ministry of Environment, Forest (MoEF), Government of India prior to change of land use. The details of environmental clearances obtained was not available in the records produced to audit. The layout was yet (as of September 2023) to be approved by competent authority.

Scrutiny of records revealed that out of 121.76 acres, APIIC developed 88.06 acres with 88 plots leaving the balance space for roads, amenities, *etc.* Out of 88 plots, 85 plots were allotted (between September 2019 and December 2022) to the Entrepreneurs.

Audit noticed that contrary to the provisions of Allotment Regulation, APIIC without obtaining approvals for change of land use and layout plan from Competent Authority, bifurcated the plots and commenced allotment of plots to Entrepreneurs from September 2019.

During Exit conference (December 2023), Government stated that the entire land meant for Industrial development cannot be developed in one go. This Industrial Park was developed in phased manner, in which some extent was meant for Summer Storage Tank (SST) for supply of water to Industries. If originally the land is a Water Resource Body, then for change of its use to non-water source, APIIC has to approach Urban Authority and follow the set rules. If APIIC have proposed the land to be developed as SST (not being a water

body originally) and later changes the plan to supply water through the pipeline, then there is no need to go for change of land use plan.

However, the fact remains that APIIC had not obtained the environmental clearance as instructed by VKPCPIR and as a result, the layout was not approved by the competent authority. Hence, development and allotment of plots without the approval of Competent Authority is against the provisions of allotment regulations.

(b) Allotment of plots to red category industries without obtaining environmental clearances

As per Clause 2.3 of Allotment Regulation 2015, it is mandatory that all layouts shall provide space for waste disposal/waste management. It is the responsibility of Industrial units to take necessary actions/make arrangements for safe disposal of treated waste complying with norms prescribed by Andhra Pradesh Pollution Control Board (APPCB). Further, APIIC shall facilitate setting up of Common Effluent Treatment Plants (CETP) in the industrial parks for treatment of waste water.

The Zonal Manager, intimated (August 2019) VC&MD, APIIC that Environmental Clearances (EC) are required to be obtained for proposed area of development of IP, Parawada, Phase-III, if the plots in the area are proposed for allotment to red category industries like Pharma & Chemical Industries and requested to issue necessary instructions for obtaining EC.

Meanwhile, APPCB noticed allotment of plots adjacent to Pharma city without common infrastructure and treatment facilities. APPCB directed (July 2021) ZM, APIIC to assess the environmental impact due to the proposed industries in IP, Parawada, Phase-III and initiate action to arrest the wastewater discharge from IP and submit proposals for preparation of Environmental Management Plan (EMP) in the interest of environment and public health.

Scrutiny of records revealed that 11 allotments¹¹⁷ were made (between September 2019 to March 2022) to the industries whose line of activity was Pharma/biotech. However, submission of EMP proposals to APPCB and obtaining of EC were not forthcoming from the records produced to Audit.

Audit noticed that though construction of CETP was not proposed in the layout for treatment of effluents, allotments were made to red category industries like Pharma and Biotech. Further, a firm which was allotted plot in the layout had requested APIIC for provision of collection and treatment of effluents and sought clarification regarding user charges for CETP services from ZM.

During Exit Conference (December 2023), Government stated that red category industries are first allotted the land and then the industries obtain all EC approvals from the concerned authorities. In other cases, APIIC obtains the EC and then allots the land. Unless statutory clearances are obtained, the activity would not take place.

¹¹⁷ Out of 11 allotted industries, three are functioning, lease of four allottees was cancelled and four industries are yet to start operations

Thus, APIIC had allotted lands to red category industries in IP, without facilitating CETP and ensuring proper treatment and safe disposal of wastewater as envisaged in Allotment Regulations, thereby endangering the environment and public health. Responsibility should be fixed against officials for allowing functioning of red category industries without having environmental clearances.

Recommendation 5.2: Government should ensure that red category industries are made functional only after obtaining necessary pollution & environmental clearances/approvals.

(c) Non-provisioning of power infrastructure to the allottees

As per Clause 1.10 of Allotment Regulation 2015, Industrial Park means an estate developed by APIIC primarily for establishment of industrial units to manufacture any product or service, and having basic infrastructural facilities like internal roads, water distribution facilities, power distribution, sewage and such other facilities as may be required.

The APIIC requested (July 2020) Andhra Pradesh Eastern Power Development Corporation Limited (APEPDCL) for providing power infrastructure to Parawada Phase-III layout. In response, Executive Engineer, APEPDCL informed (September 2020) that it was very difficult to provide power supply from existing sub-station and requested to allot five acres of vacant land for construction of new 132/33KV sub-station.

The Zonal Manager also requested (August 2021) Andhra Pradesh (AP) TRANSCO to allot power supply from existing 220 KV substation. Further, ZM informed (August 2021) Engineer-in-Chief, APIIC that both APEPDCL and APTRANSCO insisted requirement of three to five acres of land for erecting 132 KV substation to cater the needs of power supply to the existing industries. Meanwhile to avoid delay, APIIC proposed for provision of substation to layout and requested (December 2021) APEPDCL to approve the proposal and submit estimated charges to be paid by APIIC.

Scrutiny of records revealed that a joint inspection was conducted (January 2023) by APEPDCL, APTRANSCO and APIIC for providing power infrastructure at an estimated cost of ₹5.77 crore. The ZM submitted (March 2023) the estimated proposal to Chief Engineer (N), APIIC (Head Office) and requested to obtain administrative and technical sanction. As of September 2023, grant of administrative and technical sanctions by APIIC (Head Office) were not forthcoming from the records made available to audit and there was no further progress on the issue.

Audit noticed that eight Entrepreneurs had already represented (August to December 2022) to APIIC that due to non-availability of Power Infrastructure, construction works for establishment of industry within stipulated time could not be completed. Though 85 plots were allotted since September 2019, only two industries commenced (December 2019/February 2020) production, one company has done trial production and another has erected machinery.

Failure of APIIC to provide power infrastructure to the allottees in Parawada Phase-III layout even after lapse of four years (since September 2019) led to non-establishment of industries.

