

Chapter-IV

Transaction audit observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies and Statutory corporations have been included in this Chapter.

4. Government companies

City and Industrial Development Corporation of Maharashtra Limited

4.1 *Loss of revenue*

There was loss of revenue of Rs.49.24 crore due to sale of plots below the market rates, allotment at concessional rates to ineligible parties and short recovery of land premium.

City and Industrial Development Corporation of Maharashtra Limited (Company) sells plots for various uses like residential, commercial and educational purposes. The Company extended undue benefit of Rs.49.24 crore to private parties due to sale of plots below the market rates and allotments made to ineligible parties and short recovery of land premium as discussed below:

Irregular allotment of school plots

4.1.1 The Company allotted (September 2002 to May 2004) six plots of land measuring 15,550.23 square metres in Sanpada and Vashi node to Oriental Education Society (OES), Andheri, Mumbai for a lease premium of Rs.44.15 lakh for setting up an educational institution.

As per the Company's policy, the land reserved for schools was to be allotted at concessional rate subject to fulfilment of the following eligibility conditions:

<http://www.cag.gov.in>

- The educational institution should have a minimum of ten years experience in running a school.
- Secondary school certificate results in past three years should be above 85 *per cent*.

There were 14 eligible applicants awaiting allotment of land. The plots valuing Rs.4.41 crore were however, allotted to OES, which did not satisfy the eligibility criteria for allotment of plots, at ten *per cent* of the reserve price. This resulted in passing of undue benefit of Rs.3.97 crore to an ineligible party.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the allotment was made taking into account the previous experience of the founder Member and Chairman of OES in running educational institutions.

The reply is not tenable. The founder Member and Chairman of OES was also the Chairman of the Company. There was conflict of interest between the goals of the Company and the Chairman. Sale of plot to the Society in violation of the eligibility criteria and overlooking 14 other eligible applicants was irregular.

Allotment of land to ineligible party

4.1.2 The Company allotted (March and May 2004) land measuring 8,984.79 square metres in Airoli area to Swargiya Nagarsevika Meenatai Vijay Chougule Rahivashi Seva Mandal (Trust), Airoli for setting up a school (3,986.09 square metres) and playground (4,998.70 square metres) at a total lease premium of Rs.16.17 lakh (at 10 *per cent* of the reserve price of Rs.1,800 per square metre).

The Company's policy required plots reserved for schools to be allotted only to educational institutions with a minimum ten years' experience in running a school, and Secondary School Certificate results in the past three years above 85 *per cent*.

Audit scrutiny revealed that the trust had no experience in establishing and running any school and that the land valuing Rs.1.62 crore was allotted overlooking pending applications from 14 eligible institutions. The allotment of the plot resulted in undue benefit of Rs.1.46 crore to the trust.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the allotment was made as a special case. The reply is not acceptable as the trust did not fulfill any of the eligibility criteria. It was also noticed that the Director of the Company was the Chairman of the

trust when it applied for the plot (September 2003), though he resigned from the trust (18 November 2003) prior to allotment.

Allotment of plot to Dr D Y Patil Sports Academy

4.1.3 The Company allotted (March 2004) a plot measuring one lakh square metres in Sector-7, Nerul to Dr D Y Patil, Sports Academy at a lease premium of Rs.4.02 crore for establishing a Sports Academy.

Audit scrutiny revealed the following:

- The Company did not call applications from leading sports institutions through wide publicity indicating therein eligibility criteria, pricing pattern, scope of the project and other terms and conditions for selection of suitable institutions. There was lack of transparency in the allotment.
- The society did not have affiliation with any recognised sports authority and hence lacked experience in the field of sports.
- The District Collector, Thane and New Mumbai Municipal Corporation, Navi Mumbai (NMMC) had also demanded (August 2003) the plot for sports activity. The Company did not allot the plot to them and justification for not acceding to their request was not available on record. The allotment of land to any Government body would have ensured that the affairs of the allottee organisation would have been conducted in a transparent manner in public interest. The allottee is a closed body and there was no provision for election of office bearers. As per the rules of the trust the objectives of the Academy could be changed and the assets could be disposed off by the trustees.
- As per the time schedule prescribed for utilisation of the land, the licensee was to submit its plans within six months (September 2004) to the NMMC. There was no record to show that the Company had verified that this condition had been complied with (March 2005).

The land cost as per reserve price was Rs.28.75 crore, and the allotment was made at Rs.4.02 crore. The benefit of Rs.24.73 crore passed on to a private party was not justified.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the Board of Directors of the Company allotted the plots to the trust considering its credentials, and the land cannot be disposed off without its prior permission. The reply is not tenable. There should not have been an enabling clause for sale of land. The Company failed to

incorporate a provision that in case of failure to set up a sports academy, the land would be returned to the Company. In view of this, the diversion of land for other purposes cannot be ruled out. There was lack of transparency in the allotment and the allotment was irregular in view of the lapses pointed out above.

Allotment of land below the market price

4.1.4 The Company allotted (September 2003) six plots measuring 4,760 square metres in Koperkhairane to Lokamanya Tilak Jankalyan Shikshan Sanstha (LTJSS) for expansion of engineering college for a lease premium of Rs.1.14 crore by allowing concession of Rs.2.30 crore in allotment of land as compared to the market price.

Audit scrutiny revealed that these plots were earmarked for residential purposes. The area reserved for higher educational institutions in the specific node had already been exhausted but the land usage was changed from residential to higher education which attracted only 10 *per cent* of the reserve price. The Company lost revenue of Rs.2.30 crore on this account as the market value of the plots sold was Rs.3.44 crore*.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the additional land was required to fulfill eligibility criteria set by the All India Council for Technical Education and hence was allotted to the party. The reply is not acceptable, as there were many educational institutions in the area. The original plot was allotted for a school and the trust had misused it for a higher educational institution to be run on commercial lines. Hence, no further land should have been allotted.

