Chapter II

2. Performance reviews relating to Government Companies

Maharashtra State Police Housing and Welfare Corporation Limited

2.1 Operational performance

Highlights

Considering the satisfaction level of 70 *per cent* of sanctioned strength as requirement of quarters, there was a shortage of 39,113 quarters as of May 2008. In 24 units satisfaction level was below 10 *per cent*.

(Paragraph 2.1.10)

The Company spent Rs 22.13 crore over and above the funds of Rs 66.63 crore received against 16 works by diverting the funds of other works. Funds of Rs 100.27 crore received for 33 works were not utilised.

(Paragraph 2.1.12)

The Company did not invoke the risk and cost clause for recovery of Rs 23.24 crore being the additional expenditure incurred on subsequent work orders.

(Paragraph 2.1.16)

There were cases of overpayments of Rs 40.47 lakh due to incorrect adoption of price indices and incorrect totals.

(Paragraph 2.1.19)

There were irregularities in appointments of architects and Project Management Consultants (PMCs). There were instances of overpayments/irregular payments to architects and PMCs to the tune of Rs 1.30 crore and Rs 13 lakh respectively.

(Paragraphs 2.1.21 and 2.1.22)

Internal controls including internal audit were inadequate in comparison with the magnitude of works involved. There was lack of adequate monitoring in execution/completion of works as well as in handing over of completed works.

(Paragraphs 2.1.23 and 2.1.24)

Introduction

2.1.1 Maharashtra State Police Housing and Welfare Corporation Limited (Company) was established by the State Government on 13 March 1974 under the Companies Act, 1956 with the following main objectives:

- To formulate and execute housing schemes for the benefit of serving and retired employees of the Government of Maharashtra (GoM) in the Police, Jail, Home Guards (HGs)[#] and Civil Defence Departments (CDDs)[#];

- To undertake construction of buildings for the housing of employees of the GoM in Police, Jail, HGs and CDDs;

- To undertake construction of different types of Administrative and Executive buildings for use and occupation by officers and employees of the GoM in the Police, Jail, HGs and CDD.

The Company is functioning on “No Profit No Loss” basis being an implementing agency of the Government and the expenditure in excess of income is allocated to projects. The Company is under the Administrative control of the State Home Department. The overall supervision of the Company is vested with the Board of Directors (BoD)[♣] appointed by the GoM. The day-to-day management of the Company is looked after by the Vice Chairman and Managing Director, who is assisted by General Manager, Chief Engineer and Chief Accounts Officer.

Scope of Audit

2.1.2 The performance audit was conducted during January to April 2008 to assess the operational performance of the Company with regard to award of works, payments to the contractors/architects/Project Management Consultants (PMCs), execution/completion and handing over of works/houses, investment of surplus funds, administrative expenditure of the Company for the last five years ending 31 March 2008. Out of 53 works awarded during the period 2003-08, audit scrutinised all the 15 works valuing Rs 10 crore and above, nine works (out of 18 works) valuing Rupees five to 10 crore and six works (out of 20 works) valuing Rupees one crore to five crore.

[#] Added vide Special Resolution passed in Annual General Meeting held on 27 September 2007.

[♣] BoD comprises Chairman (Ex-officio Additional Chief Secretary, Home Department), Vice Chairman and Managing Director (appointed by the GoM), two Directors from Police Department (Ex-officio DGP of Maharashtra and Commissioner of Police, Mumbai) and four Directors one each from Home Department (Special), Housing and Special Assistance Department, Urban Development Department and Public Works Department of GoM.

Audit objectives

2.1.3 The objectives of the performance audit were to assess whether:

- the targets for execution of works were fixed with reference to completion schedule of works and the achievements were consistent with the targets;
- reasonable care was taken in preparing the estimates for executing the works;
- the works were executed economically, effectively and efficiently;
- the completed works were handed over to the user Departments in time;
- accuracy in payments to contractors/consultants was ensured and Liquidated Damages (LD) for delays were levied as per contract terms; and
- an effective internal control mechanism existed.

Audit criteria

2.1.4 The following audit criteria were adopted:

- Annual targets fixed in the Action Plan;
- Cost estimates prepared by the Company;
- Directions issued by the Home Department (administrative department of the Company) from time to time;
- General conditions of contract, terms and conditions of construction contracts and standard agreements with job workers;
- Operating procedures prescribed by the Company; and
- Budget estimates.

Audit methodology

2.1.5 For the purpose of collection of data and gathering evidence, the following audit methodology was adopted:

- Examination of Agenda papers and minutes of meetings of the BoDs;
- Scrutiny of estimates, offers received against tenders, contract documents, correspondence with the clients; and
- Interaction with the Management and issue of audit enquiries.

Audit findings

2.1.6 The audit findings were reported to the Government/Management in May 2008 and discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 4 July 2008, which was attended by the Vice Chairman and Managing Director and General Manager of the Company and Assistant Inspector General of Police from the Office of Director General of Police, Maharashtra. The views of the Management have been taken into account while finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Financial position

2.1.7 The Company, being an implementing agency of the Government, is functioning on "No Profit No Loss" basis and the expenditure in excess of income is allocated to projects. The working results of the Company for the five year period 2003-08 are given below:

Particulars	2003-04	2004-05	2005-06	2006-07 (Provisional)	2007-08 (Provisional)
I. Revenue	***(Rupees in crore)***				
i) Interest on short term investment	3.99	2.60	3.93	8.03	7.71
ii) Other miscellaneous income	0.10	0.14	0.26	0.13	0.18
Total of I	**4.09**	**2.74**	**4.19**	**8.16**	**7.89**
II. Expenditure					
i) Government guarantee fees	2.97	2.45	1.86	1.32	0.80
ii) Personnel cost	0.61	0.76	0.86	1.08	1.12
iii) Financial expenditure	13.81	12.02	9.70	7.36	5.68
iv) Depreciation and other expenditure	0.80	0.87	0.86	0.88	0.89
Total of II	**18.19**	**16.10**	**13.28**	**10.64**	**8.49**
III. Balance expenditure allocated to projects (II-I)	**14.10**	**13.36**	**9.09**	**2.48**	**0.60**

(Source: Annual Accounts of the Company)

Non utilisation of funds

2.1.8 The Company executes the schemes of construction of Administrative Buildings and Residential Quarters for the Police, Jail, Home Guards (HGs) and Civil Defence Department (CDD) of GoM.

Government of India (GoI) introduced (2000-01) the scheme of Modernisation of Police Force (MPF) to improve the efficiency of State Police Force. The Company has been functioning as an implementing agency for the housing and building components of the scheme. Under this scheme, GoI and State Government's contribution was 50:50 till 2002-03, 60:40 during 2003-04 and 2004-05 and 75:25 from 2005-06 onwards. During the period 2001-02 to 2007-08, the Company received grants of Rs 517.59 crore for projects under MPF schemes and Rs 23.14 crore under non-MPF schemes of which

Rs 394 crore and Rs 14.98 crore, respectively, were spent as shown in the table below:

Year	MPF Scheme					Other than MPF scheme	
	Funds received from				Funds spent		
	GoI	GoM	State plan	Total		Funds received	Funds spent
	(Rupees in crore)						
2001-02	7.46	7.46	---	14.92	8.84	---	0.03
2002-03	56.85	56.85	---	113.70	22.02	---	0.92
2003-04	11.85	7.90	---	19.75	59.78	5.60	5.16
2004-05	20.76	13.84	---	34.60	30.46	0.80	1.87
2005-06	33.46	11.16	---	44.62	48.06	4.30	2.16
2006-07	26.06	8.69	114.00	148.75	86.57	1.00	0.90
2007-08	32.81	10.94	97.50	141.25	138.27	11.44	3.94
Total	**189.25**	**116.84**	**211.50**	**517.59**	**394.00**	**23.14**	**14.98**

(Source: Information furnished by the Company)

It was observed in audit that funds of Rs 131.75 crore (Rs 123.59 crore under MPF schemes and Rs 8.16 crore in other schemes) received for 121 works remained unutilised. Of this unutilised amount, Rs 95.06 crore was received for 64 works which were not taken up for execution so far. The balance 57 works for which Rs 36.69 crore was received were under execution. The delay in execution was mainly due to defective planning in execution of works which are discussed in detail in the succeeding paragraphs.

Planning for activities

2.1.9 The Company implements the projects after these are approved under the MPF scheme and requisite funds are made available to it by the Commissioner of Police, Mumbai and DGP's office.

Police Housing requirement

2.1.10 The DGP's office aims at achieving a 70 *per cent* level of satisfaction regarding availability of housing for police personnel. As per records of DGP's office, which is the controlling office for the Police Department, the sanctioned strength of the Police force, accommodation available and shortage in availability of quarters during the period 2004-05 to May 2008 was as under:

Particulars	2004-05	2006-07	2007-08 (till May 2008)
Total sanctioned strength	1,48,731	1,59,225	1,77,176
Quarters required for achieving 70 *per cent* satisfaction level	1,04,112	1,11,458	1,24,023
Quarters available♦	84,401	84,009	83,351
Shortage of quarters	19,711	27,449	39,113#
Percentage of availability (satisfaction level)	57	53	47

(Source: Information furnished by the Company)

♦Number of available quarters reduced due to conversion of small quarters into bigger quarters and abandonment of old quarters not fit for occupation.

Shortage worked out after considering 1,559 quarters under construction.

Further analysis of satisfaction level of all the 98 Units• as on 29 May 2008 revealed as under:

Percentage of satisfaction level	Below 10	11 to 25	26 to 50	51 to 70	71 to 100	Above 100
Number of units (total 98 units)	24	7	28	22	14	3

It would, thus, be seen from the above that in 24 units satisfaction level was below 10 *per cent*, which included 21 units where satisfaction level was NIL.

Defective planning for execution of works

2.1.11 The Board of Directors (BoDs) of the Company accords Administrative Approvals (AAs) for the works on receipt of intimation of requirement from the user Departments and sends the same to Government of Maharashtra (GoM) for seeking approval of Government of India (GoI) under Modernisation of Police Force (MPF) scheme. It was observed that by the time the work was approved under MPF scheme a period of one to two years had already elapsed and the cost estimates increased. Considering the increase in costs, the AAs were revised frequently.

In this connection the following discrepancies were noticed:

AAs accorded during 2003-08

- Out of 63 AAs given by the Company during 2003-08, in only two cases works were completed, in 27 cases works were in progress and in balance 34 cases works were not awarded (March 2008).

- Out of 34 cases, in 21 cases (AA for Rs 430.45 crore) funds were not received and in balance 13 cases (AA for Rs 191.61 crore) though funds of Rs 47.76 crore were received during 2002-08, they were at the planning or tendering stage.

AAs accorded prior to 2003-04

- Out of 48 AAs given prior to 2003-04 (during 1999-2000 to 2002-03), in 12 cases works were not taken up (March 2008).

- Out of above 12 cases, in eight cases funds had not been received and remaining four cases where funds worth Rs 20.67 crore were received during 2002-08, the same were at planning/tendering stage.

Thus, there were delays in execution of works even though administrative approvals were accorded and also the funds were received in many cases.

• Unit means controlling authority for allotment of quarters.

Physical performance

2.1.12 After introduction of the MPF scheme in 2000-01 by the GoI, the Company mainly executed the works approved under that scheme. During the period 2001-08, the Company received funds of Rs 540.73 crore under the MPF/State Plan and other schemes, of which the Company spent Rs 408.98 crore (March 2008).

The details of projects for which funds were received *vis-a-vis* the projects taken up for execution and completed, in progress during 2001-08, are tabulated below:

(Rupees in crore)

Type of works	Funds received		Works completed			Work in progress			Works at tender/planning stage			Total amount spent (Rupees)
	No. of works	Amount (Rupees)	Nos.	Amount (Rupees)		Nos.	Amount (Rupees)		Nos.	Amount (Rupees)		
				Received	Spent		Received	Spent		Received	Spent	
MPF Schemes												
Housing	31	238.87	10	82.94	90.43	15	144.10	109.19	6	11.83	0.33	199.95
Building	42	117.51	13	24.76	29.68	17	75.97	87.34	12	16.78	0.24	117.26
Mega City	5	10.00	2	5.00	5.00	---	---	---	3	5.00	---	5.00
FSL & Training	1	1.00	1	1.00	1.00	---	---	---	---	---	---	1.00
Coastal Security	1	4.61	---	---	---	1	4.61	3.19	---	---	---	3.19
State Plan	21	76.66	---	---	---	9	10.00	10.57	12	66.66	0.27	10.84
PWD	34	58.57	14	22.81	22.81	11	35.76	21.91	9	---	1.67	46.39
Home Guard	1	10.37	1	10.37	10.37	---	---	---	---	---	---	10.37
Total	**136**	**517.59**	**41**	**146.88**	**159.29**	**53**	**270.44**	**232.20**	**42**	**100.27**	**2.51**	**394.00**
Other than MPF schemes												
Bharat Reserve Battalion	1	2.80	---	---	---	1	2.80	0.16	---	---	---	0.16
XI Finance Commission	130	7.50	130	7.50	7.50	---	---	---	---	---	---	7.50
	4	1.40	---	---	---	2	0.50	0.12	2	0.90	---	0.12
Anti Naxalite	1	11.44	---	---	---	1	11.44	3.60	---	---	---	3.60
Other Schemes	20	---	---	---	---	---	---	---	20	---	3.60	3.60•
Total	**156**	**23.14**	**130**	**7.50**	**7.50**	**4**	**14.74**	**3.88**	**22**	**0.90**	**3.60**	**14.98**
Grand total	**292**	**540.73**	**171**	**154.38**	**166.79**	**57**	**285.18**	**236.08**	**64**	**101.17**	**6.11**	**408.98**

(Source: Information furnished by the Company)

The Company spent Rs 22.13 crore over and above the funds of Rs 66.63 crore received against 16 works completed.

In this connection the following points were observed:

- Out of 23 completed works under Housing and Building, the Company spent Rs 88.76 crore on 16 works in excess of sanctioned funds of Rs 66.63 crore received. This was done by diverting funds of Rs 22.13 crore received for other works. Supplementary funds of Rs 22.13 crore for those 16 works were not yet recouped.

• Utilised from funds received against MPF schemes.

Funds of Rs 100.27 crore received for 33 works were not yet utilised.

- For 33 works under Housing, Building, Mega City and State Plan for which funds of Rs 100.27 crore were received during 2001-06, the works had not been taken up for execution so far (June 2008) and were at planning/tender stage only.

- Out of Rs 58.57 crore received for 34 works to be got executed through Public Works Department (PWD), the Company paid the PWD Rs 46.39 crore till March 2008, which included Rs 1.67 crore for nine works against which no funds/approvals were received under MPF.

Thus, the irregular diversion of funds as mentioned above would adversely affect other projects for which funds were received and non execution of these projects would escalate cost of the projects not taken up for execution.

The Management stated (August 2008) that the available funds on other projects under tendering/planning stage were diverted to avoid stoppage of ongoing works for want of funds and the Company later on requested for release of funds for such works and received grants. It further stated that the diversion had not adversely affected any projects.

However, the delay in taking up the projects would ultimately result in time and cost overruns. Besides, the funds diverted for other works have not been recouped.

Execution of works

2.1.13 The housing projects of less than 50 quarters and administrative building projects costing less than Rupees one crore are executed through the State PWD as deposit works. The housing projects with more than 50 quarters and building projects costing more than Rupees one crore are executed by the Company by awarding the works to contractors with day-to-day supervision of works through PMCs.