During Exit Conference (December 2023), Government stated that generally, substation is provided in the Industrial Park and the industries needs to approach DISCOM (Electricity Department) to get the connection. In this case due to lack of resources, the provision for power infrastructure could not be made in time and there was delay. Now, APIIC has taken up the work of providing power infrastructure.

Thus, the objective of developing the Industrial Park at Parawada (Phase-III) could not be achieved due to the reasons highlighted above.

5.3 Allotments & cancellations of land

As per Allotment Regulations (2015 & 2020), APIIC allots land in all Industrial/Theme Parks to the aspiring Entrepreneurs and also cancels allotment, if Entrepreneurs violate any regulations. The allotment process followed is as shown in **Chart 5.2** below.

Chart 5.2: Showing process of Allotment of land



Source: APIIC key consideration of Detailed Project Report

5.3.1 Allotment of land

Allotment of land to Entrepreneurs is done as per the provisions of Allotment Regulations of APIIC and Industrial Development Policy issued from time to time by GoAP.

5.3.1.1 Short collection of land cost due to incorrect adoption of land rate

As per Clause 5 & 6.2 of Allotment Regulation 2015, value of land includes cost of raw land, administrative charges, open space charges at applicable rate as decided by APIIC from time to time. Valuation of land is recommended by PF & IC, however, VC & MD can modify the rate recommended or approve the rate.

Scrutiny of the records revealed that a firm¹¹⁸ filed (December 2015) an online application for allotment of land measuring 77.11 acres. Chief General Manager, APIIC communicated (December 2015) to ZM concerned that PF & IC had fixed the land rate as ₹62 or ₹65 per Sq.m or ₹2.51 lakh per acre. Subsequently, Asset Management wing, Head Office communicated (May 2017) ZM to release allotment orders at ₹65 per Sq.m which

¹¹⁸ M/s Zuari Cement Limited

was approved by VC & MD. However, ZM issued (May 2017) provisional allotment letter and collected an amount of ₹1.82 crore¹¹⁹ considering the rate as ₹2.51 lakh per acre.

Audit noticed that as per rate approved by VC & MD, the land rate was ₹65 per Sq.m which amounts to ₹2.63 lakh per acre (₹65 per Sq.m x 4,047 Sq.m) and not ₹2.51 lakh as mentioned in provisional allotment order. The actual cost to be collected should be ₹2.56 crore¹²⁰. However, APIIC collected ₹1.82 crore which resulted in short collection of land cost by ₹0.74 crore (₹2.56 crore - ₹1.82 crore).

Government replied (December 2023) that APIIC has considered acreage rate fixed by the PF& IC, the land cost was worked out as ₹2.51 lakh per acre and collected ₹1.93 crore. While issuing provisional allotment letter, the ZM arrived the cost of land excluding process fee of ₹11.56 lakh which was paid separately.

The reply is not acceptable. As per Allotment Regulation valuation of land is recommended by PF & IC, however, VC&MD can modify the rate and the rate approved by VC & MD is final. Consideration of acre rate fixed by PF & IC of ₹2.51 lakh instead of VC & MD approved rate at ₹65 per Sq.m (₹2.63 lakh per acre) resulted in short collection of land cost by ₹0.74 crore (₹2.56 crore - ₹1.82 crore).

5.3.1.2 Non levy of process fees and additional process fees

As per Clause 9.4 of Allotment Regulations 2015, APIIC shall levy and collect a non-refundable process fee in case of developed plots at 0.1 *per cent* of upfront cost subject to a minimum of ₹1,000 and in case of application for undeveloped land (UDL), the additional process fee at ₹15,000 per acre up to 100 acres in addition to the process fee.

Further, APIIC also undertakes acquisition of land on the request of other companies (under Land Acquisition for others) exclusively for development of industries. In such cases, a non-refundable process fee as fixed by APIIC at prevailing rates per acre or part thereof for the extent of land sought for acquisition shall be levied in allotment of land after completion of land acquisition process. Scrutiny of records revealed the following irregularities in levy and collection of process fee while allotment of land.

(a) Non levy of process fee under land acquisition for others

A firm¹²¹ requested (July 2006) for acquisition of 604.38 acres of land in Kodur village, Kadapa Zone. APIIC requested (November 2006) the firm to pay process fee at ₹10,000 per acre considering it as acquisition of land under “Land Acquisition for others”. Subsequently, in May 2017 the firm requested for allotment of a part of above said land to the extent of 77.11 acres for expansion of existing cement plant. Accordingly, APIIC had issued (May 2017) allotment orders and levied process fee for allotment of land. However, APIIC had not levied process fee under acquisition of land for others and sustained a loss of ₹7.71 lakh¹²².

¹¹⁹ (77.11 acres x ₹2.51 lakh per acre + 10 *per cent* open space charge) + 15 *per cent* administrative charges

¹²⁰ (77.11 acres x ₹2.63 lakh per acre + 10 *per cent* open space charge) + 15 *per cent* administrative charges

¹²¹ M/s Zuari Cement Limited

¹²² 77.11 acres x ₹10,000 per acre

Government (December 2023) replied that process fee of 0.1 *per cent* on land cost of ₹1,58,30,518 which works out to ₹15,831 for allotment of land was collected. However, Government was silent about non-levy of process fee for acquisition of land.

(b) Non levy/ non-collection of process fee under allotment of land

In case of developed plots, a non-refundable process fee at 0.1 *per cent* of upfront cost shall be levied and collected from the allottee subject to a minimum of ₹1,000.

Audit noticed that APIIC had not levied/obtained the process fee in four cases s detailed in **Table 5.2**.

Table 5.2: Showing non levy/non collection of process fee

Name of the unit	Date of provisional allotment	Total cost of land (₹ in crore)	Process fee to be levied (0.1 <i>per cent</i> of land cost) (in ₹)	Total process fee inclusive of 18 <i>per cent</i> GST (in ₹)
VTPL*	07.06.2022	130.00	13,00,000	15,34,000
Dowell Surgicals	03.10.2019	1.12	11,109	13,109
Inn-Pharma Technologies	12.04.2018	0.45	4,450	5,251
M/s Bharat Forage	05.01.2018	21.56	2,15,600	2,54,408
Total			15,31,159	18,06,768

Source: Information furnished by APIIC

* In respect of VTPL, process fee and additional process fee was levied. However, the collection of same was not on record.