Allotment of plot to a private party without call of tenders

4.1.5 The Company allotted (November 2003) a plot measuring 5,099 square metres situated in Sector-6, Nerul with 1.5 floor space index[#] to ATV Project India Limited (Party) at the rate of Rs.15,624 per square metre. The Company received total lease premium of Rs.7.97 crore.

Audit scrutiny revealed the following:

- There was lack of transparency as no tenders were called for sale of the plot.

*Minimum tender rate during 2003-04 of Rs.7,222 x 4,760 square metres = Rs.3.44 crore received.

[#]Floor space index fixed by local authority. It is the *ratio* of the combined gross floor area of all floors (excluding areas specifically exempted) to the total area of the plot.

- The plot allotted was situated on Palm Beach Marg and had the advantage of prime location.
- The rate received through tender (July 2003) was Rs.19,723 per square metre for residential cum commercial plots situated in Sector-44, Nerul (adjacent to Palm Beach Marg). Yet the plots were allotted to the party at rate of Rs.15,624 per square metre. The loss of revenue to the Company on this account was Rs.2.09 crore.

The Company in its reply (May 2005), which was also endorsed by the Government (October 2005), stated that the market rate of Rs.15,624 per square metre considered by the Company was of Sanpada node as plots were nearest to Sanpada.

The reply is not acceptable. Tenders should have been called for in the interest of transparency. Adoption of the rate relating to Sanpada was inappropriate as Sanpada plots did not have direct access from Palm Beach Marg. Further, these plots were allotted to project affected persons and the high tension electrical lines passed over these plots. According to the Company's own notings the rate of Sector-44 was comparable and this rate should have been considered.

Allotment of plot to a private nursing home

4.1.6 The Company allotted (May 2004) a plot measuring 1,575.76 square metres situated in Sector-20, Koperkhairane at Rs.6,600 per square metre with floor space index (FSI) of one at a lease premium of Rs.1.04 crore to Laksha-Deep Hospital for construction of a hospital building.

Audit scrutiny revealed the following:

- The Company did not call applications from other interested parties through wide publicity. There was lack of transparency in the allotment.
- The rate received through tender was Rs.12,401 per square metre (proportionately worked out with FSI one) for adjoining commercial-cum-residential plots. The Company lost revenue of Rs.91.41 lakh by allotting the plot to the hospital below the market value.
- As the plot was not sold at market rate, a condition should have been stipulated that in case of non utilisation of the plot for the stated purpose, the same should be returned to the Company. Such a condition would have prevented the first allottee from earning the profit on subsequent sale of the plot acquired below market value. In the absence of such a condition, the party immediately (August-September 2004) sold the plot to another party by merely paying Rs.1.65 lakh towards transfer charges to the Company.

- The second party also got a benefit of Rs.31.99 lakh * in the premium paid for increasing the FSI from one to two due to initial allotment of plot below the market rate.
- Despite selling the plot below the market rate no condition was imposed that the hospital should treat poor patients at concessional rate commensurate with the subsidy availed in land cost.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the rate of Rs.6,600 per square metre was applied considering it under 'Nursing Home' category where the rate of 250 *per cent* of reserve price was applicable. The Company further stated that the condition like treating poor at concessional rate could not be imposed as that would depend on the policies of the Private Nursing Home. The reply is not tenable as in the allotment of plot in May 2004 to Mahatma Jyotiba Phule Medical trust, the Company had imposed a condition that the trust had to reserve 15 *per cent* beds free for poor patients, and 15 *per cent* beds should be charged as per tariff determined by the Company. No such condition was incorporated in the agreement in the instant case.

Short recovery of premium for change of land use

4.1.7 The Company allotted (November 2003-April 2004) three buildings constructed by it in Vashi to be used for shops-cum-godowns to two private parties.

The parties sought (February and March 2004) increase in FSI to 1.5 and change of use to purposes like shopping mall, restaurant, multiplex and marriage hall. The Company permitted the change (July 2004 and January 2005) on payment of additional lease premium of Rs.17 crore. The additional lease premium works out to Rs.30.46 crore as against Rs.17 crore recovered by the Company as detailed below:

*Charges of additional FSI should have been 35 *per cent* of Rs.12,401 per square metre instead of 35 *per cent* of Rs.6,600 per square metre.

Name of the party	Plot area	Amount recovered on original allotment			Revised land cost	Additional premium due (6-3)	Additional premium recovered (6-5)	Short recovery (7-8)
		Land	Superstructure	Total				
	(sqm)	(Rupees in crore)						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Well Wishers Construction and Finance Private Limited	15,539.38	5.00	9.29	14.29	22.52 [@]	17.52	8.23	9.29
Shakti Commercial Premises Society Limited	7,916.13	2.55	4.17	6.72	15.49 [§]	12.94	8.77	4.17
Total:		7.55	13.46	21.01	38.01	30.46	17.00	13.46

Thus, there was short recovery of Rs.13.46 crore from the parties.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the extra payment to be made by the parties was computed by charging the revised rate which included land and superstructure cost. It further stated that it generated additional revenue of Rs.17 crore from idle built up premises. The reply is not tenable. For computing the differential amount, the amounts already paid towards land only should have been deducted and no deduction should have been made towards the superstructure.

4.2 *Undue benefit to contractor in operation of pay and park and truck terminal at Vashi*

Faulty operation of contract led to default in payment of Rs.2.73 crore by the contractor.

The Company awarded (June 1998) the work of operation of 'Pay and park and Truck terminal' at Vashi to Garuda Service Works, Mumbai (Contractor) for a period of five years ended June 2003.

As per the terms of the contract, if the agency failed to deposit the parking fee in the first week of the subsequent month, extension would not be allowed. The Engineer incharge of the Company was empowered to terminate the contract by

[@] Revised land price Rs.14,490 x 15,539.38 sqm.