The discrepancies in award of works and execution of works, noticed during performance audit are discussed below:

Inordinate delay in issue of work order and unjustified termination of two contracts

2.1.14 The Company invited tenders for construction of Administrative Building for Criminal Investigation Department (CID) Nagpur, CID Pune and Hostel Building for Police Training School (PTS) at Nagpur in April 2004. The lowest offers from National India Construction and Engineers (NICE) for all the three works were accepted by the Company and work orders for two works (CID Nagpur and PTS Nagpur) were issued in July 2004 at total cost of Rs 3.22 crore. However, when the work order for CID Pune was under issue, NICE withdrew (16 December 2004) their offer for the said work on the ground of inordinate delay in issue of work order and increase in the rates of materials, machinery and manpower.

The Company decided (February 2005) not to issue orders for CID Pune and decided to cancel the other two allotted works (CID Nagpur and PTS Nagpur) on the grounds of unsatisfactory performance on those two works and also due to suspension of works on another project (550 quarters at Nagpur) earlier (March 2003) awarded to them.

Thereafter the Company invited (April 2005) fresh tenders for these three works and awarded (between June and September 2005) the works to the lowest bidders. The rates accepted against the fresh tenders were higher by 56 to 74 *per cent* than the rates accepted against the original tenders. Due to inordinate delay in issue of work order for CID Pune and unilateral termination of two works at Nagpur, which was unwarranted as NICE had withdrawn offers for CID Pune only, the Company had to incur extra expenditure of Rs 4.20 crore on three works as per details given below:

	CID, Nagpur	**PTS, Nagpur**	**CID, Pune**
Lowest rates against original tenders	Rs 5,900 per square metre	Rs 5,700 per square metre	Rs 5,745 per square metre
Rates accepted on re-tendering	Rs 9,550 per square metre	Rs 8,910 per square metre	Rs 9,985 per square metre
Difference in rates	Rs 3,650 per square metre	Rs 3,210 per square metre	Rs 4,240 per square metre
Percentage increase	61.86	56.32	73.80
Area to be constructed	2,499 square metre	3,063 square metre	5,439 square metre
Extra expenditure (Rupees in lakh)	91.21	98.32	230.61
		Total extra expenditure	**Rs 420.14 lakh**

(Source: Information furnished by the Company)

There was avoidable expenditure of Rs 4.20 crore due to inordinate delay in issue of work orders and unjustified termination of two contracts.

Thus, injudicious decision to cancel the contracts for the Nagpur works and delay in finalising the tender of the Pune work resulted in extra expenditure of Rs 4.20 crore.

The Management stated (August 2008) that the two works at Nagpur were withdrawn due to slow progress of work of the contractor. However, withdrawal of work on the plea of slow progress was incorrect as these works were awarded in monsoon season (July 2004) and Company was aware that progress would speed up only after the monsoon. Further, the linkage of performance of progress of earlier awarded work with currently awarded work was not correct as there was no justification to allot the works to the same contractor if his earlier performance was not satisfactory.

Extra expenditure due to non negotiation with contractor

2.1.15 The work for construction of 172 quarters (total built up area 8,441.602 square metre) at Washim was awarded (August 2004) to Rawasa Construction, Mumbai at a total cost of Rs 6.08 crore (at the rate of Rs 7,210 per square metre which was lower by 18.27 *per cent* below the estimated rates of Rs 8,822 per square metre). The contractor had justified (May 2004) its lower rates/offer on the grounds that more than 50 *per cent* of plant and machinery, technical/non-technical staff, unskilled labour, *etc*. were idle and engaging them on the project would be profitable for them.

Audit scrutiny revealed that even before this work was awarded, the Company was in the process of taking a decision not to construct Type-I quarters and the BoD approved this decision in June 2004. Despite this decision, the Company awarded (August 2004) the work of construction of Type-I-120 quarters (5,409.504 square metre) to the contractor. After three months of commencement of the work, the Company advised (December 2004) the contractor to change the type of all the 120 quarters from Type-I to Type-II (5,997.43 square metre). The Company's architect, based on the advice of the Company, submitted the additional financial implications at current District Scheduled Rate (DSR). They furnished two proposals - one (Rs 1.35 crore) without reducing the estimates by 18.27 *per cent* (initial offer) and the other (Rs 55.62 lakh) with reduction. Clause 6 of the Agreement[*] provided for mutual negotiation of rates for additional/altered works.

Accordingly, the contractor requested (17 January 2005) for a meeting in the first week of February, which was turned down by the Company on the same date stating that the time was too long. The Company awarded (March 2005) the altered work of Type-II quarters without negotiation with an additional financial implication of Rs 1.35 crore.

There was avoidable extra expenditure of Rs 79.54 lakh due to non negotiation with contractor.

Thus, the Company incorrectly awarded the contract for construction of Type-I quarters despite a policy decision not to construct this Type of quarters. Further, not negotiating with the contractor despite permissible contract conditions, the Company incurred additional financial burden of Rs 79.54 lakh (Rs 135.16 lakh – Rs 55.62 lakh).

The Management stated (August 2008) that no rates were mentioned in the tender for additional works of Type-II quarters and hence the contractor was paid at current schedule of rates. The fact remains that the Company did not negotiate with the contractor for rates despite his request for a meeting.

Failure to invoke risk and cost clause in contracts

2.1.16 As per Clause 15 of the terms and conditions of contract on delaying the performance of the contract on the part of the contractor, the Company could take possession of the work and employ any other agency to complete the work at the risk and cost of the contractor. In the following three cases the Company terminated works on the grounds of slow progress and the same works were awarded to other contractors at higher rates. However, the Company did not raise any claim towards extra cost to be incurred for

[*] Clause 6 of the Agreement states that if the additional or altered work includes any class of work for which no rate is specified in the contract, then such class of work shall be carried out at schedule of rates of the Division or at the rates mutually agreed between the Engineer-in-charge and the contractors, whichever is lower.

completion of those works (August 2008).

(Rupees in lakh)

Name of the work	Name of the contractor (date of work order, scheduled date of completion)	Contract value and quantum of work completed, date of termination	Value of balance work	Name of the new contractor (date of work order)	Contract value for balance work	Difference
1	**2**	**3**	**4**	**5**	**6**	**7 (6-4)**
550 police quarters at Nagpur	National (India) Contractors & Engineers (28 March 2003, 27 September 2004)	1,743.48 1,092.48 (23 November 2005)	651.00	KETI Contractor (I) Limited (6 February 2007)	1,529.90	878.90
442 police quarters at Wanwadi (Pune)	ECP Housing (I) Private Limited (19 July 2004, 18 July 2006)	1,778.18 567.10 (14 September 2006)	1,211.08	Shalaka Engineers (5 December 2007)	2,275.00	1,063.92
186 police quarters at Ratnagiri	Sainath Enterprises (13 April 2005, 12 October 2006)	830.30 265.70 (15 February 2007)	564.60	Eagle Construction Company (24 December 2007)	945.58	380.98
					Total	**2,323.80**

(Source: Information furnished by the Company)

There was additional financial burden of Rs 23.24 crore on the Company due to non-invoking the risk and cost clause.

Thus, the Company, by not raising any claim as per the contract conditions incurred additional expenditure of Rs 23.24 crore.

During the ARCPSE meeting the Management stated (July 2008) that it was under the impression that the claim could be raised only after completion of work.

Since those works were awarded as lump sum contract, the possible additional expenditure could have been worked out and initial claim could have been raised to avoid the claim becoming time barred.

The Management in its reply stated (August 2008) that the letters for recovery from contractors were being issued. Further developments were awaited (December 2008).

Works executed through PWD

The Company could not ensure proper and timely utilisation of funds meant for works to be executed through PWD.

2.1.17 During 2002-08 the Company received Rs 58.57 crore for the works to be executed through PWD. Of this amount, Rs 46.39 crore were paid to Director General of Police's office for distribution to various units of PWD till March 2008.

In this connection the following deficiencies were noticed:

- Funds received in the year were distributed in the next year leaving a huge balance of Rs 12.17 crore with the Company as on 31 March 2008.

Payments included Rs 1.67 crore towards nine projects for which no grants were received.

- Funds of Rs 5.21 crore paid prior to 2000-01, were also not reconciled with the PWD records.
- Savings of Rs 40.89 lakh were not yet claimed from the respective units of PWD due to non-reconciliation.
- The details like date of actual payment to the PWD units and progress of works were not available either with the Company or with the DGP's office.

Due to inadequate monitoring of works by way of monthly/quarterly review of progress of each work, the Company could not ensure proper and timely utilisation of funds.

Non-levy of penalty

2.1.18 As per clause 22 of the Conditions of Contract, the work shall throughout the stipulated period of the contract proceed with due diligence and if contractor defaults therein he shall pay as compensation an amount equal to one *per cent* of tendered value or such smaller amount as may be decided by the Company per day subject to maximum 10 *per cent* of work order value.

It was seen that in the following three cases the Company did not levy any penalty though the progress of work was very slow since the beginning.

Name of the work	Schedule date of completion / Work order value (Rupees in crore)	Percentage of work completed up to 31 March 2008	Remarks
168 quarters at Nandurbar	12 January 2006 / 8.32	45	Contract revived three times after termination. Work restarted on 04 February 2008
Three class rooms at PTS[#] Nanveej	15 October 2007 / 1.47	16	The contractor failed to complete the work despite extension granted up to 31 March 2008
Hostel Building at WPTS[•], Solapur	15 October 2007 / 1.38	50	The contractor failed to complete the work despite extension granted up to 29 February 2008

Though the penal provisions were available as per contract conditions, the same were not invoked for one reason or another. Non levy of penalty as per clause 22 *ibid* worked out to Rs 1.12 crore (10 *per cent* of the work order value).

[#] Police Training School. [•]Women Police Training School.

Overpayment to Contractors

2.1.19 Audit noticed cases of overpayment to the contractors as discussed in following paragraphs:

The Company made overpayments of Rs 40.47 lakh due to incorrect adoption of price indices.

- Scrutiny of price variation bills of the selected works revealed that the Company made overpayments of Rs 38.13 lakh towards price variation in 11 cases due to incorrect adoption of price indices/totalling errors. On being pointed out by audit, the Company has recovered Rs 26.71 lakh in seven cases. The balance amount of Rs 11.42 lakh in four cases was yet to be recovered (August 2008).

- While passing Running Account (RA) bills pertaining to the work of 460 quarters at Nashik at the Company level, corrections in quantities as well as in amounts were made on certain pages. However, corrected totals were not mentioned on each page. Instead, corrected total amount was shown only at the last page of the RA bills. Audit checks revealed that the actual totals were less than the corrected totals written on the last page and considered for payments, resulting in overpayment of Rs 2.34 lakh. As the corrected total was not written on each page of RA bills from RA bill No.15 onwards, the possibility of further overpayment cannot be ruled out.

Appointment of Architects and Project Management Consultants

2.1.20 The Company appoints architects for preparation of detailed drawings, estimates and tender documents and the Project Management Consultants (PMCs) to undertake full supervision of construction works. The following discrepancies were noticed in audit:

Irregularities in appointment of architects and PMCs

2.1.21 Prior to October 2002, the Company used to invite competitive offers from architects and PMCs from a list of architects and PMCs empanelled with them. The Company constituted (October 2002) a Committee for empanelment and selection of architects/PMCs. The BoD appointed architects and PMCs at a fixed rate of two and three *per cent* respectively of the works cost, from the list prepared by the Committee.

The system of empanelment vis-a-vis actual allotment of works to Architects/ PMCs was not effective and lacked transparency.

In this connection the following was noticed in audit:

- Though the list of architects and PMCs was to be reviewed and updated every two years as directed (April 2000) by the BoD no such updation was done by the Company. A register was not maintained to indicate the details of qualification, experience of the technical personnel engaged by the firms, the details of works allotted to them and the performance during the execution of said works, *etc.*

- Work allotment to the architects and PMCs was to be decided based on merit, region and category of work and considering the number of works in hand at the time of appointment. However, no such criteria were followed and direct appointment letters were issued to the architects and PMCs without any recorded justifications.

- Though the region wise list was prepared and sufficient number of architects and PMCs were also empanelled regionally, the Company without any recorded justifications awarded seven works to architects and eight works to PMCs outside this list.

- Five architects and seven PMCs listed under category 'C' (capable for works costing less than Rs 10 crore) were awarded works valuing more than Rs 10 crore *i.e*. beyond their capacity to execute the works.

- The Company appointed architects for supervision of six works although a separate empanelment list of PMCs was available for supervision of project implementation. The reasons for the deviation were not on record.

Thus, the system of empanelment of architects and PMCs *vis-a-vis* actual allotment of work was not effective and lacked transparency.

Incorrect payment to architects and PMCs

2.1.22 As per BoD’s Resolution (12 May 2005), in case of architects whose agreements were more than five years old on the date of construction work order, fees were to be paid for pre-tender activities on the originally accepted project cost and for post-tender activities on the estimated cost put to tender or tender cost, whichever was lower for ongoing works.

The Company made incorrect payments of Rs 1.30 crore to architects.

Out of 21 architects, whose works were in progress as on May 2005, in 15 cases fees were paid on the revised cost of works though the agreements were not more than five years old on the date of work orders. This had resulted in incorrect payment of Rs 1.30 crore to the architects.

Similarly, as per the same Resolution the professional fees to those PMCs who quoted their rates in competition as per the earlier system (which existed prior to October 2002) were to be paid on the basis of the revised cost put to tender or tender cost, whichever was lower for ongoing works for post tender activities.

Out of 44 work orders placed after May 2005, in 31 cases PMCs were appointed before May 2005. Scrutiny of payments made to PMCs revealed that in 11 cases fees were paid based on revised estimated cost for pre-tender activities also. This was incorrect, as it was to be paid on post tender activities only. This resulted in incorrect payments of Rs 12.85 lakh to the PMCs.

Internal controls

2.1.23 The nature of activities of the Company involves large payments to the contractors/architects/PMCs, as evident from the fact that the Company placed 53 work orders to the tune of Rs 428.36 crore during 2003-08. The measurement of works and detailed scrutiny of bills of contracts are highly critical areas requiring detailed check by the Company's own staff.

The following deficiencies were noticed in the Internal control mechanism:

There was inadequate internal control including internal audit and monitoring of transactions.

- The prescribed procedure of Measurement Book recording/checking for works was not followed.
- The original works were not supervised directly by Company's Engineers and only nominal percentage checking had been prescribed. It was necessary that the Company's Engineers should check the RA bills with due care by cross checking the measurements recorded by the PMC, their field records, consumption statements, actual site visit, *etc.* It was noticed that this was not being done and RA bills were passed and paid within one or two days of their receipt.
- The Company had only six persons as technical staff comprising one Executive Engineer, three Deputy Engineers and two Junior Engineers who were involved in office work as well as actual supervision of ongoing works at a number of places throughout Maharashtra. Such staffing was grossly inadequate in comparison to the magnitude of works involved.
- The PMCs have to deploy certain number of staff on the work site so as to make day-to-day supervision more effective. However, deployment of prescribed number of staff by the PMCs, was not ascertained by the Company before making payments.
- Internal Audit consisted of only one Internal Audit Officer and two Accounts Assistants who merely conducted pre-audit of the works bills.
- Despite increase in the volume of work of the Company the technical as well as Internal Audit Wing had not been strengthened adequately. Statutory Auditors had also expressed similar view through their Audit Reports.