APIIC replied (September 2022) that demand notice have been issued to one firm (Bharat Forage), In respect of one firm (VTPL), APIIC had written letter to the firm for the payment, however, no amount was received. No reply was given for remaining two firms.

Government has not replied in respect of non- levy of process fee at the time of allotment of land. Hence, APIIC has not complied with the provisions of Allotment Regulations and sustained loss of ₹0.18 crore.

(c) Non-levy of additional process fee under allotment of land

In case of application for Undeveloped land, APIIC shall levy additional process fee as per the extant regulations in addition to the process fee at the time of allotment. As per Allotment Regulation 9.4 of 2015, additional process fee is to be levied at ₹15,000 per acre upto 100 acres of land.

Scrutiny of records revealed that additional process fee amounting to ₹0.62 crore was not levied and collected from eight allottees as detailed in **Table 5.3**.

Table 5.3: Statement showing non-levy of additional process fee

(Amount in ₹)

Sl. No	Name of the unit	Date of provisional allotment	Extent of land (in acres)	Additional Process fee to be levied	Total process fee inclusive of 18 <i>per cent</i> GST
1.	M/s VTPL, Visakhapatnam	07.06.2022	130	19,50,000	23,01,000
2.	M/s Century Ply Boards India Ltd.	22.12.2021	100	15,00,000	17,70,000
3.	M/s Bharat Forge Ltd.	05.01.2018	98	14,70,000	17,34,600

Sl. No	Name of the unit	Date of provisional allotment	Extent of land (in acres)	Additional Process fee to be levied	Total process fee inclusive of 18 per cent GST
4.	M/s Navco Industries, Nellore	30.12.2020	5.93	88,950	1,04,961
5.	R N Paper Mills	02.08.2019	5.70	85,500	1,00,890
6.	Dowell Surgicals	03.10.2019	5.00	75,000	88,500
7.	Inn-Pharma Technologies	12.04.2018	4.80	72,000	84,960
8.	M/s Sai Sresta Industries	24.08.2017	1.54	23,100	27,258
Total					62,12,169

Source: Information furnished by the APIIC

Government replied (December 2023) that demand notices were issued in respect of five¹²³ firms.

During Exit Conference (December 2023) Government stated that if orders are issued then payment of such charges don't arise where they are exempted. There must be specific instruction for such exemption, otherwise the industries have to pay the charges. As these are not exempted cases, action would be taken to collect the charges. Government stated that presently everything is computerised to prevent such lapses.

Thus, in total, APIIC had incurred a loss of ₹0.88 crore¹²⁴ due to non-levy of process and additional process fee as per the provisions of Allotment Regulations.

5.3.1.3 Non/short collection of frontage charges

As per Clause 6.8 of Allotment Regulation 2015, frontage charges for premises facing/abutting the National Highways/ State Highways/ District Roads shall be levied at 15/10 and five *per cent* respectively on allotted rate.

Audit noticed that even though allotments were made abutting National/State Highways and District roads, APIIC did not levy frontage charges in the provisional allotment orders issued to eight entrepreneurs and in one case there was short levy of frontage charges. As a result, there was non/short collection of frontage charges of ₹0.30 crore (as detailed in *Appendix 5.1*).

Government replied (December 2023) that demand notices¹²⁵ to six firms had been issued.

Thus, it is evident that APIIC did not incorporate the relevant clause relating to frontage charges in the provisional allotment order which resulted in non/short realisation of frontage charges.

5.3.1.4 Short and non-levy of maintenance charges

As per Clause 7.15 (a) and (e) of Allotment Regulation 2020, maintenance charges would be collected for all units existing within APIIC developed industrial parks for the purpose of maintenance and upkeep of the assets created by APIIC. The maintenance charges are

¹²³ M/s Navco, RN Paper Mills, Dowel surgical, Inn pharma, Sai sresta Industries

¹²⁴ ₹0.08 crore + ₹0.18 crore + ₹0.62 crore

¹²⁵ M/s Paladugu structural, Paladugu pipes and tubes, Heritage food, RR chemicals, Paladugu steels, Indo precision

to be collected at ₹one per sq. m per annum from all existing units within the developed industrial parks.

Scrutiny of records of APIIC revealed that information regarding levy and collection of maintenance charges was available only in respect of Kadapa and Vijayawada Zone as detailed in **Table 5.4** below.

Table 5.4: Showing the details of non/short levy of maintenance charges

(Amount in ₹)

Zone	Total area of existing units (in Sq.m)		Maintenance Charges to be levied		Actual Levied/collected		Short and non-levy	
	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22
Kadapa	1,32,67,234	1,43,19,581	1,32,67,234	1,43,19,581	7,668	1,27,125	1,32,59,566	1,41,92,456
Vijayawada	57,67,945	57,76,575	57,67,945	57,76,575	0	0	57,67,945	57,76,575
Total	1,90,35,179	2,00,96,156	1,90,35,179	2,00,96,156	7,668	1,27,125	1,90,27,511	1,99,69,031

Source: Information furnished by APIIC

It could be seen from the above that maintenance charges as envisaged in Allotment Regulation was not collected from all units existing in Industrial Parks for the purpose of maintenance and upkeep of the assets created by APIIC. An amount of ₹3.90 crore (₹1.90 crore + ₹2.00 crore) was short/non-levied in two zones of APIIC. The information in respect of other zones was not furnished.

During Exit Conference (December 2023) Government stated that the land given to industry is at higher rate than the lands available in market, which is a costly affair. If maintenance charges are insisted, the industries would not come forward. Therefore, a provision is made wherever industries are willing to pay, the same would be collected based on the facilities made available. It is not mandatory to collect these charges from every industry.

The reply is not acceptable. As per Allotment Regulation maintenance charges are to be collected from all units existing within APIIC developed industrial parks for the purpose of maintenance and upkeep of the assets created by APIIC. Non collection of these charges would cause financial burden on APIIC in maintenance/upkeep of industrial parks.