[§] Revised land price Rs.19,562 x 7,916.13 sqm.

suitably adjusting the Security Deposit (SD), and take necessary action for the recovery of the balance amount, if any. Audit scrutiny revealed that though the amount due from the contractor as of June 2001 was Rs.7.67 lakh, the Company did not terminate the contract or adjust the SD (Rs.5.20 lakh). Instead, the contractor was allowed to accumulate the dues to the detriment of the Company's interest as follows:

(Amount: Rupees in lakh)

Dues as on 30 June	Parking charges	Delayed payment charges*	Total
2001	7.67	5.22	12.89
2002	37.83	15.37	53.20
2003	100.54	54.11	154.65
2004	158.06	114.98	273.04

As of June 2004, accumulated outstanding dues were Rs.2.73 crore and the SD available was only Rs.5.20 lakh.

The security deposit obtained was inadequate. It should have been equal to six months remittances in the form of bank guarantee so that the Company did not suffer if the contract was terminated and a new agency was to be appointed.

The Company in its reply (June 2005), which was also endorsed by the Government (October 2005), stated that it could not upkeep the facilities in good condition due to paucity of funds and hence did not insist on payment from the contractor as per the contract. The reply is not correct. There was no paucity of funds as the Company was earning profit every year. The benefit passed on to the contractor was substantial being Rs.2.68 crore, and the money required to maintain the facilities was a meagre amount of Rs.30 lakh. Non maintenance only facilitated default in payment by the contractor.

Maharashtra Film, Stage and Cultural Development Corporation Limited

*Delayed payment charges leviable at the rate of one *per cent* per week on the installment amount.

4.3 *Non completion of works*

Due to diversion of funds the construction of revenue generating assets remained incomplete.

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) awarded (May-June 2002) a contract to National (India) Contractors and Engineers to construct three studios and a communication centre for Rs.15.09 crore. The Company raised (2000-01) an amount of Rs.20 crore through Bonds for construction of studios and repayment of loans. The Company, however, could not fully utilise the funds for this purpose. The work was completed to the extent of Rs.6.17 crore only. The Company lost an amount of Rs.6.39 crore from the raised funds due to pledging it for giving surety on behalf of a contractor not related to this work which became unavailable for the work of construction of studios.

Thus the work remained incomplete (July 2005) and the interest on the funds raised for the incomplete asset (Rs.6.17 crore) worked out to Rs.1.59 crore (July 2005)*.

The Company in its reply (June 2005), which was also endorsed by the Government (July 2005), stated that efforts were being made to raise finance from the Banks to complete the construction after receipt of no objection certificate from the Government. The fact however remains that the construction work remained incomplete so far (August 2005) due to diversion of funds meant for the project.

Maharashtra State Farming Corporation Limited

4.4 *Production of fodder in excess of requirements*

Non utilisation of fodder resulted in infructuous expenditure of Rs.2.72 crore.

*Calculated at the rate of 13 *per cent* per annum on period of delay from schedule date of completion till July 2005 (Rs.4.50 crore for 28 months, Rs.1.17 crore for 16 months and Rs.0.50 crore for eight months).

Maharashtra State Farming Corporation Limited (Company) decided (December 2003) to undertake fodder production on the directives issued (November 2003) by the State Government. As per the directives, the District Collectors were required to register their demands and make full payment in advance at the rate of Rs.4,700 per acre for expenditure on cultivation.

During November 2003-April 2004, five[§] District Collectors registered their demand for fodder and paid Rs.3.30 crore to the Company (for cultivation on 7,032 acres at the rate of Rs.4,700 per acre). The Company undertook cultivation of fodder on 10,401 acres incurring expenditure of Rs.4.05 crore.

Although 20,762 MT of fodder was produced, the District Collectors lifted only 6,124 MT of fodder and 13,951[@] MT fodder remained unlifted. As a result, the *pro-rata* expenditure of Rs.2.72 crore became wasteful.

The Company stated (June 2005) that it had executed the fodder programme on behalf of Government by ascertaining the demand from concerned District Collectors and there was failure on the part of the Collectors in lifting the fodder. The reply is not acceptable. Out of the total unlifted quantity (13,951 MT), the quantity produced by the Company by utilising its own funds was 6,040 MT of the value of Rs.1.18 crore. Given the perishable nature of the fodder, the Company should have disposed it off in the absence of prompt response from the Collectors.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

MAFCO Limited

4.5 Leasing of slaughter house

The Company granted irregular benefits of Rs.3.72 crore towards capital expenditure to be incurred by the party.

MAFCO Limited (Company) paid (March 2002) Rs.94.50 lakh to Arabian Exports Limited (AEL) towards capital expenditure claimed to have been incurred by the AEL on the slaughter house at Koregaon taken on lease from the Company.

[§]Ahmednagar, Satara, Solapur, Pune and Osmanabad.

[@]20,762 MT - 6,124 MT - 687 MT sold by the Company.

It was noticed in audit that:

- As per the Memorandum of Understanding (MOU) between the Company and AEL, the capital expenditure was to be incurred by AEL from its own funds, and hence reimbursement was not in order.
- On the understanding that the AEL would incur capital expenditure of rupees three crore on the slaughter house and in return, a concession towards rent was given in the form of no escalation in lease rent. In the absence of full details of expenditure incurred by AEL, the Company should not have given concession in rent amounting to Rs.2.77 crore.

The Company thus granted total irregular benefits of Rs.3.72 crore towards capital expenditure to be incurred by the party.

The Company stated (August 2005) that reimbursement was made as the upgradation of assets made by the party was beneficial to the Company and resulted in increasing revenue from Rs.34 lakh to Rs.2.56 crore per annum.

The reply is not tenable as the increase in lease rent was not due to creation of infrastructure, but was in accordance with the agreement originally entered into. There was no additional benefit to the Company. The upgradation was in the interest of the private party, as it was able to increase its production from Nil in 1993-94 to 4,600 MT per annum at the end of March 2004. The reply from the Company was silent with regard to the concession given by way of discontinuing the annual increase in lease rent.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

Maharashtra Insecticides Limited

4.6 *Ineffective risk purchase clause*

There was extra expenditure of Rs.12.36 lakh due to ineffective risk purchase clause.