Monitoring

2.1.24 Monitoring of commencement and completion of projects in time and handing over thereof to the user Department was very crucial, considering the business and objectives of the Company. The Board of Director (BoD) of the Company approved the projects and the tenders invited for those projects. The task of day-to-day monitoring and supervision of work was entrusted to specially appointed PMCs as mentioned earlier. However, the Company did not ascertain the deployment of adequate staff by the PMCs.

It was seen that Management Information System was not in place in the Company, to inform the BoD periodically of the progress of the projects approved by it. As mentioned earlier, many projects were administratively approved by the BoD but not taken up by the Company.

Though review meetings were conducted by Managing Director for each work, the overall progress of the total works approved and under progress was not brought to the notice of the BoD. The monitoring was inadequate as out of 18 works completed during 2003-08, only four works were completed within the scheduled period and the balance works were completed after delays ranging from two to 26 months. Similarly out of 18 cases handed over, in five cases delay was ranging from two to 10 months in handing over the completed works to the user Departments, which resulted not only in blocking of funds but also deprived the police personnel of the benefits of housing facility.

Acknowledgement

2.1.25 Audit acknowledges the co-operation and assistance extended by different levels of Management at various stages of conducting this performance audit.

The matter was reported to the Government (May 2008); their reply was awaited (December 2008)**.**

Conclusion

The construction of quarters and administrative building for Police Department was not commensurate with the actual requirements and there was a shortage of 39,113 quarters as on May 2008. The planning and execution process of the Company was defective due to works not being taken up despite administrative approvals and receipt of funds. There were cases of diversion of funds, poor monitoring, avoidable expenditure due to inordinate delay in issue of work order and unjustified termination of contracts and non-negotiations with contractors. Overpayments/irregular payments to contractors and architects/PMCs were noticed due to inadequate internal control. There was lack of adequate monitoring in execution/completion of works as well as handing over of completed works.

Recommendations

The Company may:

- **strengthen its planning and execution process to avoid time and cost overruns.**
- **ensure that the system of award of works to contractors/ architects/PMCs is transparent and satisfactory.**
- **strengthen the internal control mechanism to avoid overpayments to contractors and monitoring mechanisms to complete works and ensure handing over of completed works in time to user Departments.**

Shivshahi Punarvasan Prakalp Limited

2.2 Operational performance

Highlights

The State Government contributed Rs 115 crore towards share capital of the Company though it had collected Rs 425 crore from two State Government agencies for the purpose. Shortfall in contribution resulted in financial crunch affecting the implementation of schemes.

(Paragraph 2.2.7)

The Company had taken up (1998-99) only 10 Slum Rehabilitation (SR) Schemes involving construction of 10,673 tenements at a total cost of Rs 528.50 crore as against 25,000 tenements decided by the State Government. No further schemes were taken up by the Company thereafter. Five schemes were completed during 1998-2002 and out of the remaining five, three were yet to be completed.

(Paragraphs 2.2.12 and 2.2.13)

The Company extended undue benefits of Rs 21.44 crore to contractors on account of escalation claims and bonus by violating the terms of contracts.

(Paragraphs 2.2.14, 2.2.16 and 2.2.17)

The Company suffered a loss of interest of Rs 6.94 crore due to delay in execution of agreement for sale of 889 flats in SR Scheme at Dindoshi.

(Paragraph 2.2.22)

The Company completed construction of 7,649 Rehabilitation/Project Affected Persons tenements, transit camps and saleable tenements and handed over 6,715 tenements. The balance 934 tenements completed during January 2002 to April 2007, were yet to be allotted/sold.

(Paragraph 2.2.23)

The Company extended undue benefit of Rs 64.42 lakh to a private party by fixing lower rent/security deposit for Permanent Transit Camps given on rent.

(Paragraph 2.2.25)

Introduction

2.2.1 The State Government established (December 1995) Slum Rehabilitation Authority (SRA) to serve as an independent Planning Authority for Slum Rehabilitation (SR) Schemes in Mumbai Metropolitan Region and to facilitate the slum rehabilitation process. In order to speed up the Slum Rehabilitation Program, the State Government formed (September 1998) Shivshahi Punarvasan Prakalp Limited (Company) as a separate Government Company under the administrative control of the Housing Department, Government of Maharashtra (GoM). The main objectives of the Company are as under:

- planning and implementation of housing schemes including redevelopment of slums in urban areas in Mumbai Metropolitan Region;
- focusing on shelter needs of economically weaker sections and low income groups; and
- construction and building activities.

The overall management of the Company is vested with the Board of Directors (BoDs).[♣] The day-to-day management of the Company is looked after by the Managing Director (MD) who is assisted by a Joint Managing Director (JMD), a Chief Engineer and General Manager Finance/Marketing.

The Company did not have independent executives. The work of MD was looked after by the Secretary (Housing Department) and the engineering works were seen by Chief Engineer, Maharashtra Housing and Area Development Authority (MHADA).

Scope of Audit

2.2.2 The present performance audit covers the operational performance of 10 SR Schemes taken up by the Company as its own schemes. The scrutiny includes planning and implementation processes, payments to contractors/Project Management Consultants (PMCs)/architects and handing over of completed tenements. Besides, in 30 other schemes, which were sanctioned for implementation through private developers, Company's role was confined to act merely as a financier. Hence, the aspects relating to the financial assistance provided for these schemes and recoveries made there against have only been covered in the review.

[♣]Board of Directors comprised of Minister (Housing) as Chairman, Minister of State (Housing) as Vice Chairman and Principal Secretary/Secretaries of Housing, Finance and Urban Development Departments, Metropolitan Commissioner (MMRDA) and Chief Executive Officers of SRA and MHADA as Directors.

The irregularities regarding sale of Transferable Development Right (TDR)[♣] were commented upon in **paragraphs no. 4.12** and **4.21** of Audit Reports (Commercial), Government of Maharashtra for the year 2004-05 and 2006-07 respectively. **Paragraph no. 4.12** of Audit Report for 2004-05 was discussed (May 2007) and recommendations issued (July 2007) by the Committee on Public Undertakings (COPU). The COPU recommended for investigation of sale of TDR and directed to fix responsibility. The Action Taken Notes on the recommendations of COPU were awaited (December 2008).

Audit objectives

2.2.3 The audit objectives were to ascertain whether:

- the stated objectives of the Company have been fulfilled;
- the funding arrangements were properly planned and adequate;
- the planning process of Company's own SR Schemes and implementation thereof was efficient and effective;
- payments to contractors/consultants and levy of penalty for delays were as per the terms of contracts;
- the procedure for identification of beneficiaries was foolproof;
- tenements were completed and handed over to beneficiaries within the scheduled time; and
- the system of internal control and monitoring in the Company was adequate and effective.

Audit criteria

2.2.4 The following criteria were adopted:

- Physical and financial targets fixed under the Schemes;
- Terms and conditions of the contracts;
- Recommendations of the Project Management Consultants; and
- Guidelines issued by the State Government.

[♣] TDR is a right granted to the Company by SRA/Municipal Corporation of Greater Mumbai for sale of unused floor space index permissible for the land on which SR Scheme is implemented as per Development Control Regulations. The purchaser can use TDR purchased by him in other places as specified by the sanctioning authority.

Audit methodology

2.2.5 Audit used a mix of the following methodologies:

- Examination of agenda papers and minutes of BoDs meetings, contract documents, budget files, *etc*.;
- Scrutiny of Government decisions/policies;
- Analysis of data collected; and
- Discussions with officials of the Company/Housing Department of GoM.

Audit findings

2.2.6 The audit findings were reported to the State Government/Management in May 2008 and discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 11 July 2008. The meeting was attended by the Secretary (Housing Department), GoM (who was also the Managing Director of the Company), Chief Engineer and General Managers (Finance, Marketing and Engineering) of the Company. The views of the State Government and the Management have been taken into account while finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Capital structure and borrowings

Share capital

Shortfall in contribution of share capital by the State Government resulted in financial crunch affecting implementation of schemes.

2.2.7 The authorised share capital of the Company as on 31 March 2008 was Rs 600 crore apportioned into 60 crore shares of Rs 10 each to be contributed by the State Government by arranging funds equally from two State Government Agencies *viz.*, Maharashtra Housing and Area Development Authority (MHADA) and Mumbai Metropolitan Region Development Authority (MMRDA). The paid up capital as on 31 March 2008 was Rs 115 crore. Audit observed that the State Government received Rs 425 crore from MHADA (Rs 300 crore) and MMRDA (Rs 125 crore) by March 1999 but extended Rs 115 crore only as contribution towards share capital of the Company. As a result, the Company faced financial crunch for implementation of own schemes.

During ARCPSE meeting, Management stated (11 July 2008) that the Government did not release the full amount towards Company's share capital as further disbursement of loans to private developers was stayed (October 1999) by the Government. The Secretary (Housing Department), however, assured in the meeting that the matter would be looked into and funds would be released to the Company for strengthening its activities.

Borrowings

2.2.8 The Company had borrowed (March 2000-March 2003) Rs 78.22 crore (Rs 58.22 crore at the rate of 13.75/14 *per cent* and Rs 20 crore at the rate of 10 *per cent*) from Housing and Urban Development Corporation Limited (HUDCO) and paid Rs 33.33 crore towards interest for the period from March 2000 to June 2007. The entire HUDCO loan was repaid by September 2007 and the borrowings of the Company as on 31 March 2008 stood at Rs 32 lakh.

Subsidy

2.2.9 The Company received (February 2007-April 2008) a total subsidy of Rs 2.16 crore equally from the State and Central Governments under the Valmiki Ambedkar Awas Yojana (VAMBAY) for construction of 360 tenements for Below Poverty Line families from Scheduled Caste/Tribe and Other Backward Classes.

Financial position and working results

2.2.10 The financial position and working results of the Company for the last five years ended March 2008 were as under:

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Liabilities					
a. Paid up capital	115.00	115.00	115.00	115.00	115.00
b. Reserves and surplus	-	-	-	-	49.38
c. Borrowings	36.30	33.03	25.83	15.05	0.32
d. Current liabilities and provisions	91.40	75.55	64.46	114.25	102.41
Total	**242.70**	**223.58**	**205.29**	**244.30**	**267.11**
Assets					
a. Gross block	4.00	4.06	4.13	4.15	4.24
b. Less: Depreciation	0.94	1.16	1.36	1.56	1.66
c. Net fixed assets	3.06	2.90	2.77	2.59	2.58
d. Current assets, loans and advances (including Work In Progress)	200.62	177.05	151.49	185.11	264.53
e. Profit and loss account (accumulated losses)	39.02	43.63	51.03	56.60	-
Total	**242.70**	**223.58**	**205.29**	**244.30**	**267.11**
Revenue					
(i) Sales (a) Transferable Development Rights	9.87	7.99	10.19	20.27	16.67
(b) Saleable buildings	-	2.17	-	1.06	120.13
Total Sales	**9.87**	**10.16**	**10.19**	**21.33**	**136.80**
Net Sales (after adjusting prior period sales)	8.78	10.16	10.16	21.33	136.80
(ii) Interest income	10.17	5.25	3.34	3.89	4.06
(iii) Other income	0.64	0.41	0.62	0.52	53.24
Total Revenue (I)	**19.59**	**15.82**	**14.12**	**25.74**	**194.10**
Expenditure					
(i) Cost of sale (Cost of construction, PMC charges, interest on loan and other miscellaneous expenses)	35.52	13.89	28.03	19.88	82.65
(ii) Administrative and other expenses	1.88	2.33	2.21	2.19	4.39
(iii) Interest written off	-	15.57	6.02	-	-
(iv) Financial charges	0.91	3.06	2.50	2.71	1.73
(v) Depreciation	0.18	0.20	0.20	0.19	0.17
(vi) Provision for loss/(withdrawal of excess provision) on projects	(28.07)	(15.85)	(21.44)	5.62	(0.80)
Total Expenditure (II)	**10.42**	**19.20**	**17.52**	**30.59**	**88.14**
Profit/(Loss) (I-II) before Tax	**9.17**	**(3.38)**	**(3.40)**	**(4.85)**	**105.96**

Note: Figures for 2004-05 to 2007-08 are provisional.

(Source: Annual Accounts of the Company)

As per Accounting System followed by the Company, the expenditure on construction, consultancy charges, interest during construction period and other related expenditure are accounted for under Current Assets (Work In Progress). On sale of houses/allotment of tenements, the proportionate construction cost is deducted from the Work In Progress and charged to Profit and Loss Account.

While reviewing the above data, the following were observed:

- Accounts from the year 2004-05 onwards were in arrears.
- Reserve and Surplus of Rs 49.38 crore at the end of March 2008 represented the profit after appropriations during the year 2007-08. The profit earned (Rs 105.96 crore) was mainly on account of sale of houses under Dindoshi Scheme for Rs 120 crore.
- No age-wise analysis of Sundry Debtors (Rs 5.51 crore) and other outstanding advances (Rs 29.46 crore) as of March 2008 was done by the Company for ensuring timely recovery thereof.
- The Company incurred losses during the years 2004-05 to 2006-07 due to delayed implementation of projects. Further, excess interest receivable from private developers towards loan at the rate of 17.50 *per cent* (reduced to 10 *per cent*) amounting to Rs 21.59 crore was also written off during 2004-05 and 2005-06 adding to the losses.

Financial assistance to private developers

2.2.11 There were SR Schemes sanctioned by SRA for implementation through private developers. Private developers were, however, unable to raise funds from the open market due to defective title of the land provided under these schemes. The Company had therefore sanctioned Rs 536.10 crore as loan, equivalent to 70 *per cent* of the project cost to 15 private developers who were to execute 30 SR Schemes involving construction of 14,809 rehabilitation tenements. As per terms of agreement, developers were liable to refund the said loan with interest at 17.5 *per cent* per annum in three-four annual installments and the loan was to be fully repaid within one year from the date of completion of the schemes. The Company disbursed (April to September 1999) Rs 73.85 crore and discontinued further disbursement from October 1999 in view of Government's instructions (October 1999) to put on hold the earlier decisions till further orders. As the Company could not provide full financial assistance to the developers, it was decided (June 2004) to reduce the interest rate to be recovered at 10 *per cent* per annum on simple interest basis. The borrowing rate of loan of Rs 58.22 crore from HUDCO was 13.75/14 *per cent* per annum. Thus, recovery of interest from private developers at lower rate resulted in extra financial outgo of Rs 6.76 crore for the Company during January 2000 to December 2004.

Recovery of interest at lower rate from private developers resulted in extra financial outgo of Rs 6.76 crore for the Company.

It was further noticed that the Company had given 100 *per cent* assistance of Rs 2.98 crore to two[&] private developers. The benefit of recovery of interest at reduced rate of 10 *per cent* was extended to these developers and interest of Rs 36.51 lakh (Akruti: Rs 35.87 lakh and Ashwal: Rs 0.64 lakh) were waived.

Planning

Slum Rehabilitation Schemes of the Company

2.2.12 The State Government decided (September 1998) initially to provide two lakh houses free of cost to Slum Dwellers/Project Affected Persons[▽] (PAPs) under SR Scheme by December 1999 out of total requirement of eight lakh houses in Mumbai Region. The tenements with carpet area of 225 square feet each to be allotted free of cost were to be constructed by private developers and Government agencies. Implementing agencies were to recoup the construction cost of free tenements by selling the additional construction/TDR permissible under the SR Scheme. The State Government directed (September 1998) the Company to construct 25,000 tenements as its own schemes. Based on this decision, the Company (1998-99) planned to implement 10 SR Schemes by awarding construction contracts to private contractors. Technical aspects were to be looked into by Project Management Consultants (PMCs) under overall supervision of the Company.