5.3.2 Cancellations of Allotments

5.3.2.1 Delay in cancellation of allotments led to idling of land

As per Clause 19.3 & 19.15 of Allotment Regulation 2015, the allottee should implement the project as envisaged and commence commercial production within the stipulated period after taking possession of the plot/land. If the project is not implemented, the allotment made shall remain cancelled and APIIC shall have a right to resume possession of the subject plot/land. If the allottee fails to implement the project within the stipulated time from the date of possession, Zonal Manager shall issue notice to the allottee for violation of terms & conditions of final allotment orders and advise the allottee to surrender the vacant possession of the premises. In cases where the allottee, after payment of upfront /allotment cost of the premises, fails to execute the 'Agreement for Sale/Lease' within the stipulated time of 30 days, the allotment is liable to be cancelled.

Scrutiny of records at Zonal Office Anantapuramu revealed that due to non-compliance to above allotment regulations, the Zonal Manager, Anantapuramu issued show cause notices to 19 allottees in Rappthadu seeking reason and documentary evidence as to why the allotment should not be cancelled. It was also informed to allottees that in case no reply or documentary evidence is produced, action would be initiated for cancellation of allotment without any further notice.

Audit noticed that despite lapse of stipulated period of 30 days, agreement for sale was not executed in respect of five allottees. Even after a lapse of period ranging between 655 to 1,182 days (as of June 2022) there was no action taken in this regard. As a result, 1,347 Sq.m of land held by the allottees was lying idle without any fruitful use (as detailed in **Appendix 5.2(A)**).

Further, 14 allottees to whom land measuring 7,977.75 Sq.m was handed over did not commence the projects within the stipulated period of one year. Despite lapse of period ranging between 565 to 604 days (as of June 2022) no action was taken by APIIC. This has resulted in idling of lands measuring 7,977.75 Sq.m held with the allottees without any use (as detailed in **Appendix 5.2(B)**).

In a similar case, Zonal Manager, APIIC, Srikakulam issued (March 2017) provisional allotment order to a firm¹²⁶. Due to non-response from the firm to execute sale agreement and to take possession of land within 30 days from the date of final allotment order, the allotment was cancelled (October 2019). Subsequently, GoAP instructed (November 2019) APIIC to reconsider the allotment based on the request of the firm. Accordingly, the land to the extent of 172.84 acre was restored (June 2020) in favour of the firm, after collection of restoration fee of ₹24.76 lakh with due date of cancellation of allotment in July 2020. However, sale agreement was not executed by APIIC as of June 2022.

Further, in case of cancellation an amount equivalent to 50 per cent of upfront cost (Clause 19.14 of Allotment Regulations) is to be forfeited.

Government replied (December 2023) that allotments¹²⁷ were proposed to be cancelled in PMIC committee meeting held in September 2023. During Exit Conference (December 2023) Government accepted the Audit observation and stated that there is inherent loss to APIIC as industry had not commenced its activity. However, in Anantapuramu area there is no market pressure, hence, Extension of Time (EoT) was given instead of cancellation. Further, EoT comes with huge fees which is a revenue to APIIC. The information regarding grant of EoT and charges collected would be furnished to audit.

Due to inaction of Government, there was no clarity of instruction to APIIC either to give EoT or cancel the allotment. This led to idling of land without being allotted to any prospective Entrepreneur. No supporting documents regarding grant of EoT and charges collected thereon were furnished to audit.

¹²⁶ M/s. Patanjali Ayurved Limited

¹²⁷ M/s SB industries, Shameer Engineering Works, Maruthi Industries, Haji Industries

5.3.2.2 Non commencement of commercial production within stipulated timeline

As per Clause 18.5 of Allotment Regulation 2012, in case of allotments for large projects, the time for implementation shall be as per milestones/timelines given in the project report and as approved by the allotment committee. Further, as per Clause 18.7 of Allotment Regulation 2012, Zonal Manager or any other officer authorised by ZM, shall inspect the premises at least once in every three months to verify progress on the implementation and assess the progress and record the findings in the proforma prescribed.

GoAP alienated (June 2009) 750 acres of land in favour of APIIC for development of Industrial Park for establishment of project for manufacturing of Power Plant Equipment by a firm (NTPC and BHEL Projects Private Limited). The land for the project was allotted (September 2009) at a cost of ₹100 per acre.

After execution of sale deed (November 2009), the land was handed over (November 2009) to the firm. Due to disputes with Forest Department on the land, another parcel of land with total extent of 753.85 acres was proposed to be alienated (May 2010) to APIIC by Government. A sale deed was executed (June 2010) with the firm for 753.85 acres. As per condition 3(c) of sale deed, the allottee should implement the project as envisaged and commence the commercial production within 10 years (by June 2020) of taking possession of the land and if no such steps were taken, the allotment was liable for cancellation.

Zonal Manager, Tirupati issued (May 2022) a show cause notice to the firm for non-commencement of commercial production by June 2020 as per sale deed. Further, second show cause notice was issued (June 2022) as the firm had itself claimed that an investment of only ₹129 crore was made and employment was generated to only 63 people against the proposed investment of ₹6,000 crore and employment generation of 30,000.

Further, APIIC incurred (September 2010) an amount of ₹91.97 lakh towards the works relating to laying of roads and other event management works taken up along with District Administration in connection with the inauguration of the project. However, the firm did not reimburse the said amount.

Audit noticed that as per sale deed, the allottee shall go into commercial production within 10 years. However, the allottee had not commenced the project within the said period, thereby intended benefit of either investment or employment generation was not achieved.

Further, payment of ₹0.92 crore towards event management for inauguration of the project was made by APIIC without any vested interest. Due to this there was blockade of funds and land of APIIC.

Government replied (December 2023) that the firm had taken up works in two phases. The present business was focused on phase-I and NBPPL (NTPC and BHEL Projects Private Limited) has to go for phase-II after four to five years. Therefore, due to credentiality & existence of firm, APIIC awaited with confidence that the project would definitely be implemented despite there being substantial delay. It was replied that discussions are going on in this regard at Government of India level. For blockade of funds, it was replied that

the firm was requested for reimbursement of the amount. However, the same was yet to be reimbursed and issue was taken up with the firm for settlement.