A scrutiny of purchase orders placed during 2001-05 by Maharashtra Insecticides Limited, Akola (Company) for procurement of insecticides revealed that the purchase orders included a risk purchase clause stipulating that in case of failure

to supply the ordered quantity within the stipulated delivery period, the undelivered quantity could be procured at the risk and cost of the defaulting supplier. The risk purchase clause was not supported with adequate Bank Guarantee. The security obtained was only rupees two lakh from four parties (Rs.0.50 lakh each). The suppliers failed to supply the full ordered quantities. In the absence of adequate security, the Company incurred extra expenditure of Rs.12.36 lakh in four purchase orders. It was observed in audit that the Company did not recover the extra amount from the available security deposit.

The Company stated (July 2005) that the pesticides market is very sensitive and the clause cannot be implemented though mentioned in purchase orders. The reply is not acceptable. The Company's failure to invoke the clause and the absence of an effective mechanism to enforce risk purchase clause facilitated default by the supplier resulting in extra expenditure.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

Maharashtra State Police Housing and Welfare Corporation Limited

4.7 Delay in handing over quarters to Police department

The Company suffered loss of interest of Rs.31.14 crore due to delay in handing over the quarters.

Maharashtra State Police Housing and Welfare Corporation Limited, Mumbai (Company) constructed (January 1998-February 1999) 705 quarters at Goregaon, Mumbai at a cost of Rs.36.69 crore and handed them over to the Police department in October 2003.

It was noticed in audit that though the quarters were constructed in 1998-99, their handing over was delayed by 57-70 months, resulting in blockage of funds. Loss of interest on the idle asset created worked out to Rs.31.14 crore till the date of handing over (October 2003). This also resulted in loss of saving in house rent allowance paid by the Police department, besides revenue foregone on account of license fee that would have been collected had the quarters been allotted in time. The reasons for delay in utilisation of quarters were not on record.

Renovation work was taken up by the Company at a cost of Rs.87.86 lakh without the approval of the Board of Directors, in a non-transparent manner, without invitation of tenders.

The Company stated (July 2005) that the entire project work was delayed due to delay in construction of internal roads and electrical works. It further stated that

no tenders were called as the work of renovation was got executed through registered unemployed engineers.

The reply is not acceptable. The minor works (internal roads and electrical works) should have been got completed expeditiously. The amount involved in renovation was substantial and hence should have been done through competitive bids in the interest of transparency. Execution without approval of the Board was highly irregular.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

4.8 *Extra expenditure in construction of Police quarters*

The Company incurred extra expenditure of Rs.1.22 crore due to deficiencies in the award of contract and payments in violation of the contractual provisions. The quarters built after incurring expenditure of Rs.4.10 crore also remained idle.

The Company constructed quarters at Adgaon, Wardha and Gadchiroli incurring extra expenditure as discussed below:

4.8.1 *Construction of quarters at Adgaon (Nashik)*

The Company awarded (June 2002) a contract to National (India) Contractors and Engineers (NICE) for a lumpsum amount of Rs.8.07 crore for construction of 340 police quarters at Adgaon (Nashik).

As per clause 7.5(a) of the tender, the scope of work awarded to NICE included the work of Gravity Main from the source of water *i.e.* Municipal Corporation. Similarly, as per clause 8.1(i) *ibid*, all the charges payable to Maharashtra State Electricity Board (MSEB) for taking electricity connection were to be borne by the contractor. It was observed during audit that instead of the contractor making payment to Nashik Municipal Corporation (NMC) and MSEB, the Company paid Rs.22.14 lakh to the NMC (September 2002), and Rs.12.52 lakh to the MSEB (May 2003). The Company did not recover the amounts from the contractor (February 2005).

The Company stated (July 2005) that for quarters at Adgaon, the Gravity Main up to police plot was outside the scope of the contract agreement executed with the contractor. The reply is factually incorrect.

As regards taking connection from the MSEB, it was stated that the extra payment arose due to the inability of the MSEB to supply from the existing substation, and the need for enhancement of capacity. It was further stated that as MSEB's constraints were not known at the time of the tender, it was not included in the

scope of the contract. The reply is not acceptable. The extra payment was not justified as charges payable to the MSEB were to be borne by the contractor.

4.8.2 Construction of quarters at Aheri, Gadchiroli

The Company invited (February 2003) lumpsum tenders for construction of 120 quarters with total built up area of 6,877.60 square metres at Aheri, District Gadchiroli. In response to the call, offers were received from seven parties. The lowest offer was Rs.3.85 crore from Sadiq and Company. The Company, however, rejected the lowest offer and awarded (March 2003) the work to Prithipal Singh and Company at a total cost of Rs.4.73 crore. The original tender papers were not produced to audit for scrutiny. Thus rejection of the lowest offer resulted in extra expenditure of Rs.87.68 lakh to the Company.

The Company stated (July 2005) that though the amount quoted was Rs.3.85 crore, the same was not taken into account, as the unit rate quoted in the tender was Rs.7,600 per square metre, which was higher than the rate of Rs.6,875 per square metre of the party to whom the contract was awarded. The reply is not tenable as the construction offer called for was on lumpsum basis and not on per square metre basis. The non production of records was not justifiable.

4.8.3 Construction of Police quarters at Wardha

The Company undertook (October 2000) the work of construction of 182 quarters at Mouza Pipri; district Wardha and completed it in December 2003 at a cost of Rs.4.10 crore. The quarters had not been handed over to the user department so far (February 2005).

Audit scrutiny revealed that as per the original scheme, water supply to the quarters was to be provided by digging four borewells. The failure of borewells to supply water was noticed by the Company in March 2001. Only at a belated stage in November 2002, however, the decision for alternate arrangement of water supply through Maharashtra Industrial Development Corporation (MIDC) was taken (time taken 20 months). The actual work of water supply was awarded in February 2004 *i.e.* after 35 months from failure of borewells. The work had not been completed so far (February 2005). Thus, due to non provision of water, quarters could not be handed over to the user department and the investment of Rs.4.10 crore remained unfruitful. The interest on the idle asset worked out to Rs.66.97* lakh up to March 2005, without taking into account the payment of house rent allowance that could have been avoided and recovery of license fee.