Development Control Regulations for Greater Mumbai 1991, amended from time to time, stipulated the criteria for construction of rehabilitation/PAP tenements and saleable houses/TDR. As per criteria prescribed under the said Regulations the *ratio* of rehabilitation and saleable components was 1:0.75 in Mumbai City, 1:1 in suburban area and in a difficult area like Dharavi it was 1:1.33. The maximum floor space index (FSI) to be utilised on site was 2.5. If the FSI sanctioned was more than 2.5, the difference between sanctioned and maximum permissible FSI (2.5) was to be treated as TDR. The option of TDR was also available if there were constraints in development of saleable component. In this connection, audit observed the following:

- The Company had not prepared overall guidelines for implementation of own schemes at the time of commencement of these schemes in 1998-99.

- Though the construction contracts were awarded to private parties and anticipated completion by December 2000, the Company could not maintain the schedule as the initial problems such as access to site/removal of huts *etc*. were not foreseen by the Company.

- The Company had not made any attempt to assess the demand for PAP tenements from Project Implementing Agencies (PIAs)[*] before

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[&]Akruti Nirman Private Limited: Rs 1.10 crore and Ashwal Properties Private Limited: Rs 1.88 crore.

[▽]Individuals shifted from the land belonging to other Government Agencies required for public utility.

[*]Airport Authority of India, Municipal Corporation of Greater Mumbai (MCGM), MMRDA, MSRDC, Public Works Department.

commencement of schemes. The Company had to await feedback on demand assessment from PIAs for unallotted tenements. The Company also had to modify five schemes (Antop Hill, Dindoshi, Shed Complex, Rahul Nagar and Turbhe Mandale schemes) frequently (ranging from two to six times) during execution by changing number of PAP tenements and area of saleable houses/TDR. Thus, the planning approach of the Company was *adhoc* and not systematic which contributed to delay in implementation. Three schemes (Rahul Nagar, Shed Complex and Turbhe Mandale) were yet to be completed (November 2008).

- Although the Company had prepared scheme wise estimates, these could not be compared with actuals as estimates underwent major revisions due to frequent modifications in schemes.

- The requirement of working capital was not properly planned resulting in financial crunch in the Company.

- No new schemes were taken up for implementation by the Company after 1998-99.

Implementation of own Schemes

2.2.13 The Company planned to implement (1998-99) 10 SR Schemes as its own schemes at a total project cost of Rs 528.50 crore for construction of 10,673 tenements on the land made available by MHADA as well as land occupied by slum dwellers. The details of schemes implemented were as under:

Sl. No,	Name of the scheme	No. of tenements projected (No. of tenements actually completed)	Stipulated date of completion (Actual date of completion)	Extent of delay (in months)	Projected cost (Actual cost incurred up to March 2008) (*Rupees in crore*)	Projected revenue (Actual revenue received up to March 2008) (*Rupees in crore*)
1	2	3	4	5	6	7
A. Schemes completed up to 2002-03						
1.	Milind Nagar, Dharavi	80 (80)	September 1998 (September 1998)	--	1.36 (0.62)[∗]	1.51 (1.51)
2.	Transit Camp, Dharavi	136 (136)	February 2000 (March 2000)	1	2.00 (1.36)	--[@] (--)
3.	Shivprasad CHS, Wadala	65 (65)	March 2000 (January 2001)	9	1.63 (1.46)	0.68 (0.68)
4.	Antop Hill, Wadala	934 (934)	December 2000 (November 2002)	23	42.55 (36.96)	45.98 (36.68)
5.	ABC Builder, Dharavi	576 (576)	-- (January 2001)	--	1.00[$] (1.00)[$]	10.36 (10.06)
B. Schemes completed during 2003-08						
6.	Matunga Labour Camp, Dharavi	271 (271)	September 2000 (October 2006)[■]	72	10.57 (7.66)	11.28 (2.60)
7.	Dindoshi	3,548 (3,548)	December 2000 (Rehabilitation buildings completed in December 2001, saleable buildings partly completed)	60[⅄]	228.11 (180.83)	234.47 (114.88)
C. Incomplete schemes (as of November 2008)						
8.	Shed Complex, Dharavi	422 (42)	July 2000 [#] (Physically completed in July 2000)	95[⅄]	15.53 (11.36)	11.87 (--)
9.	Rahul Nagar, Sewree	784 (462)	August 2000/ March 2005 (Partly completed)	39[⅄]	37.75 (18.48)	56.20 (3.97)
10.	Turbhe Mandale, Mankhurd	3,857 (1,535)	August 2000 (Partly completed)	94[⅄]	188.00 (103.54)	281.20 (149.97)
	Total	**10,673 (7,649)**			**528.50 (363.27)**	**653.55 (320.35)**

Note:- (1). Project cost includes cost of construction, consultancy charges, expenditure on land development and other administrative charges. (2) Total number of tenements projected/completed includes rehabilitation/PAP, transit camp and saleable tenements.

[∗] The scheme was partly completed by MHADA by incurring expenditure of Rs 0.58 crore.

[@] The scheme was exclusively for transit camps to be used by the Company.

[$] The scheme was executed by the private developer but the allotment of tenements was done by the Company and therefore it is taken under the purview of the review.

[■] Date of completion is taken from the month of receiving occupancy certificate which was received in two stages in January 2005 and finally in October 2006.

[⅄] This has been worked out up to June 2008 in respect of incomplete schemes. Delay in Dindoshi schemes has been worked up to December 2005 as the contract was terminated in January 2006 and saleable property was sold on ‘as is where is basis’.

[#] The construction work was completed but other infrastructural work such as water and sewerage line was pending.

It could be seen from the above that the Company had completed 7,649 tenements by March 2008 out of 10,673 tenements planned to be completed. The Company projected revenue of Rs 653.55 crore as against projected cost of Rs 528.50 crore.

Schemes completed during 1999-2002

2.2.14 As seen from the above, the five schemes (Sl. No. 1 to 5) involving construction of 1,791 tenements were completed during September 1998 to November 2002 and there were delays ranging from one to 23 months in actual completion compared to the scheduled dates of completion.

Irregular bonus payment of Rs 66.66 lakh was made by the Company by violating the contract conditions.

In case of *Antop Hill, Wadala Scheme*, the scope of the work was revised (December 1999) from six rehabilitation buildings and three saleable buildings to nine rehabilitation buildings (696 tenements) and one saleable building (238 tenements). As per the terms of contract, the bonus at the rate of Rs 15 per square foot/month was payable if the entire project put to tender was completed before the stipulated period of 15 months from the date of work order (6 August 1999). The condition also stipulated that bonus should not be paid in case of extension on any account whether at the cause of the contractor or the employer or due to any other reasons. However, the Company paid (April-August 2003) bonus of Rs 66.66 lakh based on individual completion of five buildings (A-1, A-4, B-1,C-I and S-1) reckoning 15 months period from the date of release of revised scope for each building. The payment of bonus was irregular as it was paid separately for each of the aforesaid five buildings considering their individual completion dates rather than completion of project as a whole as per terms of contract.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that the project was modified several times and implemented in phases. Thus, the bonus was paid on completion of individual buildings. The reply was not to the point as the payment of bonus was contrary to the terms of the contract and the Company also had initially rejected the claim.

Completed schemes during 2003-08

2.2.15 It could be seen from the table under **paragraph no. 2.2.13** that two schemes *(Matunga Labour Camp and Dindoshi)* were completed during 2003-08. The Company incurred expenditure of Rs 188.49 crore on these two schemes up to March 2008 as against total project cost of Rs 238.68 crore. There was delay of five to six years in completion of schemes.

Audit noticed the following:

- In *Matunga Labour Camp Scheme* there was delay in getting approval for revised scheme resulting in delay of three to four years in receipt of occupancy certificates. The Housing Department, GoM allotted (June 2006) 128 tenements to slum dwellers. The occupancy certificate for these tenements was received from SRA in October 2006. The Company, however, had not physically handed over these tenements to the slum

Funds of Rs 3.62 crore of the Company remained blocked due to lack of co-ordination among different agencies.

dwellers (November 2008). Thus, the tenements constructed at a cost of Rs 3.62 crore (as proportionately worked out) remained idle since October 2006 till date (November 2008).

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that the decision for allotment was entirely dependent on co-ordination and co-operation of different agencies. However, the Company's funds of Rs 3.62 crore remained blocked due to lack of co-ordination among Municipal Corporation of Greater Mumbai (MCGM) and departments of Housing and Urban Development of the State Government.

- The Company had awarded (April 1999) the construction of 4,475 PAP tenements under *Dindoshi Scheme* to V. R. Mittal for Rs 96.81 crore. The scope of the scheme was modified in October 1999 to improve the viability of the scheme. As per revised scheme, 3,548 tenements (2,659 PAP tenements including 45 amenity tenements and 889 saleable houses) were to be constructed along with related infrastructural works. The revised value of the construction contract was Rs 112.44 crore. The actual cost of the construction increased to Rs 150.47 crore mainly due to change in specifications, laying of water pipe line, construction of approach road, execution of extra items *etc*.

The construction of saleable buildings was, however, completed up to 90 *per cent* by April 2004. The contractor was not ready to execute the balance 10 *per cent* work due to non payment of his various claims of Rs 60.55 crore. The contract was terminated in January 2006 and all buildings were sold for Rs 120 crore[Δ] in January 2007 on "as is where is basis" as discussed in **paragraph no. 2.2.22** *infra*.

Incomplete schemes

2.2.16 As seen from the table under **paragraph no. 2.2.13** *supra* three schemes were yet to be completed (November 2008). In this connection audit observed the following:

- Under the *Shed Complex Scheme, Dharavi*, the Company constructed (September 2001) four buildings (422 tenements) at a total cost of Rs 11.36 crore. Out of the above, 42 tenements were allotted (2006-07) to the slum dwellers. However, infrastructural work such as water supply and sewerage line for remaining 380 tenements could not be completed due to non removal of two slum dwellers. The dispute of removal of two slum dwellers remained unresolved with MCGM. Thus, the 380 tenements physically completed at a total cost of Rs 10.23 crore remained idle (November 2008). The fact of buildings lying unused was reported in **paragraph no. 4.14** of Report of the Comptroller and Auditor General of India (Commercial), Government of Maharashtra for the year ended 31st March 2006. The Company had not made any significant progress in the matter (November 2008).

[Δ] Actual amount received Rs 114.88 crore as of March 2008.

- Out of a total of 784 tenements under *Rahul Nagar Scheme* the construction of 124 rehabilitation/PAP tenements was completed in March 2001. The construction of remaining 660 tenements (338 rehabilitation tenements and 322 saleable houses) was awarded (February 2003) to Ashoka Builders for Rs 15.71 crore. As per terms of contract, escalation on cement and steel was payable besides escalation due to introduction/change in law. The entire work was to be completed by March 2005. However, the construction of two saleable buildings (242 houses) was partly completed (36 *per cent*) by January 2007 and the work of the third saleable building (80 houses) was yet to be taken up (November 2008). The Company stated (April-July 2008) that work could not be completed due to non removal of five huts, shifting of transit tenements, alteration in building plan due to nala *etc*. Thus, due to lack of effective monitoring, funds of Rs 3.51 crore remained blocked up in two incomplete buildings.

- The contract for construction of 3,857 tenements under *Turbhe-Mandale Scheme* was awarded (May 1999) to Jog Engineering Limited, Pune for Rs 78.67 crore. The work was to be completed by August 2000. As per contract condition, escalation on material other than cement and steel was not payable. The BoDs, however, approved (October 2006) specific escalation of Rs 7.93 crore approximately on such material component to speed up the delayed work out of which Rs 4.43 crore was on material already used in completed work and remaining Rs 3.50 crore on material required to complete the pending work.

The Company extended undue benefit of Rs 2.44 crore to the contractor by considering incorrect price index.

It was observed in audit that the Management had worked out the above escalation by considering price index of November 1998 instead of September 2000. This was not correct as the contractor had already considered likely price rise up to August 2000 in his quoted rates as per tender condition and thus index of September 2000 was the valid base for payment of escalation. The escalation on material already used in completed work thus worked out to Rs 2.48 crore only instead of Rs 4.43 crore (revised to Rs 4.92 crore). The Company had already paid Rs 1.47 crore out of Rs 4.92 crore and the balance of Rs 3.45 crore was adjusted against pending advances/interest of the contractor. Thus, the Company extended undue benefit of Rs 2.44 crore to the contractor.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that the escalation on material other than cement and steel was approved by the BoDs and the escalation formula was adopted as per Government Resolution (GR), Public Works Department (PWD) issued in January 1992 according to which base index was to be taken as 28 days prior to the date of submission of tender.

The reply is misleading since rates quoted were inclusive of likely price rise up to August 2000.

Contract management

2.2.17 Construction contracts which were awarded to private contractors had a general clause for payment of escalation. The escalation clause included in various construction contracts was as under:

Clause 70.1: "The price variation shall be restricted to cement and steel only during the operative period of the contract".

Clause 70.2: "If after the date, 28 days prior to the date of submission of tender for the contract, there occurs changes to any National or State statute, ordinance or other law or any introduction of such statute, ordinance, law which causes additional or reduced cost to the contractor other than under sub Clause 70.1, in the execution of the contract, such additional or reduced cost shall be determined by the Engineer and shall be added to or deducted from the contract price."

In the absence of clarity in contract clause, the regularity of payment of escalation of Rs 18.33 crore to contractors towards Labour/POL component remained doubtful.

Audit observed that the scope of Clause 70.2 was not well defined. The clause did not clarify the admissibility of escalation on Labour and Petrol, Oil and Lubricant (POL) nor was the formula for payment of such escalation prescribed in the clause.

Test check of five major contracts[#] (value: Rs 236.25 crore) revealed that the Company paid total escalation of Rs 18.33 crore on Labour component (Rs 11.06 crore) and POL component (Rs 7.27 crore) to five contractors during May 2001 to December 2007 within the scope of Clause 70.2.

In the absence of clarity in escalation clause, however, the admissibility of escalation of Rs 18.33 crore paid to the contractors remained doubtful.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that the price escalation for Labour and POL was as per the Government notification issued from time to time and was covered by Clause 70.2 and that the issue was reported to the BoD in December 2001. It further assured that the clause would be made clear in future contracts. The reply was indicative of the ambiguity that existed in the contract clause.

Monitoring mechanism

2.2.18 With a view to introduce an effective monitoring mechanism for implementation of schemes, the Company decided (January 1999) to appoint PMCs/architects from the panel of MHADA for technical works. PMCs were to act in the capacity of engineers of the Company and were responsible to complete all pre tender and post tender activities related to evaluation of technical bids, execution of contract agreement, day to day supervision of works, measurement of work, quality controls and verification of contractor's

[#] Dindoshi, Matunga Labour Camp, Shed Complex, Turbhe-Mandale and Wadala.

bills *etc*. Architects were to help the Company in planning, investigation/ surveys and preparation of drawing and estimates *etc*. Accordingly, the Company appointed PMCs/architects for monitoring the execution of eight[@] schemes. Out of eight schemes it was observed that for six schemes[*] both PMCs and architects were appointed, for one scheme (Shiv Prasad Co-operative Housing Society, Wadala) only architect was appointed and for the remaining one scheme (Transit Camp Dharavi) only PMC was appointed. Thus, there was inadequate assessment of the actual requirement of technical expertise leading to appointments being made in an *adhoc* and overlapping manner.