The reply is not acceptable, as during the period of implementation of project, APIIC should have inspected the progress of work as per milestones irrespective of credibility of the allottee. Due to non-cancellation of the allotment, land was kept idle for a long period with no allotment to prospective Entrepreneurs. The objective of investment and employment generation was also not achieved. Further, APIIC could not recover the amount spent on behalf of the firm of ₹0.92 crore.

5.3.2.3 Non-deferment of application led to loss to Exchequer

As per Clause 9.2 of Allotment Regulation 2012, the incomplete applications filed on-line shall be rejected and the applicants are to be informed about the reasons for rejection. All the deferred applications are deemed to be rejected for the purpose of validity of the land rate.

The Government of India notified (February 2008) an area measuring 21.36 hectare as Special Economic Zone (SEZ) for IT/ITES¹²⁸ sector at Putlampalle village, Kadapa District. Subsequently, GoAP gave (October 2020) 'No Objection Certificate' to the proposal made by APIIC to de-notify SEZ. Accordingly, GoI had rescinded (November 2020) the proposed IT SEZ.

Meanwhile, a firm (M/s Shirdi Sai Electrical Limited) applied (September 2016 *i.e.*, prior to issue of de-notification orders of the IT-SEZ) for allotment of land (line of activity: Transformers) in CP Brown IT Park, Kadapa through online application for an extent of 38.75 acres (1,56,821.25 Sq.m) and paid an amount of ₹2.66 crore towards Earnest Money Deposit (EMD), process fee and Service Tax. The application was placed (October 2016) before the State Level Allotment Committee (SLAC) and SLAC recommended for allotment of land extent of 52.76 acres and referred to Government for approval since it was more than 50 acres. However, no action was taken in this regard.

Subsequently, GoAP clarified (July 2021) APIIC to allot 49.80 acres in the IT Park and instructed to consider allotment price at ₹1,680 per Sq.m, as APIIC had neither rejected the online application received (September 2016) nor refunded the amount even after more than four years.

Accordingly, APIIC had issued (September 2021) provisional allotment order in favour of the firm for the land measuring 49.80 acre (2,01,545.569 Sq. m) at a cost of ₹33.86 crore (as per land rate of 2016 at ₹1,680 per Sq. m) on lease basis for a period of 33 years in C.P. Brown I.T Park, Kadapa. Subsequently, APIIC issued (January 2023) modification orders to the allottee and sale agreement was executed (May 2023).

Audit noticed that:

- (i) The firm was in no way concerned with IT/ITES Sector as its line of activity was Transformers (an electrical item). Hence the firm was not eligible for allotment of land

¹²⁸ Information Technology Enabled Services

in IT/ITES SEZ and acceptance of application was incorrect.

- (ii) APIIC had accepted online application for allotment of land in IT SEZ prior to denotification order (November 2020) of GoI. However, the application was neither rejected nor amount was refunded to allottee for more than four years.

APIIC replied (September 2023) that as there was no demand for IT companies for allotment of land in IT-SEZ, APIIC allowed allotment of land to other than IT units to avoid idling of land without any development and creation of jobs.

- (iii) As the application was accepted before denotification of SEZ and kept pending for more than four years, the application was to be treated as deferred and the allotment made in September 2021 is to be treated as fresh. Further, there was also change in requirement of land from initially 38.75 acres to 49.80 acres. As such, the land should have been allotted at rates prevailing as of September 2021.

The non-deferment of application resulted in allotment of land at old rate of ₹1,680 per Sq. m (price prevailing as of September 2016) instead of ₹2,108 per Sq. m the rate prevailing on the date of allotment *i.e.*, in September 2021 which put APIIC to sustain a loss of revenue of ₹8.63 crore¹²⁹.

During Exit Conference (December 2023) Government stated that APIIC had accepted the application of the firm but land was not allotted as APIIC waited for GoI orders for denotification of SEZ. After de notification the application was considered for allotment. Further, Government promised to verify the issue.

The reply is not tenable, since, as per the allotment regulations, the application should be deferred and deemed to be rejected. The non-deferment of application led to loss of revenue to the extent of ₹8.63 crore.

Thus, on the whole, inordinate delay in taking appropriate action in cancellation of allotments due to non-execution of sale agreements, non-commencement of projects by the allottees led to idling of land to the extent of 955.86 acres¹³⁰ and non-cancellation of deferred applications led to loss of revenue to the extent of ₹8.63 crore.

Recommendation 5.3: Government should develop proper monitoring mechanism to avoid idling of lands after allotment and take prompt action against the allottees for delay in commencement of projects.

5.3.3 Industrial Area Local Authority

The Local body functions within an Industrial Park/Special Economic Zones established by APIIC are being performed by Industrial Area Local Authority (IALAs). The IALAs are exercising the functions with a condition that 35 or 50 *per cent* of the property tax collected is remitted to the parent local body.

¹²⁹ cost of land as on 21/09/2021 as per PF&IC: ₹2,108 - Cost of land on 22/09/2016 as per PF&IC rate: ₹1680 x 2,01,545.569 Sq. m

¹³⁰ 1,347 sqm (0.33 acres) +7,977.75 Sq. m (1.97 acres) + 26.87 acres + 753.85 acres(NBPPL)+172.84 acres (Patanjali)

Further, APIIC issued (October 2013) guidelines duly explaining the role of APIIC and other officials of APIIC in working of IALA and Service Societies. The circular also provided details on financial and administrative powers transferred to IALA and its officials.

5.3.3.1 Non-formation of Service Societies

To promote the practice of self-governance, the concept of Service Societies has been introduced and it would comprise all industrial units within the limits of Industrial Park/SEZ/Industrial Estate. The guidelines issued stipulate constitution of Service Societies under the supervision of Zonal Managers who shall nominate Election Officer for conduct of election to Service Societies. The Service Society would elect a Management Committee having five office bearers.

The Service Societies should participate in all decisions which concern them, coordinate the functioning of IALA, involve the constituent industrial units in different development activities within IALA area and bring transparency in the working of IALAs. The Service Societies would form the Sub Committees. One of the office bearers from the Management Committee would be the Head of the Sub Committee. The Management Committee may nominate other members of the Sub Committee. Commissioner of IALA would be the Convenor of each of the Sub Committee.