The Company stated (July 2005) that the delay was due to taking up the matter with Wardha Municipal Corporation (WMC), and subsequently with MIDC. It further stated that the delay was due to refusal by WMC to supply water and that

*Calculated at the rate of 12.25 *per cent* interest payable on bonds raised for financing the project.

matter being pursued with MIDC for reduction of water charges. The reply is not acceptable. Although the failure of borewells was noticed in March 2001, the issue was taken up with WMC only in January 2002. The tie up with MIDC was also delayed.

The above matters were reported to the Government (March-April 2005); the reply had not been received (December 2005).

Maharashtra State Road Development Corporation Limited

4.9 *Claims on account of idle men and machinery*

The Company received avoidable claims of Rs.4.81 crore towards idle men/machinery due to delay in handing over the land.

For timely execution of a project the standard practice is to draw a PERT/CPM chart for various activities. Land acquisition is a time consuming process. The time required cannot be estimated with any degree of certainty. In the absence of control over the acquisition date, the completion date of the project also becomes uncertain. If a project is started without prior acquisition of land there can be two problems:

- escalation payments to the private contractors due to extended period of execution; and/or
- blockage of funds due to delay in completion of a project.

In view of this no project should be undertaken without prior acquisition of land. In violation of this basic principle, Maharashtra State Road Development Corporation Limited (Company) awarded four contracts valuing Rs.45.33 crore without prior acquisition of land. Due to non availability of land, completion of the projects was delayed and the contractors lodged claims

of Rs.4.81 crore towards idle men and machinery as detailed below:

Project	Contracts value	Claims for delays	Scheduled date of completion	Remarks
	(Rupees in crore)			
Gandhi Nagar Flyover	19.99	1.43	October 2001	Project not completed.
Railway over bridge-Jejurri	3.85	0.31	March 2000	Project completed in November 2000.
L and T Junction	18.39	2.77	February 2001	Project completed in January 2005.
Katraj-Kondhwa-Hadapsar-Saswad Road	3.10	0.30	December 2002	Project completed in May 2004.
Total	45.33	4.81		

Thus, failure of the Company to ensure availability of land before entering into the contract resulted in avoidable claims of Rs.4.81 crore out of which two claims amounting to Rs.1.74 crore were paid and the balance two claims were yet to be paid (August 2005).

The matter was reported to the Government/management (May 2005); the reply had not been received (December 2005).

4.10 Extra expenditure due to non acceptance of competitive tender

The Company incurred extra expenditure of Rs.1.46 crore by failing to ensure correct and transparent evaluation of tenders.

The Company awarded (October 2003) the work of construction of Rail Over Bridge (ROB) at Uday Baug to Ameya Developers & J. Kumar Joint Venture, Mumbai at a cost of Rs.6.98 crore. Prior to award of work, the Company had issued (March 2003) an amendment to the tender notice changing the specification relating to length of viaduct of the bridge from "288 metres" to "maximum extent possible". In response, among the bids received, one was for 288 metres viaduct for Rs.6.98 crore from Ameya Developers & J Kumar Joint Venture and another for 504 metres viaduct for Rs.7.25 crore from Atur India Private Limited. Clearly, the value of offer of Atur India Private Limited for 288 metres viaduct would have worked to Rs.5.52 crore. Such a comparison of the offers received was not made, and the award was given to Ameya Developers & J Kumar Joint Venture. The viaduct constructed was 288 metres. Due to incorrect assessment of the offers, the Company incurred an extra expenditure of Rs.1.46 crore.

The matter was reported to the Government/management (May 2005); the reply had not been received (December 2005).

4.11 *Loan from Raigad District Central Co-operative Bank*

The Company made irregular payment of Rs.61.68 lakh to an intermediary.

Raigad District Central Co-operative Bank reduced the interest rate to 10 *per cent* with effect from April 2004 on a loan of Rs.100 crore taken earlier (November 1999) by the Company at 15 *per cent*. The Company paid Rs.61.68 lakh to Chartered Finance Management Limited (CFML) for getting the interest rate reduced. This payment was not in order in view of the following:

- The reduction was due to falling interest rates in the market.
- The interest charged to a borrower is dependent on the cost of funds and the premium linked to risk assessment. At times an attractive interest rate is given to Public Sector Undertakings if a Government guarantee is obtained. In the instant case, CFML was not a guarantor who would pay in the event of default in payment by the Company.

Thus in evaluation of risk premium by the bank no weightage was assignable to the intermediary.

Therefore, the payment of Rs.61.68 lakh paid to CFML was irregular.

The Company in its reply (July 2005), which was also endorsed by the Government (October 2005), stated that the bank was unwilling for prepayment or revision as it had taken into account the interest income from the Company and hence an intermediary was engaged. The reply is not tenable. Prior to appointment of the intermediary, the Company had initiated the discussion in June 2003 itself, and the bank was willing to accept reduction in interest rate. The reduction was due to falling interest rates and not because of any security offered by the intermediary.

Shivshahi Punarvasan Prkalp Limited

4.12 *Sale of transferable development rights*

The Company suffered loss of Rs.3.21 crore due to inappropriate procedure in disposal of transferable development rights.

Shivshahi Punarvasan Prakalp Limited (Company) invited (April 2003) tenders for sale of transferable construction development rights (TDR) of 19,120 square metres. In response, seven bids were received. The rates received (April 2003) were between Rs.8,234 and Rs.8,816 per square metre. It was decided (December 2003) to call fresh bids to get a better price.

Any rebid is beset with the problem that the new offers may be lower than the offers already received. In the instant case, a simple way of overcoming this disadvantage was to ask the parties to quote within the original validity period how much extra they would be willing to offer above the already quoted rates with the condition that, in case of no improvement, the original offers would stand.