The Company paid total fees of Rs 17.17 crore (PMCs: Rs 11.20 crore and architects: Rs 5.97 crore) till March 2008.

The Company made excess payment of Rs 3.13 crore to PMCs in violation of terms of agreements for Turbhe Mandale Scheme which was commented upon (**paragraph no. 4.22**) in the Report of the Comptroller and Auditor General of India (Commercial)-Government of Maharashtra for the year 2006-07.

Irregular reimbursement of service tax

2.2.19 As per Agreement, consultation fee at the rate of 1.5 to 2.25 *per cent* of the project cost inclusive of all taxes was payable to architects. Audit noticed that despite the above condition, nevertheless the Company reimbursed Rs 8.31 lakh towards service tax to two architects (Premnath and Associates – Rs 5.42 lakh and Mukesh Mehta – Rs 2.89 lakh) in August 2004/March 2006 on the ground that it was indirect tax and service receiver was liable to reimburse the same. The reimbursement was irregular as it was beyond the scope of contractual obligations. Moreover such claims were not approved by the Joint Managing Director/Managing Director of the Company.

The Management in its reply (September 2008) which was endorsed by the Government (December 2008), stated that service tax is an indirect tax and service provider is bound to recover the same from service receiver. The reply was not acceptable, as the consultants had accepted the fees which were inclusive of all taxes. Moreover, such reimbursement was not made to PMCs whose terms of appointment were similar to that of the above architects.

Inadequate monitoring

2.2.20 The monitoring mechanism to watch the proper execution of schemes through PMCs was inadequate and required to be strengthened for effective and better utilisation of resources.

- Though the Company paid total fee of Rs 17.17 crore to PMCs and architects, it did not prepare any structured provisions for monitoring their functioning as has been cited above.

[@]Two schemes (ABC Builder and Milind Nagar) were monitored by the Company's own engineers.

[*]Antop Hill, Dindoshi, Matunga Labour Camp, Rahul Nagar, Shed Complex and Turbhe Mandale Schemes.

- Though the Company had appointed PMCs for monitoring the execution of projects, there was no mechanism to ensure that works were completed in time. The time overrun in six schemes (Antop Hill, Dindoshi, Matunga Labour Camp, Rahul Nagar, Shed Complex and Turbhe Mandale) ranged from 23 to 95 months.

- As the payments to the contractors for works were made by the Company on the basis of measurements recorded by the PMCs, it was necessary for the Company to prescribe test check of measurements taken by PMCs. No test check of measurement was carried out by the Company officials to ensure the accuracy of measurements recorded by PMCs.

- As per the terms of contract with contractors, the sample unit of material and finishes completed by the contractors were to be tested by the Company to ensure the acceptable technical standards of the finished works. However, the Company entirely depended on the PMCs for selection of samples which was a vital component of the testing process. Similarly, cement concrete cubes used for RCC were required to be tested within 28 days from the date of concreting at site laboratory in the presence of the Company's engineers. However, this task was also assigned to PMCs without any involvement of Company officials.

The Management in its reply (March-July 2008) which was endorsed by the Government (December 2008), stated that the PMC had been assigned the full responsibility for supervision of the entire project management since they had the professional skills in the field and the Company did not have requisite technical staff. However, test check should have been exercised as part of an internal control mechanism instead of placing complete reliance on private firms.

Revenue realisation

2.2.21 The Company earned revenue through sale of houses/TDR in open market and recovery of administrative charges from PIAs. As per the latest financial viability reports, the Company projected revenue of Rs 653.55 crore from 10 SR Schemes.

Audit observed the following in this regard:

Loss of interest due to delayed realisation

2.2.22 The Company had taken up (1998-99) construction of 3,548 tenements (2,659 PAP tenements including 45 amenity tenements and 889 saleable flats) under SR Scheme at Dindoshi, Malad. The contractor had completed (April 2004) about 90 *per cent* work of saleable flats and refused (May 2004) to carry out the balance work as the Company did not settle his claims amounting to Rs 60.55 crore. The Company terminated the contract in January 2006 and invited (May 2006) offers for sale of these incomplete flats on "as is where is basis". The Company received (May 2006) response from four parties. Mantri Group was the highest bidder and quoted Rs 102 crore.

The BoDs decided (October 2006) to form a Sub Committee[#] for finalisation of the offers. The Committee negotiated the offer of Mantri Group on 29 November 2006 and the bidder accepted the offer of Rs 120 crore based on Ready Reckoner Rates 2006. The acceptance was communicated to the bidder on 4 January 2007.

The Company suffered a loss of interest of Rs 6.94 crore due to delay in execution of agreement.

As per tender condition the agreement was required to be executed with the bidder within 30 days from the date of acceptance of offer. Bidder was liable to pay Rs 119 crore (after adjusting Earnest Money Deposit of Rupees one crore) in six installments (two installments of Rs 12 crore each and remaining amount in four equal installments) starting within two months from the date of the agreement. It was in the financial interest of the Company to execute the Agreement early to ensure timely receipt of accepted price. However, the Agreement was executed on 30 October 2007 after a delay of more than eight months resulting in loss of interest of Rs 6.94 crore (at the rate of 8.75 *per cent* applicable interest on fixed deposit). The delay was attributed mainly to administrative reasons such as approval of Agreement by Legal Adviser, delayed measurement of pending works, decision on new nomenclature adopted by the bidder, handing over of documents required by bidder *etc*.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that as per Memorandum and Articles of Association, authorisation of BoD was essential and agreement was executed immediately after BoD's approval in September 2007. The reply was not convincing as the Company could have obtained the authorisation of BoD immediately after acceptance of offer (January 2007) and entered into agreement within stipulated time.

Allotment of tenements

2.2.23 The State Government has not assigned any specific role to the Company in allotment of tenements. The Company takes up construction of PAP tenements as sanctioned by SRA in anticipation of demands from various PIAs. On completion of tenements, saleable tenements are sold in open market through tendering process while PAP tenements are allotted to PAPs/slum dwellers free of cost on their identification by the respective PIAs.

[#] Principal Secretary, Finance, Principal Secretary, Housing, Chief Executive Officer, SRA, Joint Managing Director of the Company and General Manager (Marketing) of the Company.

The Company had taken up construction of 10,673[#] tenements. The scheme wise details of tenements completed, allotted and un-allotted/unsold as of March 2008 were as under:

Name of the Scheme	No. of tenements completed				No. of tenements allotted/sold				No. of tenements unallotted/unsold			
	R/P*	Tr	S	T	R/P	Tr	S	T	R/P	Tr	S	T
1.Milind Nagar, Dharavi	80	--	--	**80**	80	--	--	**80**	--	--	--	--
2.Transit Camp, Dharavi	--	136	--	**136**	--	136	--	**136**	--	--	--	--
3.Shivprasad CHS, Wadala	55	--	10	**65**	54	--	10	**64**	1	--	--	**1**
4.Rahul Nagar, Sewree	334	128	--	**462**	124	128	--	**252**	210	--	--	**210**
5.Antop Hill, Wadala.	696	--	238	**934**	395	--	238	**633**	301	--	--	**301**
6.Dindoshi	2,659	--	889	**3,548**	2,459	--	889*	**3,348**	200	--	--	**200**
7.Turbhe Mandale, Mankhurd	1,535	--	--	**1,535**	1,496	--	--	**1,496**	39	--	--	**39**
8.Matunga Labour Camp, Dharavi	183	--	88	**271**	49[@]	--	39	**88**	134	--	49	**183**
9.Shed Complex, Dharavi	42	--	--	**42**	42	--	--	**42**	--	--	--	--
10.ABC Builder, Dharavi	576	--	--	**576**	576	--	--	**576**	--	--	--	--
Total	**6,160**	**264**	**1,225**	**7,649**	**5,275**	**264**	**1,176**	**6,715**	**885**	**--**	**49**	**934**

*R/P=Rehabilitation/PAP, Tr. = Transit Camps, S= Saleable and T= Total.

In this connection following observations are made:

The Company was yet to allot/sell 934 tenements which were completed during January 2002 to April 2007.

- As seen from the above, 934 Rehabilitation/PAP and saleable tenements remained unallotted/unsold from various projects completed during January 2002 to April 2007 for want of demand from PIAs. The Company appointed security agencies for watch and ward of these unallotted tenements. The expenditure incurred on watch and ward was to be borne by the Company till allotments were made. Thus, there was a need to take up this issue immediately with various authorities for identifying beneficiaries considering the scarcity of houses in Mumbai. On test check of expenditure incurred on unallotted tenements of two SR Schemes (Dindoshi and Matunga Labour Camp), it was noticed that the Company had incurred expenditure of Rs 39.99 lakh on watch and ward during February 2002 to March 2008.

- The State Government recently took (April 2008) a policy decision for allotment of tenements with carpet area of 269 square feet each under SR

[#]This comprised of 8,625 Rehabilitation/PAP tenements, 264 Transit Camps (136 for Company's use and 128 for MHADA) and 1,784 saleable houses.

*The Company sold these incomplete flats (90 *per cent* work completed) on 'as is where is basis'.

[@]This excludes 128 tenements allotted by the State Government which have not been physically handed over so far to the respective slum dwellers.

Schemes in future instead of 225 square feet as per earlier policy. Since the tenements already constructed/under construction by the Company had carpet area of 225 square feet, the Company might now find it difficult to allot the balance 3,350[#] Rehabilitation/PAP tenements to slum dwellers under SR Schemes.

- The Company allotted 5,275 tenements to Co-operative Housing Societies formed by slum dwellers/PAPs. As per contract conditions for construction of houses, contractors were liable to attend defects in construction free of cost during defect liability period. The overall performance guarantee period was two years from the date of taking over certificate while it was 10 years for water proofing/anti termite treatment and 15 years for structural stability. It was seen that there was no system for monitoring this contract condition by getting periodical feedback from the tenement holder societies.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that the Company had not obtained such feedback from the societies but there were regular site visits by PMCs and Engineers of the Company for such maintenance. The fact remains that the Company had not obtained feedback from the respective societies. The Company had also not maintained records of site visits stated to have been done by Company officials to monitor the defects in construction.

Permanent Transit Camps

2.2.24 The Company constructs Permanent Transit Camps (PTCs) to accommodate slum dwellers/PAPs temporarily till they are allotted tenements under SR Scheme. The Company constructed 264 PTCs out of which 136 were for own use and remaining 128 were for use of MHADA. The Company also allots vacant PTCs on rent to private developers who execute SR Schemes.

Short recovery of PTCs rent from private developer

2.2.25 Based on the request by Mahalaxmi Builders who was executing SR Scheme at Dharavi, the Company allotted (May 2000), 108 PTCs on rent out of 136 PTCs constructed by it at Dharavi. The Company fixed the rent at the rate of Rs 600 per month payable from June 2000 with Security Deposit (SD) of Rs 5,000 per PTC. As per terms of allotment, the developer was also liable to pay electricity charges, water charges and maintenance cost of the tenements.

[#] Out of 10,673 tenements the Company was to construct 8,625 rehabilitation/PAP tenements of which 5,275 tenements have been allotted leaving balance 3,350 tenements unallotted/under construction.

In this connection, following irregularities were noticed:

The Company extended undue benefit of Rs 64.42 lakh to a private party by fixing rent/SD at lower rates than that adopted by MHADA.

- The Company follows the policies adopted by MHADA. The MHADA had fixed (March-November 2000) the rent of Rs 1,200 per month/per tenement and SD of Rs 20,000 per PTC to be recovered from the private developers to whom PTCs were allotted on rent. In deviation of the policy, the Company fixed the lower rent (Rs 600 per month per PTC) and SD (Rs 5,000 per PTC). Thus, the Company extended undue benefit of Rs 64.42 lakh (rent: Rs 48.22 lakh[#] and SD: Rs 16.20 lakh) to the private developer during June 2000 to March 2008.

The Company suffered loss of interest of Rs 18.72 lakh due to non recovery of rent and SD.

- As per terms of allotment, rent for 18 months with SD at the rate of Rs 5,000 per PTC was to be collected in advance. However, the Company did not recover any rent during the first four years and arrears accumulated to Rs 29.50 lakh up to March 2004. Further, the Company recovered SD of Rs 1.35 lakh only as against the agreed amount of Rs 5.40 lakh. The arrears of rent were recovered by the Company during August 2004 to December 2007 leaving the balance of Rs 1.81 lakh unrecovered (June 2008). The delayed recovery of rent arrears resulted in a loss of revenue amounting to Rs 18.72 lakh by way of interest at the rate of 14 *per cent* per annum (interest charged by HUDCO) on the arrears of rent and SD.

- The developer had also not paid water charges (Rs 4.30 lakh), electricity charges (Rs 4.88 lakh) and other maintenance charges (Rs 1.12 lakh). As of March 2008, the total arrears recoverable were Rs 12.11 lakh (including rent arrears of Rs 1.81 lakh) against which the Company had SD of Rs 1.35 lakh.

The Management in its reply (April/July 2008) which was endorsed by the Government (December 2008), stated that the non payment of rent was informed to SRA and the Company had requested not to issue no objection certificate for the project undertaken by the developer. The Management further stated that the rent of Rs 600 per month was charged by MHADA for ground floor buildings. The reply is not based on facts as the rent charged by MHADA was Rs 1,200 per month per tenement. Further, the prompt recovery of rent was the responsibility of the Company.

Identification of beneficiaries

2.2.26 The State Government has not assigned any specific role to the Company for identification of beneficiaries. As per eligibility criteria prescribed by the State Government, identification of beneficiaries was mainly based on two documents, *i.e.* Ration Card and Voters Card issued by Election Commissioner prior to 1995. Identification was to be ascertained by respective PIAs. However, in case of one PIA (Airport Authority of India (AAI)) the identification was done by the Company. The State Government/Company had not laid down detailed guidelines for ensuring the authenticity of documents

[#] Worked out on the basis of the actual period of occupancy of each PTC by the private developer.

on the basis of which tenements were to be allotted free of cost till January 2008 when the detailed guidelines were issued by the Government. The Company identified 1,990 PAPs of AAI during 2002-03 authenticity of which was doubtful in the absence of the detailed guidelines in this regard. The Company also did not ensure the authenticity of documents by referring the sample cases to the document issuing authorities for verification.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that the guidelines recently issued by the Government for checking documents would be adopted in future.

Internal Control and Internal Audit

Internal control

2.2.27 Internal control is the mechanism designed to provide reasonable assurance for efficiency of operations, reliability of financial reporting and compliance with applicable laws and statutes. The following deficiencies were noticed in the internal control system of the Company:

- The Company did not have any Manual of Internal Procedures though it was set up as an independent entity in 1998.

- Marketing and accounting functions were not defined, as rent from private builders was being collected by the Marketing Department instead of the Accounts Department of the Company. No bills were issued for the rental dues thereby rendering the monitoring mechanism weak. Earnest Money Deposits (EMD) paid by the bidders were also retained by the Marketing Department rather than the Accounts Department. Demand drafts worth Rs 3.50 crore against EMD were deposited in the bank after delays ranging between 31 and 135 days, as they were lying with the Marketing Department thereby resulting in loss of interest amounting to Rs 3.20 lakh.

- The Company had not test checked the measurement recorded by PMCs as discussed in **paragraph no. 2.2.20** *supra*.