Scrutiny of records of APIIC revealed that the Service Societies as well as Sub Committees were not constituted as envisaged in the guidelines in three test checked Zones.

- In Vijayawada Zone there existed 28 IPs. However, only one Service Society at Kondapalli was functioning.
- In Visakhapatnam Special Zone, there were three IALAs. In one of the IALAs (APSEZ-Atchutapuram) Service Society was registered in June 2022, however, approval of APIIC to make Service Society functional was yet to be received as of September 2023. In respect of JNPC-Parawada, Service Society was withdrawn (March 2021) by APIIC.
- In YSR Kadapa Zone, out of 13 IALAs, seven Service Societies were functioning and Service Societies for six IALAs were not functioning as entrepreneurs were not showing interest and had not come forward to form committee.

Thus, due to non-functioning/non-formation of Service Societies, the objective to promote the practice of self-governance could not be achieved.

- As per Para-V of the guidelines, the Commissioner, IALA should enter into a Memorandum of Understanding (MoU) with Local Body concerned for lifting of garbage collection and sharing of Central/ State Government grants. Audit noticed that no such MoUs were entered by IALAs with the local bodies concerned in any of the test checked IALAs.

Zonal Manager, Vijayawada replied (August 2023) that no committees were formed as elections to the Service Societies was not conducted. The Zonal Manager, Vijayawada also replied (August 2023) that APIIC and IALA authorities are attending the meetings with

local bodies concerned to discuss and redress the issue of lifting of garbage collection and there were no specific MoUs entered into with local bodies.

The response of the Government is awaited.

5.3.3.2 Non-collection of property tax

The IALAs were granted (September 1994) powers to assess, levy and collect property tax from the occupants of Industrial Areas. The Demand, Collection and Balance (DCB) statements of property tax of IALAs were analysed and summary is as detailed in *Appendix 5.3*.

Scrutiny of DCB data revealed that as of March 2022, out of total demand of ₹99.88 crore, only ₹64.77 crore was collected by IALAs and balance of ₹35.11 crore remained unrealised from the allotted plot owners. In cases where there were no IALAs, the details of property tax to be collected could not be ascertained.

This shows that IALAs were not efficient in doing their core activity of collection of property tax from industrial units under their jurisdiction.

Government replied (December 2023) that due to covid, property tax collection during 2020-21 & 2021-22 was less. However, a special drive for collection of property tax had taken up in 2022-23 and collected ₹42 crore towards property tax demand and arrears. Further, orders were issued (March 2023) for waiver of interest arrears on property tax up to 2022-23 as one-time measure, which provided the assesseees to pay the total arrears with current year tax in one lump-sum on or before March 2023. In the process an amount of ₹7.64 crore was collected by enforcing government order.

The reply is not acceptable, as APIIC had not furnished the recovery particulars of the amounts stated to be recovered from the assesseees.

5.3.3.3 Short remittance of share of property tax to concerned local bodies

As per guidelines issued (October 2013), IALAs shall remit 35 or 50 *per cent* (as the case may be) of the property tax collected in their jurisdiction to the concerned Rural/Urban local body.

The demand and collection of property tax by all IALAs was analysed and the collection and remittance of property tax to local bodies was as detailed in *Appendix 5.4*.

Audit noticed that share of property tax amounting to ₹5.94 crore was pending to be remitted to the concerned local body as of March 2022.

Government replied (December 2023) that after reconciliation with parent local body, the short fall in remittance, if any, would be adjusted in the current year payment.

Thus, it is evident that IALAs are not discharging duties to remit the share of property tax to the local bodies. Non-remittance may affect the provisioning of basic facilities *viz.*, sanitation, connecting roads, street lighting, *etc.* outside the premises of IPs. Lack of basic facilities may discourage firms from considering establishing industries in those IPs.

5.3.3.4 Delay in identification of unauthorised constructions

As per Section 211 and 228 of Andhra Pradesh Municipal Act 1965, the construction or reconstruction of a buildings shall not commence unless and until the Commissioner IALA has granted permission for the execution of work in the Industrial Parks (IPs). Further, in case of unlawful constructions, a show cause notice (within a reasonable time) is to be issued to the allottee, requiring reasons on why demolition order should not be confirmed. If the allottee fails to submit the show cause to the satisfaction of the said officer, IALA may confirm the order with such modification as thought fit, and such order shall then be binding on the owner.

Scrutiny of records revealed that the Municipal Administration and Urban Development Department issued (November 2020) instructions to change the system of levying of property tax from Annual Rental Value to Capital Value (CV) and issued rules for levy and assessment of property tax effective from April 2021.

In the light of the above instructions, IALA, Gajuwaka and Industrial Area, Visakhapatnam reviewed the property tax assessments of all the units and revised property tax as per CV for the year 2021-22 and raised the demand. For arriving at the property tax, measurements of site and type of constructions made by industries were taken into consideration. During measurement, IALA authorities noticed 896 units (IALA Autonagar, Gajuwaka: 872 units and IALA Visakhapatnam: 24 units) of unauthorised constructions out of 1,303 units (IALA Autonagar, Gajuwaka: 1,159 units and IALA Visakhapatnam: 144 units) in the IPs.

The unauthorised constructions taken up without the notice of IALA authorities highlights lack of strict monitoring mechanism and protection of assets. Over the period, IALA had lost the property tax on these constructions. Action taken on these unauthorised constructions was not on record. There is every possibility of unauthorised constructions in other Industrial Parks also.

Government replied (December 2023) that instructions were given in June 2022 to all IALAs to conduct survey and move to capital value method. Penalties would be levied as per rules for unauthorised constructions.

Thus, the unauthorised constructions had caused loss of revenue by way of property tax and building plan charges. Hence, there is a dire need to monitor the construction activities continuously in all the Industrial Parks either under IALAs or not.

5.3.3.5 Administrative expenditure in excess of admissibility

APIIC issued (October 2013) circular and stated that total expenditure on administrative head by IALAs should not exceed 20 *per cent* of total revenue generated (excluding the share of local bodies) or ₹20 lakh whichever is less, per year.

Scrutiny of records revealed that during the period 2017-22, in 15 Zones the administrative expenditure incurred of ₹25.58 crore was over and above the admissible limit as detailed in **Appendix 5.5**.