Such a procedure was not adopted. Instead entirely new bids were called in April 2003 and January 2004. The offers received were lower. TDRs were sold at the lower rate of Rs.5,941 per square metre resulting in loss of Rs.3.21 crore.

The Company stated (July 2005) that fresh bids were called as the rates received were less compared to the previous tender. It was further stated that the TDR market is rather volatile and the rates are prone to fluctuate with every transaction.

The reply is not acceptable. Transparency demands that the upset price should be decided before opening of price bids. In the instant case this was done after opening of price bids of April 2003.

The Company also stated that the procedure suggested by Audit may not prevent the parties from offering rates lower than originally quoted. The reply is not tenable. Negotiation is a universal practice to improve sale realisation and within the validity period rates already quoted cannot be lowered.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

Statutory corporations

Maharashtra State Electricity Board

4.13 *Scheme for grant of rebate/penalty to HT consumers*

Due to an anomaly in the scheme for high tension consumers, the Board suffered revenue loss of Rs.31.07 crore during 2004.

The Maharashtra State Electricity Board (Board) introduced (May 2000) a rebate/penalty scheme to decrease consumption during peak hours. The scheme was applicable to high tension consumers. Tariff was revised in January 2002 and December 2003. One of the basic principles in such incentive/penalty schemes is that there should not be loss of revenue if there is no change in consumption pattern during peak hours. A simple way to verify whether the tariff as formulated is consistent with this principle is to consider process industries who have constant energy consumption or very close to this pattern throughout the day as shown below:

Time zone	Hours in each time zone	Energy charges per unit (Rupees)	Rebate (-)/penalty (+) per unit	Total* rebate/penalty (Rupees)
(1)	(2)	(3)	(4)	(5)
22.00-6.00	8	2.15	(-)0.85	(-)6.80
6.00-9.00 and 12.00-18.00	9	2.15	0.00	0.00
9.00-12.00	3	2.15	(+)0.60	(+)1.80
18.00-22.00	4	2.15	(+)1.00	(+)4.00
Total	24			(-)1.00

*Although the table has been drawn up for 24 units of consumption the result can be extrapolated to actual consumption.

The scheme as formulated has the inherent deficiency that even if the peak hour consumption remains unchanged the revenue foregone is one rupee.

One way of removing the deficiency is indicated below:

Time zone	Hours	Energy charges (Rupees)	Rebate (-)/penalty (+) per unit	Total rebate/penalty (2) x (4)
(1)	(2)	(3)	(4)	(5)
22.00-6.00	8	2.15	(-)0.85	(-)6.80
6.00-9.00 12.00-18.00	9	2.15	-	-
9.00-12.00	3	2.15	(+)0.60	(+)1.80
18.00-22.00	4	2.15	(+)1.25	(+)5.00

The rectification has been done by modifying the penalty during the time zone 18.00 to 22.00 hours from one rupee to Rs.1.25. As a result of this modification, there is no revenue loss if the consumption pattern does not change. There are

several ways in which rectification can be carried out by suitable modification of the rebate/penalty shown in column (4) of the table above.

Continuous process industries are large consumers of electricity and have been benefited due to deficiency in the scheme formulated as pointed out above. Audit scrutiny of bills of such consumers revealed that during 2004 alone the Board suffered loss of revenue of Rs.31.07 crore^{\$} due to this anomaly.

The objective of reduction of consumption during peak hours could have been achieved by adopting other options as detailed in **Annexure-11**.

The Board stated (July 2005) that this tariff was given by the Maharashtra Electricity Regulatory Commission (MERC). The Board further stated that it had not foregone revenue as the same was effected from other mechanism like penalty during peak hours. The reply is not tenable. There has been loss of revenue due to the defective formulation of the scheme. Further the objective of reduction of consumption during peak hours could have been achieved without granting rebate during non-peak hours. The Board failed to point out the above lacunae in the scheme to MERC for rectification.

The matter was reported to the Government (April 2005); the reply had not been received (December 2005).

4.14 Irregular discount to an HT consumer

The Board granted bulk discount of Rs.2.58 crore to an ineligible HT consumer.

As per the tariff order (May 2000) issued by the MERC, an incentive linked to the consumption (bulk discount) was allowed to HT consumers provided the energy bill was paid within seven days from the date of issue of energy bill or within five days from the date of receipt of energy bill, whichever was later.

Lloyds Steel Industries Limited, Wardha was an HT consumer consuming more than one million units per month. The Board granted Rs.2.58 crore as bulk discount for the period from May 2000-April 2001. Granting of bulk discount was not in order as the consumer did not pay the energy bills within the stipulated period. The delay in payment ranged between 16 to 40 days after the due dates.

Thus, the Board suffered a loss of Rs.2.58 crore due to irregular discount allowed to the consumer.

^{\$}Loss worked out on 7,456.16 million units at the rate of rupee one for 24 units = Rs.31.07 crore.

The Board stated (July 2005) that the discount allowed was based on MERC order taking into account the revised schedule for payment agreed between the Board and the consumer. The reply is not acceptable. The initial tariff order of May 2000 did not provide granting of bulk discount to defaulting consumers. The consumer was a chronic defaulter. The consumer was already given benefit by way of relaxation in payment terms and conditions. Clearly, extending further benefit with respect to relaxed terms and conditions to a defaulter was irregular. The Board should have appealed against MERC's decision.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

4.15 *Purchase of single phase meters*

The Board incurred extra expenditure of Rs.1.88 crore due to failure to open tender before granting extension at the previous tender rate.

The Board placed (October 2001) order on EMCO Limited for procurement of 1,75,000 single phase meters at the rate of Rs.867.58 per meter. The delivery was scheduled to be completed by June 2002. The firm supplied 1,42,195 meters during January-April 2002.

In the case of items which are to be procured again, one of the basic principles of procurement is that advance action should be taken for finalising the next tender before the expiry of delivery period under the previous contract. If there is a decrease in the price quoted in the later tender, no further quantity should be purchased from the existing suppliers beyond the contractual delivery period. The Board invited (August 2002) tenders for procurement of meters and received 65 offers. The Board should have opened the tenders immediately so that proper decision with regard to further procurement beyond the contractual delivery period in respect of previous tender could be taken.