The Management in its reply (July 2008) which was endorsed by the Government (December 2008), stated that these are subjective observations of audit. There is always scope for improvement constantly being endeavoured to achieve. The reply was silent about the non-existence of any working manual of the Company prescribing internal procedure and also the absence of any laid down procedure to be followed by important departments.

Internal audit

2.2.28 Internal audit is an important tool for ensuring a better and effective internal control in an organisation. The Company had appointed (November 1998) a firm of Chartered Accountants (CA) for Internal Audit and finalisation of accounts. Though, the initial appointment was for one year from December 1998, the Company continued their services by renewal till date (March 2008).

It was seen that though there was a pre audit of all Bills including Running Account bills of contractors, Internal Auditors failed to point out the discrepancies highlighted in the review. Monthly Audit Reports pointing out some procedural lapses given by Internal Auditor were also not evaluated/complied and submitted to the MD for further action.

Role of the Company in implementation of SR Schemes

2.2.29 The State Government formed the Company to accelerate the pace of the Slum Rehabilitation Programme for providing eight lakh tenements to slum-dwellers/PAPs in Mumbai Region. The Company had taken up (1998-99) construction of 10,673 tenements out of which 7,649 tenements were completed. The Company allotted/sold 6,715 tenements and balance 934 tenements were yet to be allotted/sold (March 2008).

Audit observed that SRA has been sanctioning SR Schemes on regular basis. SRA has sanctioned 1,184 schemes (2.81 lakh tenements) to private and Government agencies so far (October 2008). The Company had, however, not taken up any scheme after 1998-99. Thus, the role of the Company in implementation of SR Schemes remained negligible. Presently, the Company has only three on-going schemes. The State Government has not made a cost benefit analysis to appraise the performance of the Company *vis-a-vis* that of private developers and taken a considered decision on the existence of the Company.

Acknowledgement

2.2.30 Audit acknowledges the co-operation and assistance extended by different levels of Management at various stages of conducting this performance audit.

Conclusion

The Company was formed as a separate entity to speed up the Slum Rehabilitation programme in Mumbai Metropolitan Region. Despite availability of funds, the State Government did not release the entire share capital to the Company leading to financial crunch and delays in implementation of schemes. The Company had taken up 10 SR Schemes involving construction of 10,673 tenements as against total 1,184 schemes involving construction of 2.81 lakh tenements sanctioned by SRA to private and Government agencies till October 2008. Five schemes were completed prior to 2003-04 and out of the remaining five schemes, three were yet to be completed. No further schemes were taken up after 1998-99. The role of the Company therefore remained negligible. There

were irregularities in payments made to contractors on account of escalation claims and bonus.

The payments to the contractors were released solely on the basis of certification/measurements taken by Project Management Consultants in respect of seven schemes. The Company had no system to test check the quality and quantity of work certified by the consultants. Internal control system was weak due to non segregation of duties of the departments and poor monitoring of various functions.

Recommendations

The Company has potential to re-evolve as a key player in the sphere of affordable urban housing and shelter. As such the Company should:

- **improve contract management practices by ensuring that the clauses in tender documents for payment of escalation and payment of bonus are well defined and accurate;**
- **introduce test check of measurement of work and sampling by the Company's own Engineers in order to monitor the functioning of Project Management Consultants;**
- **take up the issue of unallotted tenements with the Slum Rehabilitation Authority to ensure prompt and full utilisation of created assets;**
- **strengthen the internal control system to improve the working of various departments of the Company; and**
- **the Government needs to conduct a cost benefit analysis to appraise the performance of the Company *vis-a-vis* that of private developers and take a considered decision on the existence of the Company.**

Maharashtra State Electricity Distribution Company Limited

2.3 Power Purchase Management

Highlights

The shortfall in supply of power increased from 9,908 MUs in 2003-04 to 19,092 MUs in 2007-08. The Company could not meet the demand of power despite the purchase of costly power from outside agencies and had to resort to load shedding. Actual load shedding ranged between 2.5 to 15 hours against planned load shedding of one to 12 hours.

(Paragraphs 2.3.7 and 2.3.10)

The Company did not avail its entire allocation from cheaper Central sources to the full extent during the three year period of 2005-06 to 2007-08 and had to incur additional extra expenditure of Rs 374.79 crore on purchase of power on short term basis.

(Paragraph 2.3.12)

In the absence of penal clauses in contractual provisions the Company had to purchase power from costly sources resulting in financial outgo of Rs 31.38 crore. Defective agreement for banking of power resulted in avoidable extra expenditure of Rs 48.72 crore.

(Paragraphs 2.3.13 and 2.3.14)

The Company did not recover the average cost of power through sale of power resulting in loss of revenue. The Company did not achieve the norms of Transmission and Distribution losses fixed by Maharashtra Electricity Regulatory Commission (MERC) for 2006-08.

(Paragraphs 2.3.15 and 2.3.16)

The MERC disallowed Rs 96 crore of the Company due to violation of load regulations. The MERC also disallowed purchase of power of Rs 7.39 crore due to excess Transmission and Distribution losses over norms. The wheeling charges of Rs 4.08 crore could not be recovered from consumers due to disallowance by MERC.

(Paragraphs 2.3.18 and 2.3.19)

Introduction

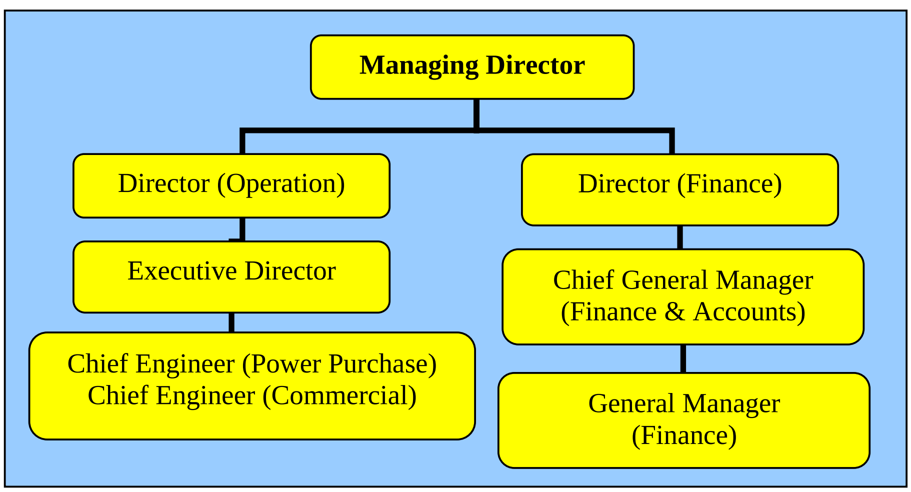
2.3.1 Pursuant to the State Government decision of 24 January 2005, restructuring of the erstwhile Maharashtra State Electricity Board (MSEB) was implemented in June 2005. As a result, MSEB was unbundled into four

Companies[❅] from 6 June 2005. Due to the statutory requirement of the Electricity Act, 2003 for separation of trading functions from generation and transmission functions, the work of distribution of electricity in the State was entrusted to the Maharashtra State Electricity Distribution Company Limited (Company).

The demand for energy was increasing year after year in the State due to industrial development and increased construction activities of commercial and residential complexes. As there was no addition to generation capacity during 2003-07 by the Maharashtra State Power Generation Company Limited (MSPGCL), the Company had to resort to purchase of power from outside agencies to cater to the requirement of power in the State.

The Company enters into Power Purchase agreements with the generation Companies. The Company purchases power on short term basis (up to one year) from five Power Trading Companies[♣] (PTCs) out of 22 short listed PTCs. There were 15 long term agreements (for more than one year) with National Thermal Power Corporation (NTPC) (12 units) and Nuclear Power Corporation of India Limited (NPCIL) (three units). In addition to the above the Company purchases power from TATA Power Company Limited for Mumbai region. The Company also avails power from non conventional energy sources (Captive Power Producers and Wind Mill Developers). The power purchase activity is handled by the Power Purchase cell of the Company.

The organisation chart for Power Purchase Management in the Company is as under:



[❅]MSEB Holding Company Limited, Maharashtra State Power Generation Company Limited, Maharashtra State Electricity Transmission Company Limited and Maharashtra State Electricity Distribution Company Limited.

[♣]Adani Enterprises Private Limited, JSW Power Trading Company Limited, Jindal Power Limited, NTPC Vidyut Vyapar Nigam Limited and PTC India Limited.

Scope of Audit

2.3.2 The Performance Audit conducted during May-June 2008 covers the management of energy purchases made by the Company during April 2003 to March 2008. The records of the Company relating to purchase of power and payments were examined with a view to analyse the power purchase management in the Company. There were 15 long term agreements, of which four agreements pertained to the erstwhile MSEB period. There were 22 PTCs short listed by the Company of which only five PTCs were responding and from whom the power was purchased by the Company on short term basis by issuing work orders without any formal agreements being entered into. All the long term agreements and work orders were examined in audit.

Audit objectives

2.3.3 The objectives of the review were to ascertain whether:

- there was adequate planning for purchase of energy based on forecast/demand/availability;
- energy was purchased economically and efficiently from both long term sources and short term sources with reference to assessment of demand and as per the terms and conditions of agreements;
- the Company complied with the legal requirements, procedures and policy guidelines laid down by the Government, Central Electricity Regulatory Commission (CERC)/Maharashtra Electricity Regulatory Commission (MERC) regarding entering into long term agreements and implementation thereof;
- actual achievements matched with the planned activities and the reasons for deviations/shortfall were properly analysed and remedial action taken; and
- there were adequate internal controls to monitor and control the activities and payments towards purchase of energy.

Audit criteria

2.3.4 The following audit criteria were adopted:

- approved plan and quantum fixed/allotted by CERC/MERC for procurement of energy;
- guidelines issued by Ministry of Power (MoP), Government of India (GoI), State Government, CERC and MERC and provisions of Electricity Act, 2003;

- terms and conditions of the long term agreements and work orders;
- norms fixed by the Company/CERC/MERC and GoI, as applicable, for Transmission and Distribution (T&D) losses; and
- delegation of power, reconciliation statement of power purchased, budget estimates and Management Information System reports.

Audit methodology

2.3.5 Audit followed methodologies as under:

- examination of implementation/execution of guidelines/directions issued by MERC and Annual Revenue Requirement (ARR) submitted by the Company;
- study of implementation/execution of guidelines/directives issued by the Government of Maharashtra (GoM) and MERC for purchase of power, Central Electricity Authority (CEA) Reports;
- scrutiny of agenda and minutes of meetings of Board of Directors (BoDs);
- scrutiny of all the records related to receipt of energy and payments thereof; and
- interaction with the Management.

Audit findings

2.3.6 The Audit findings were reported (July 2008) to the State Government/ Management and discussed (29 August 2008) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting was attended by the Deputy Secretary, Energy (Industry, Energy and Labour Department), GoM, Director (Finance), Chief Engineer (PP Cell), Chief Engineer (Commercial), Superintending Engineer (TRC), General Manager (F&A) of the Company. The views expressed by Management/ Government have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Assessment of demand

2.3.7 Assessment of demand and requirement of power is to be calculated on the basis of past consumption, present consumption trends, load growth trends as approved by CEA, T&D losses sustained during the prior period and trends thereof. The aggregate of the above will be represented as future demand of power. MERC being State regulator for power under Electricity Act, 2003, approves the sources of power and tariff revision on the basis of ARR details submitted to it by the Company. The ARRs were not prepared for the years 2004-06. In absence of ARRs for 2004-06, the quantum of approved purchases of 2003-04 was adopted for 2004-06 for working out the shortfall in purchase. This deficiency led to purchases of power in an *adhoc* and unplanned manner.

The details of demand of power based on inputs given by the Company to the 17th Electric Power Survey conducted by CEA, purchases of power approved by MERC and actual power purchased during the period 2003-04 to 2007-08 were as under:

(Million Units)

Year	Demand of power based on load growth approved by CEA	Purchases approved by MERC	Actual power purchased*	Shortfall in demand of power (2-4)	Excess/ (Shortfall) in purchases (4-3)
1	**2**	**3**	**4**	**5**	**6**
2003-04	78,667	62,583	68,759	9,908	6,176
2004-05	82,043	62,583	69,840	12,203	7,257
2005-06	86,495	62,583	58,527	27,968	(4,056)
2006-07	91,875	74,907	75,436	16,439	529
2007-08	97,689	76,852	78,597	19,092	1,745

(Source: CEA reports, ARR and Annual accounts)

The shortfall in supply of energy has increased from 9,908 MUs in 2003-04 to 19,092 MUs in 2007-08.

- It is seen from the above that the demand of energy had increased from 78,667 MUs in 2003-04 to 97,689 MUs in 2007-08. The actual purchases had also increased from 68,759 MUs in 2003-04 to 78,597 MUs in 2007-08 and the shortfall in actual purchase of energy had increased from 9,908 MUs in 2003-04 to 19,092 MUs in 2007-08.

- There was no addition to the generation capacity during the period 2003-07 by the MSPGCL and the Company had to resort to purchases of power from outside agencies.

- The huge shortfall in demand of power led to load shedding implemented by the Company which ranged between 2.5 to 15 hours against planned load shedding of one to 12 hours, as described in **paragraph no. 2.3.10**.

* Including power generated by erstwhile MSEB during 2003-05 (up to 5 June 2005).

Sources of power

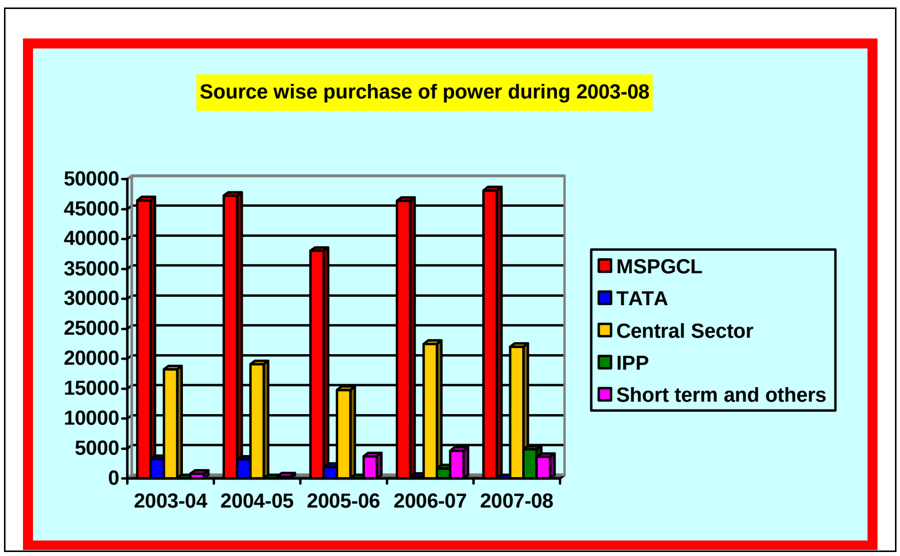
2.3.8 The Company purchased 3,51,159.37 MUs during 2003-08 as detailed below:

(MUs)

Year	MSPGCL	Central sector	IPPs	Others	Total
2003-04	46,463.63	18,229.37	40.22	4,026.07	68,759.29
2004-05	47,245.23	19,101.12	35.62	3,458.31	69,840.28
2005-06	38,050.83	14,801.05	46.04	5,628.88	58,526.80
2006-07	46,383.00	22,479.00	1,679.00	4,895.00	75,436.00
2007-08	48,137.00	22,000.00	4,857.00	3,603.00	78,597.00
Total	**2,26,279.69**	**96,610.54**	**6,657.88**	**21,611.26**	**3,51,159.37**

(Source: Statement of accounts)

The source-wise details of energy purchase for the period 2003-08 is indicated in the following bar chart.