Government replied (December 2023) that unrelated expenditure was shown under administrative expenses in few IALA, that was rectified. Skeleton outsourced staff were engaged in small IALAs. Since minimum wages and statutory contributions like provident fund are to be paid to the outsourced staff, there was excess administrative expenditure. Further, common administrative officers and staff for smaller IALAs are planned and would be implemented.

The reply is not acceptable, as the recommendations for revised charges (April 2022) were issued after the expenditure had already been incurred. However, no circular/Inter Office Memo was issued in this regard. Therefore, excess expenditure made towards administrative expenditure led to non-adherence of guidelines issued in respect of the financial powers given to IALA. The hiring of outsourcing staff should have been done within the amount allowed for the expenditure.

Thus, lack of monitoring mechanism by APIIC on IALAs led to inefficient working of IALAs, non-collection of property tax as demanded from allottees, short remittance of legitimate share of property tax to the concerned local bodies, delays in identification of unauthorised constructions and incurring of administrative expenditure over and above admissible limits.

Recommendation 5.4: Government should develop a fool proof internal control mechanism to regulate the functioning of Industrial Area Local Authorities by APIIC.

5.3.4 Financial Management

Effective financial management ensures that decisions taken at the policy level are implemented successfully at the administrative level without wastage or diversion of funds.

5.3.4.1 Improper utilisation and management of funds

(a) Diversion of loan amount

(i) The APIIC requested (March 2016) the Government to arrange guarantee for an amount of ₹5,000 crore for acquisition of land in various projects. An amount of ₹2,000 crore was required for already committed works in Andhra Pradesh Special Economic Zone, Atchutapuram, Naidupet and other industrial parks. The Government provided (June 2017) guarantee¹³¹ for an amount of ₹2,000 crore.

The APIIC had taken (October/December 2017) loan amount of ₹520 crore¹³² from the sanctioned amount of ₹2,000 crore. The Finance Department, GoAP instructed¹³³ (January 2018) APIIC to avail the balance loan amount of ₹1,480 crore and deposit the same in Personal Deposits (PD)¹³⁴ account of APIIC with a condition that amounts would be

¹³¹ ₹40 crore (₹10 crore paid on 17/01/2018 and via book adjustments ₹29,63,26,590) "Due to Government of AP-Misc" + ₹36,72,410 "Due to GoAP-Miscellaneous -Business Promotion Expenses" on 31/03/2018 from the amounts due from Government

¹³² ₹500 crore from Union Bank of India on 31/10/2017, ₹10 crore each from Canara Bank and Bank of India on (10/12/2017)

¹³³ Ir.No.21025/23/CM/ 2017 dated 02/01/2018

¹³⁴ are maintained in the treasuries of the State Government in the nature of banking accounts

released immediately to facilitate ways and means of Government as and when cheques are raised by APIIC. The interest payable by APIIC for keeping money in PD accounts would also be paid by the Government.

Accordingly, APIIC availed (January 2018) remaining loan amount of ₹1,480 crore. As of March 2022, out of total loan amount of ₹2,000 crore, APIIC spent an amount of ₹505 crore for committed projects of APSEZ, Achuthapuram, Nakkapalli, Naidupeta and other Industrial Parks, an amount of ₹1,020 crore was still lying in PD account, ₹46 crore was lying with APIIC and an amount of ₹429 crore was spent towards infrastructure facilities of a firm¹³⁵ subject to reimbursement as per Government orders.

Audit noticed that:

- The APIIC had projected requirement of ₹2,000 crore for committed works in Industrial Parks, however, ₹1,480 crore was immediately transferred to PD account without using for the intended activities.
- Government accorded (September 2017) sanction to incur an amount of ₹450.29 crore towards concession on land cost and for committed Infrastructure facilities of a firm subject to reimbursement and accordingly an amount of ₹429 crore was spent by APIIC till March 2022. However, neither any reimbursement was requested by APIIC, nor the amount was refunded by the Government till date.

The APIIC replied (October 2022) that land acquisition involves a lengthy process, hence land acquisition as proposed could not be completed immediately. Out of total loan amount availed, land was acquired for ₹584.80 crore, infrastructure expenditure incurred for a firm was to a tune of ₹348.72 crore and balance left over was ₹1,066.48 crore only.

During Exit Conference (December 2023) Government stated that the amount of loan taken was shown under Loans as liability in the APIIC accounts. As the amount was deposited in PD account the same was also shown under deposits, as APIIC is following double entry system of accounting.

The reply of Government is silent regarding reasons for non-utilisation of loan amount for committed works in industrial Parks and diversion to other non-commercial activities which resulted in financial mismanagement such as depositing of loan amount into PD account and incurring expenditure on behalf of a firm. Thus, Government should examine the reasons on diversion of loan amount for other than the intended purpose and fix responsibility for such act.

(b) Non-reimbursement of short-term loan by Andhra Pradesh Airports Development Corporation Limited

Special Chief Secretary to Government instructed (August 2020) that Government accorded permission to the Managing Director, Andhra Pradesh Airports Development Corporation Limited (APADCL) for taking a short-term loan from APIIC amounting to

¹³⁵ M/s Kia Motors Corporation

₹230 crore for meeting the expenditure towards land acquisition charges for development of Bhogapuram International Airport.

Accordingly, APIIC transferred (August 2020) ₹220 crore to the bank account of APADCL. The amount was transferred by withdrawing ₹120 crore from the Current Bank account and ₹100 crore from fixed deposits made by APIIC. This was ratified (August 2020) by VC & MD, APIIC with instructions to address APADCL to repay the loan at the earliest.

Subsequently, due to lack of sufficient funds, APIIC (August 2020) requested APADCL to refund the amount of short-term loan granted. In this regard, multiple requests were made to APADCL, however, the amount was not received till September 2022.

Audit noticed that:

- The amount was directly transferred to APADCL and no formal agreement was entered into. There was no mention of important loan parameters like rate of interest, dates of repayment, guarantees, penalty, *etc.* Transfer of amount as unsecured loan without any commitment may lead to non-payment from the borrower side.
- The amount was given to APADCL by withdrawing the amount from the fixed deposits which led to loss of opportunity cost.