The tenders invited in August 2002 were scheduled to be opened in October 2002. The Board, however, did not open the tenders till March 2003 but gave an extension to the previous supplier in January 2003 to supply 32,800 meters. The tenders were opened in March 2003 and it was found that the new price quoted was Rs.293 per meter which was lower by Rs.574.58 per meter. Due to delay of five months in opening of tenders, the Board incurred avoidable extra expenditure of Rs.1.88* crore in procurement of meters beyond the original delivery period.

*32,805 meters x Rs.574.58 per meter (Rs.867.58-Rs.293 per meter) = Rs.1.88 crore.

The Board stated (July 2005) that considering the lead time for finalisation of tender and commencement period of next order, some material was procured from the earlier order even beyond the contractual delivery period. The reply is not acceptable. The Board was aware that stock available was sufficient to meet the requirement up to December 2002. Hence, timely action should have been taken so that the new rates could be compared with the existing tender before granting extension.

The matter was reported to the Government (March 2005); the reply had not been received (December 2005).

4.16 *Default in payment by HT consumer*

Continued supply of power despite arrears exceeding security deposit facilitated default in payment of Rs.1.28 crore by the consumer.

Om Ingot Industries Limited was an HT consumer of the Board since February 2001.

The amount due from the consumer as on March 2002 was Rs.92.64 lakh. The consumer paid Rs.40.35 lakh on 2 April 2002 and gave a cheque of Rs.41.33 lakh on 26 April 2002 which was dishonored. Hence the Board temporarily disconnected the supply on 3 May 2002. The conditions and miscellaneous charges for supply of electrical energy provided that security deposit (SD) equal to three months' energy bill is to be collected at the time of release of connection and to be subsequently increased if there is increase in monthly energy charges especially since SD available with the Board was inadequate. Supply should have been restored only after ensuring that the arrears were paid and the shortfall in SD was made good.

It was observed during audit that supply was restored in May 2002 by accepting part payment of only Rs.26 lakh against the dues of Rs.52.29 lakh. Cheque for Rs.41.33 lakh issued in April 2002 by the consumer was dishonoured. The Board failed to take action under Section 138 of Negotiable Instruments Act. Due to laxity on the part of the Board, arrears increased up to Rs.1.28 crore by October 2002.

The Board did not deny the fact of inadequate SD and stated (July 2005) that a civil suit had been filed for recovery of arrears. The reply is not acceptable. The Board should have safeguarded its interest by ensuring that adequate SD was collected from the consumer and the arrears were not allowed to exceed the SD.

The matter was reported to the Government (March 2005); the reply had not been received (December 2005).

Maharashtra State Road Transport Corporation

4.17 *Efficacy of Inspection parties*

The inspections proved to be ineffective due to omission to include a vital check in its inspection programme.

Maharashtra State Road Transport Corporation (Corporation) formed 33 inspection parties to carry out inspection of private bus operators. A review of the effectiveness of the inspections by these parties revealed that illicit traffic operations continued to thrive causing loss to the tune of Rs.500 crore per annum to the Corporation. The load factor of the Corporation decreased from 63.55 *per cent* in 1999-2000 to 55.98 *per cent* in 2003-04. The offences for which the inspection parties take action include unauthorised driving, driving at excessive speed, offences related to license *etc.* The list of offences on the basis of which action can be taken however does not include operation of contract carriage as stage carriage which is illegal. There is a need to include this item in the scope of inspection.

The Corporation stated (July 2005) that as per survey carried out in February 2003 more than 92,300 vehicles were involved in the clandestine passenger transport and the revenue loss was approximately Rs.500 crore per annum.

Analysis by Audit of the terms and conditions of the permits given to private operators revealed that the differential tax system[#] as detailed below was loaded in favour of the private operators.

Type of the bus	Tax paid by the Corporation per bus per year	Tax paid by private operators per bus per year
	(Rupees in lakh)	
Ordinary bus	2.51	1.40
Deluxe bus	8.66	1.40
Air conditioned bus	16.89	2.25

[#]Passenger tax for private operator on the basis of per bus per year and for the Corporation per bus *plus* passenger travelled. The tax payable by the Corporation worked out accordingly for the year 2003-04.

The condition imposed upon private operators to ply point to point service and not to operate stage carriage is difficult to monitor due to the vast geographical area involved and the large number of private buses. There is, therefore, a need to modify the differential taxation system, if the Corporation, a public sector carrier, is not to be placed at a disadvantage.

The Corporation admitted (August 2005) that the checking squads are not able to effectively check the clandestine operations by the private operators. It further admitted that the differential tax system is loaded in favour of the private operators.

The Government stated (October 2005) that necessary instructions were being issued to all concerned to curb the clandestine passenger transport effectively and decided (September 2005) to remove the disparity between the Corporation and the private operators.

Maharashtra Industrial Development Corporation

4.18 Irregular allotment of land

There was revenue loss of Rs.6.49 crore due to irregular disposal of plot of land.

Maharashtra Industrial Development Corporation (Corporation) sold (June 2004) 18,953 square metres of land at Khargar, Navi Mumbai to Bharati Vidyapeeth for educational purpose at a rate of Rs.525 per square metre.

It was noticed in audit that the Corporation's division at Thane had issued (13 February 2002) a tender notice for outright sale of the above plot for residential purpose. The above tender notice was cancelled on 15 February 2002 within two days of its issue.

There were many educational institutes within the vicinity of the plot. Despite this, it was decided to change the use of this land from residential to educational purpose. There was conflict of interest in this decision. The Chairman of the Corporation was the interested party being co-founder of Bharati Vidyapeeth.

As against the period of one month specified in the tender notice of February 2002, only a period of ten days was given for the parties to respond to the tender of May 2004 for sale of the above plot for educational purpose. As a result, the response was poor. It was observed during audit that only two

applications were received from two educational institutes where the co-founder of both the educational institutes was also the then Chairman of the Corporation. But no extension for time limit was given to elicit better participation.