(Source: Statement of accounts)

The Company during the year 2003-08 had purchased 64 *per cent* of its power requirement from its sister concern *i.e.* MSPGCL, 28 *per cent* power was purchased from Central Sector Companies (NTPC, NPCIL) on long term basis, two *per cent* power from Independent Power Producers (RGPPL) and six *per cent* power from private power trading companies (Adani Enterprises Private Limited, JSW Power Trading Company Limited, Jindal Power Limited, NTPC Vidyut Vyapar Nigam Limited and PTC India Limited) and others on short term basis at higher cost. During 2003-08 the Company procured power from PTCs and traders on short term sources to the extent of 7,067.16 MUs (two per cent), however, amount paid there against worked out to Rs 2,804.63 crore (four per cent) of the total purchases of Rs 63,672.27 crore. It could be seen from the power purchase details that the power purchase from MSPGCL was marginally increased from 46,463.63 MUs in 2003-04 to 48,137.00 MUs in 2007-08. It was almost constant except for the year 2005-06 where the purchase was only 38,050.83 MUs due to scheduled outages in thermal power stations of MSPGCL.

Purchase procedure

2.3.9 The CEA prepares five year plans comprising five years data, on State wise peak load and growth in peak load at power stations in the State based on daily/monthly/yearly Load Dispatch Reports of the State sent by the Load Dispatch Centre of the Maharashtra State Electricity Transmission Company Limited to the CEA. The Company prepares a five year demand forecast for the State based on the CEA data and submits the same to the MERC for approval. MERC approves the quantum of energy to be procured considering the availability of power from different sources. After approval of MERC, the Company purchases the power from outside agencies on long term and short term basis.

The Company after assessing the availability of power from MSPGCL meets the shortfall in requirement of power by procuring from Central Sector Companies and Independent Power Producers (IPP) through long term power purchase agreements. The Company is required to purchase the power considering the availability of power from various sources at a given point of time. Costly power is to be purchased only after all the cheaper power sources available are exhausted and with the approval of sources of power by MERC. After ascertaining shortfall, efforts are to be made to fulfill it from short term sources from PTCs by inviting the tenders from short listed companies responding to the invitation of offers and at the lowest rates offered.

The Company also avails power from non-conventional energy sources by entering into long term agreements with Captive Power Producers (CPP) and Wind Mill Developers (WMD). The Company entered into 581 such agreements (541 WMD and 40 Bagasse) during the period 2003-08.

- ***Long term power purchase procedure***

The Company has to prepare a five year plan for power purchase with the approval of the BoDs of the Company and is to submit the plan to the MERC for approval. The CEA allocates the share from the Central Generating Stations (CGS) to the Company wherein the CERC approves the tariff of the CGS. The Company enters into power purchase agreements with CGS and the power is wheeled by the Central and State transmission utilities. The energy accounting is done by the Regional Power Committee for billing.

- ***Short term power purchase procedure***

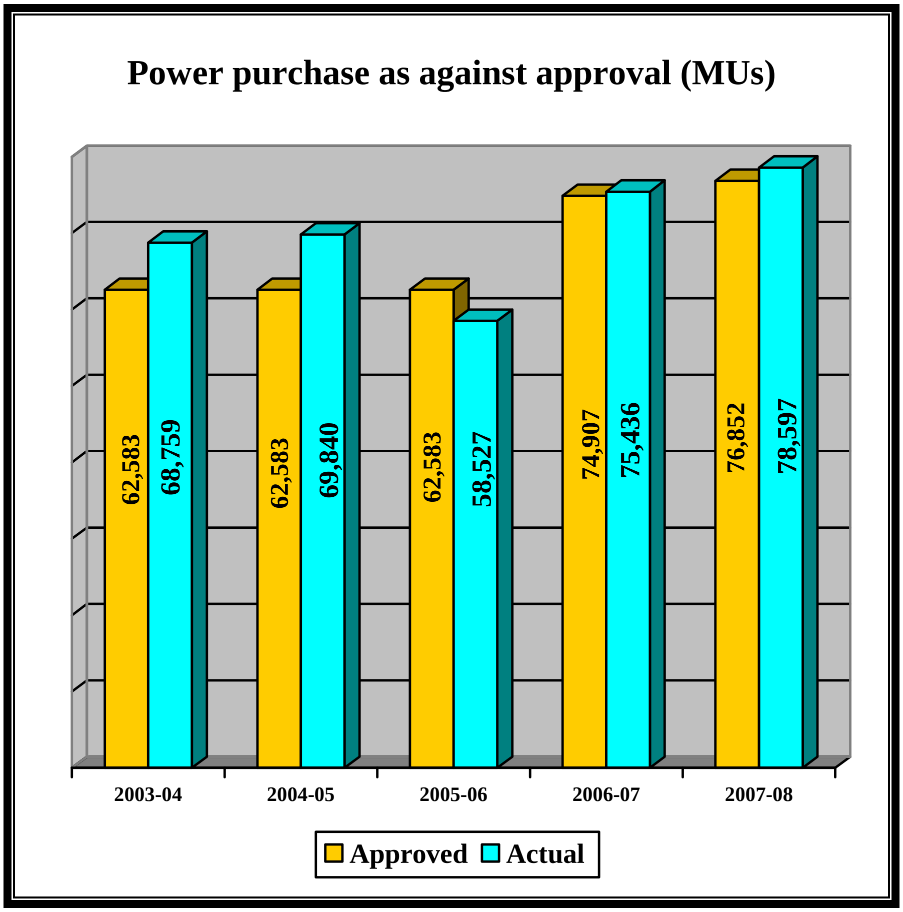
Short term purchase (PTCs and others) has to be made on need basis through issue of work orders. However, no formal agreements were entered into with the PTCs. The Company does not have standardised format of work orders.

The Managing Director of the Company is authorised by the BoD of the Company for purchase of power on short term basis. The Company is to float the tender/enquiry through wide publicity for purchase of power. After receipt of bids comparative statements are to be prepared and work order is to be issued to the lowest bidder for purchase of power.

Volume of purchase of power and load shedding

2.3.10 The volume of power purchase approved by MERC (3,39,508.00 MUs) and actual purchases (3,51,159.37 MUs) there against during 2003-08 is given in the **Annexure 10.**

The actual purchase of power by the Company was in excess of approved power purchase by MERC in all years except 2005-06 as described in the chart given below:



The Company could not meet the demand of power despite the purchase of power from outside agencies and had to resort to load shedding *i.e.* power cuts.

The Company classified the areas for the purpose of load shedding. The areas were grouped into Urban and Industrial Area, Other regions and Agriculture dominated region. Load shedding was carried out by calculating weighted average, distribution losses and collection efficiency and was grouped into groups A, B, C and D. The table below indicates the year wise load shedding planned and the actual load shedding implemented for the last three years ending 2007-08.

(Figures in hours)

Group	Planned			Actual		
	Urban and industrial area	Other regions	Agriculture dominated regions	Urban and industrial area	Other regions	Agriculture dominated regions
			2005-06			
A	1.0	2.0	5.0	2.5	4.5	11.0
B	2.0	4.0	8.0	3.0	5.0	11.5
C	2.0	4.0	8.0	3.5	5.5	12.0
D	2.0	4.0	8.0	4.0	6.0	12.0
			2006-07			
A	2.5	4.5	11.0	4.75	6.75	14.0
B	3.0	5.0	11.5	5.25	7.25	14.5
C	3.5	5.5	12.0	5.75	7.75	15.0
D	4.0	6.0	12.0	6.25	8.25	15.0
			2007-08			
A	3.0	5.0	11.0	3.0	5.0	11.0
B	3.75	5.5	11.5	3.75	5.5	11.5
C	4.5	6.0	12.0	4.5	6.0	12.0
D	5.25	6.5	12.0	5.25	6.5	12.0

(Source: Circulars issued by the Company from time to time)

Actual load shedding implemented by the Company ranged between 2.5 to 15 hours against planned load shedding of one to 12 hours.

It could be seen from the above that the actual load shedding implemented by the Company ranged between 2.5 to 15 hours against planned load shedding of one to 12 hours. The hours of load shedding have been stipulated (2006-07) by MERC with defined ceiling levels of load shedding for the demand-supply gap level. The maximum load shedding in Agriculture dominated regions has been defined at 12 hours daily, while the load shedding in urban and industrial region has been defined at 4.0 hours. However, there was increased load shedding in both the regions, the actual load shedding in Agriculture dominated region was 14 to 15 hours and in Urban and Industrial region was 4.75 to 6.25 hours during 2006-07. During 2007-08 the load shedding in Agriculture dominated regions was within 12 hours but there was increased load shedding of 3.00 to 5.25 hours in Urban and Industrial regions. Deficient planning in purchase of power thus led to increased load shedding.

Purchase of Power contract management

2.3.11 The Company purchased 3,44,092.21 MUs of power amounting to Rs 60,867.64 crore from long term sources and 7,067.16 MUs of power amounting to Rs 2,804.63 crore from short term sources during 2003-08 as detailed in **paragraph no. 2.3.10**. Audit scrutiny revealed the following:

- The power purchase was increased from 68,759.29 MUs in 2003-04 to 78,597 MUs in 2007-08 with a growth of 14.30 *per cent* whereas the financial outgo was increased from Rs 8,716.26 crore in 2003-04 to Rs 17,006.38 crore in 2007-08 *i.e.* increase in financial outgo was by 95.11 *per cent*.

- The Company during the year 2005-06 procured 2,696.16 MUs of power from PTCs as against the approval of 2,127 MUs by MERC.

- There was shortfall of 8,420 MUs of power in generation by MSPGCL a sister Company due to scheduled outages for augmentation of power stations during 2005-06.

- The actual purchase of power during the period 2003-08 was 3,51,159.37 MUs as against 3,39,508.00 MUs approved by MERC. Even after excess procurement than that approved by MERC there was increase in load shedding which has been discussed in **paragraph no. 2.3.10**.

Short drawal of power from cheaper sources

The scrutiny of long term agreements revealed the following:

The Company did not draw power from cheaper Central sources to the full extent during 2005-08 and had to incur an additional extra expenditure of Rs 374.79 crore.

2.3.12 The power allocation from Central Generating Stations (CGSs) is decided by the MoP in advance with the approval of the CERC. The average cost per unit (kwh) of power purchased from NTPC and NPCIL units ranged between Rs 0.85 and Rs 2.88 during the period 2005-08. It was seen that the Company did not draw power from cheaper sources of CGSs of NTPC and NPCIL units to the full extent as per allocation but instead purchased power from PTCs which were costlier sources at rates ranging between Rs 2.92 and Rs 5.18 per unit. The Company did not periodically assess actual receipt of power against the allocation of power. The short drawal of power during 2005-08 was to the extent of 1,661.90 MUs. Audit observed that the Company could have avoided financial outgo of Rs 374.79 crore in case it had drawn the power from the central sources to the full extent.

The Management in its reply (September 2008), which was endorsed by the Government (November 2008), stated that audit has taken normative generation as the basis for computing the Company's share in energy generated by each Power Station whereas the entitlement is based on factors like cumulative declared availability, merit order basis and actual generation. The fact, however, is that audit has considered the actual energy available for distribution among the beneficiaries and not the normative generation.

Absence of penal clause

2.3.13 Purti Sakhar Karkhana Limited (PSKL) was permitted (14 September 2001) by the erstwhile MSEB to install 22 MW Bagasse based co-generation plant at Bela in Nagpur district.

In absence of penal clause in agreement the Company had to buy power from costly sources resulting in additional financial outgo of Rs 31.38 crore.

The erstwhile MSEB entered into contract (September 2002) with PSKL for supply of power. The plant was completed in April 2007. Audit observed that there was no penal clause in the agreement in case of breach of contract. PSKL took the advantage of above deficiency and entered into a contract (30 January 2007) with Reliance Energy Trading Limited (RETL) for sale of power and supplied generated power (April to November 2007) to the party. In the absence of penal clause in the agreement the Company could not take any action against PSKL for violation of contract. As a result, the Company had to purchase power from other costly sources during the period 6 April to 13 November 2007 resulting in additional financial outgo of Rs 31.38 crore.

The Management in its reply while accepting the fact (September 2008), which was endorsed by the Government (November 2008), stated that petition had been filed with MERC for recovery towards damages due to illegal supply of power to RETL by PSKL as per the provisions of the Energy Purchase Agreement (EPA). PSKL has appealed to the Appellate Tribunal of Electricity, New Delhi against the decision of MERC who had decided (December 2007) the case in favour of the Company. The case was pending in the Tribunal (December 2008).

Banking of power

2.3.14 The banking of power is done by the Company by entering into swap agreement. The Company executed (11 April 2007) swap agreement with NTPC Vidyut Vyapar Nigam Limited (NVVN) for purchase of power from Haryana Power Generation Company Limited (HPGCL). As per the terms of the swap agreement entered into between the Company and HPGCL, the Company agreed to purchase 100-250 MW power on firm basis during February to May 2007. In turn the Company had agreed to return 105-262.50 MW power on firm basis to HPGCL during July to September 2007. The shortfall was to be settled in cash.

Scrutiny of the swap agreement revealed the following deficiencies:

- The HPGCL had supplied 214.64 MUs to the Company during February to May 2007 and the Company, in turn, returned only 146.93 MUs during July to September 2007. The short drawn power of 67.65 MUs was to be settled through cash adjustment. However, the settlement was done considering power supplied as 105 *per cent* of power purchased *i.e*. 225.38 MUs. Thus, the cash settlement was done for 78.45 MUs for Rs 36.17 crore at the rate of Rs 4.61 per unit instead of 67.65 MUs resulting in excess payment of Rs 4.98 crore.

The Management in its reply (September 2008), which was endorsed by the Government (November 2008), stated that the clause of returning 105 *per cent* power was inserted as it was the first time of such agreement and the matter has been taken up (September 2008) to obtain refund from HPGCL.

- It was also observed that the HPGCL has been supplying power at a bulk rate of Rs 2.38 per unit to the transmission Companies and outside buyers. Had the cash settlement been done at the rate of Rs 2.38 per unit, the

Company could have avoided the extra expenditure of Rs 17.49 crore (Rs 36.17 crore - Rs 18.68 crore). Thus, the cash settlement at Rs 4.61 per unit was not in the best financial interest of the Company.

Defective swap agreement for banking of power resulted in avoidable extra expenditure of Rs 48.72 crore.

- The NVVN was the mediatory and the power was to be purchased from HPGCL. Had the Company entered into an agreement directly with HPGCL, the Company could have purchased 214.64 MUs at the rate of Rs 2.38 per unit and could have saved Rs 47.86 crore in purchase of power. In addition to the above the Company paid commission of Rs 85.86 lakh to NVVN at the rate of Rs 0.04 per unit.

- The Company deposited Rs 74.16 crore during February to May 2007 as Security Deposit (SD) though there was no clause of payment of SD in the agreement. However, interest clause on the SD was not included while agreeing for payment of SD and resultantly the Company was deprived of earning interest of Rs 3.80[♦] crore on the SD.