Government has not given reply in this regard, however during Exit Conference (December 2023), Government accepted that agreement has to be entered into for the amount advanced and directed APIIC to look into it.

Extending short term loan without proper documentation and specifying critical parameters led to non-reimbursement of loan and interest thereon by APADCL. Further, foreclosing the fixed deposits and transferring the funds to APADCL without specifying interest rate was a loss of opportunity cost and tantamount to bad financial management.

5.3.4.2 Non-realisation of unspent land cost from Revenue Authorities

As per Article 4 of AP Financial Code, it is the duty of every Government servant not merely to observe complete integrity in financial matters, but also to be constantly watchful to see that the best possible value is obtained for all public funds spent by him or under his control and to guard scrupulously against every kind of wasteful expenditure from public funds.

Audit noticed that APIIC had deposited ₹179.84 crore with Revenue Authorities in respect of twenty land acquisition cases. Out of this, an amount of ₹140.91 crore was shown as pending realisation as of March 2022 as detailed in **Table 5.5** below:

Table 5.5: Showing non-realisation of unspent amount with Revenue Authorities

(₹ in crore)

Sl. No.	Name of the Zone	Number of acquisition cases	Total amount deposited with Revenue Authorities	Unrealised amount with the Revenue Authorities	Amount pending with Revenue Authorities (in days)
1	Srikakulam	2	32.66	11.02	499 to 2,100
2	Visakhapatnam	3	26.77	23.17	1,832 to 2,219

Sl. No.	Name of the Zone	Number of acquisition cases	Total amount deposited with Revenue Authorities	Unrealised amount with the Revenue Authorities	Amount pending with Revenue Authorities (in days)
3	Visakhapatnam Special Zone	7	34.78	34.78	530 to 2,040
4	Tirupathi	2	2.50	0.70	1,039 to 1,956
5	Chittoor	4	14.83	2.94	512 to 2,485
6	Kadapa	2	68.30	68.30	Between 2007 & 2015
Total		20	179.84	140.91	

Source: Information furnished by the respective Zonal Managers

Audit also noticed that APIIC did not take any action to reconcile and get back the unspent amount from the Revenue Authorities which was locked up for days ranging between 499 to 2,485 days.

Government replied (December 2023) that the balance with Revenue Authorities decreased over a period of time from ₹271.63 crore (as of April 2021) to ₹186.18 crore (as on March 2023). APIIC is making correspondence with concerned District Collectors for refund of unspent amounts. APIIC is also taking steps not to make further deposits and if any demands received from deposits, the same are being adjusted with the available deposits with Revenue authorities.

Thus, APIIC should be constantly watchful to see that public funds spent were utilised gainfully for the purpose meant for and should pursue regularly with Revenue authorities to get back unspent amount.

5.3.4.3 Non-collection of rental charges

The APIIC had allotted office spaces (July 2020 to March 2022) to various Departments and Offices of the Government in APIIC building. The lease rent was fixed at ₹45 per square feet per month and the maintenance charges at ₹eight per square feet /per month (as per allotment letters).

Based on the test check of the six allotments made during the above period, Audit noticed that:

- Lease agreement was not entered into with any of the occupants except Dr YSR Aarogyasri Health Care Trust. No records were available to ascertain whether the space allotted to 'The Commissioner of Survey, Settlement & Land Records' was on lease basis or free of cost.
- None of the occupants had paid the lease rent and maintenance amount till date. As a result, ₹3.12 crore remained unrealised as of March 2022 from the occupants towards lease rent and maintenance charges.

Government replied (December 2023) that since all the allottees are Government Departments, APIIC had been pursuing for execution of lease agreement and payment of monthly rentals.

It is evident that there is no formal agreement with the occupants and rent was not being paid by any of the occupants. Due to financial mismanagement on the part of APIIC, there was non-collection of ₹3.12 crore of revenue in the form of lease rents.

5.3.4.4 Issue of No Objection Certificates to allottees for availing loans

As per Clause 34.3 of Allotment Regulation 2015, whenever allotments are made as per the directions of the Government, No Objection Certificate (NOC) for mortgaging the land in favour of banks/financial institutions by allottees can only be given with the approval of the Government.

Scrutiny of records of Industrial Parks revealed that Government accorded (July 2016) permission to develop an Engineering Cluster at Veerapanenigudem, Krishna District in an extent of land measuring 86.32 acres at ₹eight lakh per acre based on the individual applications filed by the project proponents. Similarly, Government accorded (May 2017) permission to allot lands for Multi Product Industrial Park for an extent of 1,341.67 acres in Mallavalli, Krishna District at ₹16.50 lakh per acre.

Audit noticed that in nine cases, NOCs were issued (August 2018-December 2019) by APIIC directly without bringing it to the notice of Government contrary to the regulations and in six cases, firms have raised loans without obtaining NOC from APIIC. Further, five firms have obtained loans more than the proposed project cost (with NOC: three firms and without NOC: two firms) furnished to APIIC in the project report for allotment of land.

During Exit Conference (December 2023), Government stated that land is a mortgageable asset which the allottee pledges for loan. However, most of the banks are not giving loan merely based on the NOC given by Government, in addition collateral security has to be submitted by the allottee to Bank. Wherever there is violation action is being taken.

The reply is not acceptable, as mortgaging APIIC land in favour of banks/financial institutions by allottees without NOCs and without the approval of Government may allow the allottees to pledge more money than eligible. In case of default by allottees in repayment of loan, APIIC would be forced to make defaulted payment more than the actual cost of asset causing extra financial burden.

Thus, APIIC's improper utilisation of loan amount of ₹2,000 crore, extending unsecured short-term loan of ₹220 crore to APADCL, non-realisation of unspent land cost of ₹140.95 crore from Revenue Authorities, non-collection of rental charges of ₹3.12 crore from occupants, and irregular issue of NOC to some allottees for availing loans against the provisions of allotment regulations, tantamount to inefficient and ineffective financial management.

Recommendation 5.5: Government should ensure that APIIC manages its financial resources efficiently, effectively and economically, to ensure compliance to general principles of financial rules while incurring expenditure and realising revenues for better financial management.