The rate of land for residential purpose in that area was Rs.3,950 per square metre and therefore the Corporation extended benefit of Rs.6.49 crore[•] to the party, which was irregular.

The matter was reported to the Government/management (May 2005); the reply had not been received (December 2005).

4.19 *Establishment of Wine Processing and Research Centre at Palus (Sangli)*

There was lack of transparency in the selection of the private party.

The Corporation entrusted (April 2004) the work of establishment of a Wine Processing and Research Centre at Palus (Sangli) to Bharati Vidyapeeth at a cost of Rs.2.50 crore through a Memorandum of Understanding (MOU).

It was noticed in audit that:

- Initially the entire expenditure of Rs.2.50 crore on establishing the institute was to be borne by the Corporation. The MOU provided for repayment of the amount spent by the Corporation in five annual instalments after five years from the date of commissioning of the plant. No interest was chargeable and the MOU was silent as to what action would be taken against the party in the event of default in repayment.
- Land measuring 57,000 square metres was given for total nominal lease premium of Rs.57,000.
- As per the appraisal note (February 2004) prepared by ICICI Bank, the net projected revenue (revenue less expenditure) over a ten year period worked

[•] Rs.6.49 crore = (Rs.3,950 - Rs.525) x 18,953 square metres.

out to Rs.21 crore, without discounting future revenue streams. The Corporation, however, got no share of the revenues of the institute and this was fully appropriated by the private party.

- No time limit was prescribed for setting up the institute. Such an arrangement had the inherent risk that the party might derive benefit from the revenue obtained from growing grapes on land without having to discharge its obligation to set up the institute.
- The selection of the party was done in non transparent manner as the party had no past experience in the field.

The Corporation stated (July 2005) that the conditions in the MOU entered into with the private party had the approval of Government of Maharashtra. The reply is not tenable, as in the MOU there were several deficiencies as pointed out above.

The matter was reported to the Government (May 2005); the reply had not been received (December 2005).

General

4.20 Follow up action on Audit Reports

Replies outstanding

4.20.1 Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in the various public sector undertakings (PSUs). It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Maharashtra issues instructions every year to all administrative departments to submit replies to paragraphs and reviews included in the Audit Reports within a period of three months of their presentation to the Legislature in the prescribed format.

Though the Audit Report for the year 2002-03 was presented to the State Legislature in June 2004, two^s out of five departments did not submit replies to

20^{\$} out of 28 paragraphs/reviews as on 31 March 2005. Audit Report for 2003-04 was presented to State Legislature on 21 July 2005.

The Government did not respond even to reviews/paragraphs highlighting important issues like system failure, mismanagement and inadequacy of recovery system. The departments largely responsible for non-submission of replies were the Industries, Energy and Labour; and Urban Development Department.

Status of compliance to Reports of Committee on Public Undertakings (COPU)

4.20.2 Replies (Action Taken Notes) to 67 paragraphs pertaining to 12 Reports of the COPU presented to the State Legislature between April 1995 and March 2005 had not been received (31 March 2005) as indicated below:

Year of COPU Report	Total no. of Reports involved	No. of paragraphs where replies were not received
1995-96	1	7
1997-98	2	21
1998-99	3	11
1999-2000	1	11
2000-01	2	8
2001-02	1	3
2003-04	2	6
Total	12	67

These reports of COPU contain recommendations in respect of paragraphs pertaining to eight departments* which appeared in the Comptroller and Auditor General of India's Audit Reports for the years 1992-93 to 2000-01.

Action taken on persistent irregularities

4.20.3 With a view to assist and facilitate discussion of paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the auditee organisations concerned and results thereof are given in **Annexure-12**.

Statutory corporations

4.20.4 The irregularities having financial implication of Rs.28.53 crore including Rs.11.94 crore (Maharashtra State Financial Corporation) in respect of persistent

^{\$} Industries, Energy and Labour Department (19 paragraphs/reviews) and Urban Development Department (one paragraph).

*Agriculture, Animal Husbandry, Dairy Development & Fisheries; Revenue and Forest; Industries, Energy and Labour; Social Welfare; Co-operation and Textiles; Urban Development; Home (Police); and Home (Tourism).

irregularities mentioned in paragraph 4.26 of Audit Report (Commercial) 2003-04 were included in the Report of the Comptroller and Auditor General of India for the years 1999-2000 to 2002-03 (Commercial) - Government of Maharashtra. As seen from the **Annexure-12**, persistent irregularities noticed during audit indicate that the Corporation is yet to improve its procedures.

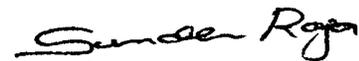
The matter was reported to the Government (September 2005); the reply had not been received (December 2005).

Response to inspection reports, draft paragraphs and reviews

4.20.5 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2005 pertaining to 61 PSUs disclosed that 3,015 paragraphs relating to 730 Inspection Reports remained outstanding at the end of September 2005. The department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2005 is given in **Annexure-13**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 15 draft paragraphs and three draft reviews forwarded to the various administrative departments during March-September 2005, as detailed in **Annexure-14**, have not been replied to so far (December 2005).

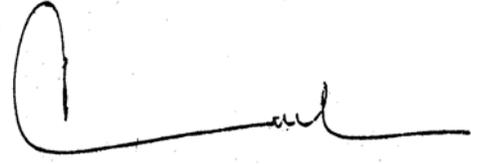
It is recommended that the Government should ensure that (a) procedure exists for action against officials who fail to send replies to inspection reports/draft paragraphs/reviews and ATNs to recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule; and (c) the system of responding to the audit observations is revamped.



MUMBAI
The

(G. N. SUNDER RAJA)
Accountant General (Commercial Audit), Maharashtra

Countersigned

A handwritten signature in black ink, appearing to read 'Vijayendra N. Kaul', written in a cursive style.

NEW DELHI
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India