The Management in its reply (September 2008), which was endorsed by the Government (November 2008), stated that the decision taken was to mitigate the shortfall.

The reply, however, does not justify the extra expenditure in cash settlement due to defective clauses in the agreement.

Cost of power

2.3.15 The cost of power purchase is based upon the price determination procedure of respective PPA signed with the power generators/traders. In case of Central Public Sector Undertakings (CPSUs) or other generators supplying energy to more than one State, CERC determines tariff with varying fixed and variable cost for each of their power stations in terms of PPAs with them. The Company determines the tariff on the basis of application for ARR for sale of energy filed by the Company.

The Company purchased[⁕] 3,51,159.37 MUs valuing Rs 63,672.27 crore of energy during 2003-08 which was sold to the consumers. The cost of sale *vis-a-vis* average cost realised/sale price per unit and loss suffered during the

[♦] Rs 74.16 crore x 10.25 *per cent* (borrowing rate of interest) for six months.
[⁕] This includes energy generated by erstwhile MSEB during April 2003 to June 2005.

period is tabulated below:

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1	Purchase of energy (MUs)	68,759.29	69,840.28	58,526.80	75,436.00	78,597.00
2	Sale of energy (MUs)	43,575.42	46,100.97	40,554.00	49,148.00	55,716.00
3	Purchase cost (Rupees in crore)	8,716.26	9,723.06	11,949.93	16,276.64	17,006.38
4	Other cost (Rupees in crore)	5,784.69	5,917.72	2,604.83	4,077.25	3,897.83
5	Total cost (Rupees in crore) (3+4)	14,500.95	15,640.78	14,554.76	20,353.89	20,904.21
6	Average purchase cost (Rupees per unit) (5/1 x Rs.10)	2.11	2.24	2.49	2.70	2.66
7	Value of energy sold (Rupees in crore)	13,334.22	14,171.85	13,628.04	18,863.78	20,158.61
8	Average cost of sales (Rupees per unit) (5/2 x Rs.10)	3.33	3.39	3.59	4.14	3.75
9	Average sale price (Rupees per unit) (7/2 x Rs.10)	3.06	3.07	3.36	3.84	3.62
10	Loss per unit (Rupees) (8 - 9)	0.27	0.32	0.23	0.30	0.13
11	**Total loss (Rupees in crore) (2x10/Rs.10)**	**1,176.54**	**1,475.23**	**932.74**	**1,474.44**	**724.31**
12	**Grand total of 2003-04 to 2007-08 (Rupees in crore)**	**5,783.26**				

(Source: Statement of accounts)

The Company did not recover the average cost of sale of energy which resulted in loss of revenue.

The Company could not realise the average cost of sale of energy resulting in loss of Rs 5,783.26 crore during 2003-08. The selling cost of power consists of three elements-cost of energy purchased, T&D losses and wheeling charges. Therefore after recovery of selling cost the Company should not incur any loss on energy sold to the consumers. There were, however, losses during all the five years. The factors responsible for the losses were purchase of costly power and high T&D losses.

Transmission & Distribution losses

2.3.16 The Transmission and Distribution (T&D) losses prior to formation of the Company were 30.71 *per cent* in 2005-06. The T&D losses were to be reduced by two *per cent* every year as per the orders (October 2006) of MERC.

The details of targeted T&D losses fixed by MERC, the actual T&D losses and excess T&D losses there against for the years 2006-07 and 2007-08 were as under:

(Million Units)

Sl. No.	Particulars	2006-07	2007-08
1	Purchase of energy	75,436	78,597
2	Norms for transmission and distribution losses as per MERC order (*per cent*)	21,658 (28.71)	20,993 (26.71)
3	Energy available for sale	53,778	57,604
4	Actual energy sold	49,148	55,716
5	Actual transmission and distribution losses (*per cent*) (1 - 4)	26,288 (34.85)	22,881 (29.11)
6	Excess transmission and distribution losses (5 - 2)	4,630	1,888
7	Average cost price (Rupees per unit)	2.16	2.16
8	**Value of excess transmission and distribution losses (Rupees in crore)**	**1,000.08**	**407.81**

(Source: Statement of accounts)

The Company did not achieve the norms fixed by MERC for T&D losses.

As against the norms fixed by MERC (28.71 and 26.71 *per cent*) the actual transmission and distribution losses were 34.85 and 29.11 *per cent* respectively. The Company could not achieve the norms fixed by MERC resulting in excess T&D losses of 6,518 MUs amounting to Rs 1,407.89 crore during 2006-08.

Disallowance by MERC

2.3.17 The MERC was established on 5 August 1999 and is responsible for issue of retail and bulk supply licenses for distribution and transmission of electricity, determining the quantum for power purchase, fixation of tariff and other regulatory matters including T&D losses. The T&D losses are subject to recovery from consumers after approval of MERC. In the following cases, the MERC disallowed the purchases of power due to load regulation violation and excess T&D losses:

Violation of load regulation

2.3.18 The Company was facing acute power shortage and heavy load shedding during the last three years. In view of huge shortfall the Company pleaded (6 December 2005) with the MERC to introduce “second day staggering off” to sort out the measure for minimising gap between power supply and demand. The MERC debated the effectiveness of introducing a “second day staggering no supply” to High Tension (HT) Industrial category particularly in the areas developed by Maharashtra Industrial Development Corporation (MIDC) and in their order (10 January 2006) propagated voluntary load regulation rather than load shedding or introducing "second staggering day off" or introducing three to four hours daily load shedding for HT Industrial consumers located in MIDC areas.

The concept of “load regulation” was elaborated under MERC clarification order dated 21 February 2006, as follows:

“HT industries have to restrict their monthly consumption to less or equal to (80 *per cent* for non continuous industries and 90 *per cent* for continuous industries) their average monthly consumption over the past three months in MU terms. In case, the stipulated target as set above is not achieved by the end of February 2006, the entire MIDC area or the dedicated feeder will be subjected to an additional day of no supply during the week, from the beginning of March 2006”.

Non implementation of load regulation as directed by MERC resulted in loss of Rs 96 crore to the Company.

The MERC in its tariff order for 2006-07 observed that Company had not strictly implemented the protocol of “second staggering day off” for consumers, thereby, violated the load regulation concept. This situation had contributed to procurement of additional power from costly sources. Hence, the Commission partially disallowed costly power purchase by the Company during the period March to September 2006.

Thus, due to non implementation of load regulation as directed by the MERC, the Company had purchased extra power of 215 MUs at a cost of Rs 96 crore during 2006-07 which could not be recovered from the Industrial consumers through Fuel Adjustment Charges (FAC).

The Management in its reply (September 2008), which was endorsed by the Government (November 2008), stated that the load data and consequent power requirement to impose "second staggering day off" was not readily available, hence, it was not practicable to suddenly impose one more day off on the industry without the support of the State Government. It further stated that it had filed a review petition with Appellate Tribunal.

The fact, however, remains that the collection of data for load regulation was the responsibility of the Company which should have been done as per the order of MERC.

Transmission and Distribution losses

The MERC disallowed purchase of power of Rs 7.39 crore due to excess Transmission and Distribution losses over norms. The wheeling charges of Rs 4.08 crore could not be recovered from consumers due to disallowance by MERC.

2.3.19 MERC fixes norms for T&D losses annually and actual T&D losses over and above the norms are disallowed while approving the FAC. It was observed that MERC disallowed the purchase of power from seven* parties to the tune of Rs 7.39 crore (176 MUs) for the month of September 2006 as the actual T&D losses were over and above the norms. Similarly, the consumption of 64.79 MUs in respect of wheeling charges were also disallowed (September 2006) by MERC on the ground that it was not reflected in energy input to consider for wheeling of units from captive generation. Thus, due to disallowance by MERC, an amount of Rs 4.08 crore could not be recovered from consumers through FAC resulting in extra financial outgo to the Company.

The Management in its reply (September 2008), which was endorsed by the Government (November 2008), stated that the un-recovered FAC on account of short term power purchases during April to September 2006 has been considered in the ARR submitted by the Company to MERC so that the amount can be recovered during the financial year 2007-08.

It was however observed in audit that no approval for recovery of said amount in 2007-08 has been received from MERC so far (December 2008).

Regarding wheeling charges Management stated that it had requested MERC to adjust the same in March 2007. The vetting order was still awaited (December 2008) from MERC.

Power purchase payments

2.3.20 The power purchase bills are raised by the power generators and PTCs on the basis of actual units supplied. The Power Purchase cell of the Company scrutinises the bills and forwards to Accounts Section for audit and release the

* Adani, JSWPTCL, LANCO, NVVN, Pench Projects, Reliance Energy Trading Limited and Sardar Sarovar.

payment by Ways and Means section of the Company. For the non conventional energy sources the payments are released at field level.

Non availment of rebate

2.3.21 As per the terms of work order with JSW Power Trading Company Limited (JSWPTCL) and Tata Power Company Limited (TPCL), the Company was entitled for rebate of two *per cent* of the billed amount if the payment was released promptly (within seven days of bill). Audit scrutiny revealed that the Company paid (November 2006-February 2008) the bills within 15 days (approximately) and as such could not avail the benefit of rebate amounting to Rs 79.90 lakh (JSWPTCL: Rs 27.76 lakh and TPCL: Rs 52.14 lakh).

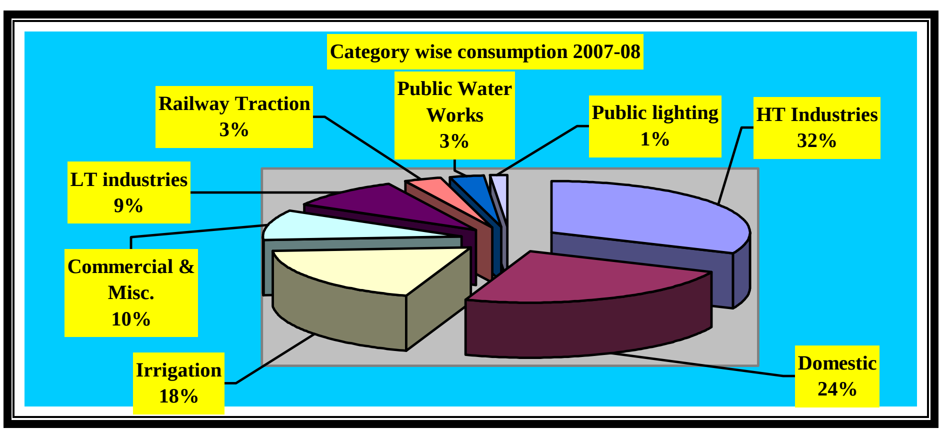
The Company could have earned the benefit of prompt payment rebate by availing the short term borrowing for payment. The benefit, thus, foregone worked out to Rs 55.34[❅] lakh.

The Management in its reply (September 2008), which was endorsed by the Government (November 2008), stated that the funds were short even after utilising cash credit limit to pay the bills on due date and the payment was released after a gap of 22 to 37 days.

The fact remains that the Company could have availed the prompt payment rebate by resorting to short term borrowings.

Future planning and capacity addition

2.3.22 The availability of energy plays a vital role in the process of economic growth of a country. The degree of economic growth, per capita income and per capita consumption of energy has positive correlation with each other. Category wise actual consumption of energy in the State during 2007-08 has been indicated in the pie chart as given below:



(Source: Seventeenth Electric Power Survey Committee of Central Electricity Authority)

[❅](Rebate of Rs 79.90 lakh *minus* interest of Rs 24.56 lakh on borrowed funds of Rs 41.22 crore (being amount of bill) at the rate of 14.5 *per cent* of cash credit borrowing rate for 15 days).

The details of consumption forecast during the period up to 2012 as per the survey conducted by 17th Electric Power Survey Committee of CEA are given in the **Annexure-11.**

Based on the load dispatch report furnished by the Company to GoM the total installed generation capacity available (March 2008) with the State was 17,533 MW out of which 10,121 MW is the generation capacity of the State generation utility (MSPGCL) and the balance is from the State's share in Central power generating stations as met from long term power purchase agreements. The demand varies between 12,437 MW and 9,173 MW during peak and off peak hours. The CEA has projected a peak demand of 21,954 MW during 2011-12 in its 17th Power Survey Report. The list of projects where either consent has been given or Power Purchase Agreements have been signed by the Company for procurement of energy for the State of Maharashtra amounts to 21,928 MW in March 2012 as given in **Annexure-12**.

The following points are noticed in this regard:

- Total expected share of 4,395 MW is projected for the period from 2008-12 of which 3,295 MW is through thermal generation and balance 1,100 MW is through hydel generation. However, in the present scenario, the existing thermal power generation stations of MSPGCL are facing acute shortage of good quality coal resulting in shortfall in generation. Thus, the future projections would only materialise if the thermal power generating capacity was optimised; otherwise the gap between demand and supply of power would be widened.

- The power stations at Subansari and LEPL having projected installed capacity of 2,500 MW (Company's share 1,100 MW) are situated outside the State and in the North East region. To import power from these distant stations involves issues related to grid availability and potential volume of transmission charges/losses and a subsequent increase in the cost of power. The planned projections are based on the above factors and therefore the ratio between the cost of power and quantum of power may vary.

Internal Audit

2.3.23 Internal Control is a Management tool used to provide reasonable assurance for achievement of management's objectives in an economical, efficient and effective manner. Audit scrutiny noticed the following deficiencies in the Internal Audit system relating to purchase of Power.

- Internal Audit Manual of erstwhile MSEB is followed by the Company in absence of its own Manual. However, Internal Audit Wing did not cover the activities of Power Purchase Cell on a periodical basis to assess its performance. The Management stated (September 2008) that review will be conducted during the year 2008-09.

- The payment for purchase of power was not forwarded to Internal Audit Section for pre audit.

- The Internal Audit did not cover payments/bills of adjustment on account of import and export of power of non conventional energy sources.

The Management in its reply while accepting the facts (September 2008), which was endorsed by the Government (November 2008), stated that such review will be conducted during the year 2008-09.

Acknowledgement

2.3.24 Audit acknowledges the co-operation and assistance extended by different levels of management at various stages of conducting this performance audit.

Conclusion

The shortfall in supply of power increased from 9,908 MUs in 2003-04 to 19,092 MUs in 2007-08. Due to non augmentation of generation capacity by Maharashtra State Power Generation Company Limited during the last five years' period under review, the Company had to resort to purchase of costly power from outside agencies which too was not sufficient to cater to the requirement of power in the State. Huge shortfall of power led to increased load shedding ranging from 2.5 to 15 hours.

The Company did not avail its entire allocation from cheaper Central sources to the full extent and had to incur additional expenditure on purchase of power on short term basis. The Company did not recover the average cost of sale of power resulting in loss of revenue.

Absence of penal clauses in contractual provisions and defective agreements for banking of power resulted in extra expenditure. Similarly the Company could not avail the prompt payment rebate from traders.

The scope of internal audit did not cover the power purchase activity including payments.

Recommendations

The Company needs to:

- **develop a system for realistic forecast of demand for energy from conventional and non-conventional energy sources.**

- **co-ordinate in a sustained and consistent manner with Maharashtra State Power Generation Company Limited for enhancement of power generation capacity to meet the higher demand of power by various categories of consumers.**

- **formalise the structure of both long term and short term power purchase agreements as power purchase agreements with clauses protecting its financial interests.**

- **ensure through periodical monitoring mechanism full drawal of power according to the allotment by Central Electricity Authority/Ministry of Power.**

- **widen the scope of Internal Audit to cover the power purchase activity.**