

## Chapter III

### 3. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

#### Government Companies

##### City and Industrial Development Corporation of Maharashtra Limited

#### 3.1 Irregular payment on encashment of leave

**Though the Company adopted pay and allowances as applicable to State Government employees, the encashment of leave was made at higher rate which resulted in irregular payment of Rs 3.33 crore.**

As per Maharashtra Civil Services (Leave) Rules 1981, the State Government employees are entitled for encashment of leave and the rate of encashment is equivalent to the salary and allowances admissible to the employees at the commencement of leave including Dearness Allowances and Compensatory Local Allowances but does not include House Rent Allowance (HRA). The City and Industrial Development Corporation of Maharashtra Limited (Company) has adopted the pay scales approved by the State Government for their employees of equivalent cadre including recommendations of the Fifth Pay Commission. However, the Leave Rules of the Company stipulate that the employees are entitled to encash Earned Leave (EL) and Casual Leave (CL) at one and half times the remuneration payable. For the purpose of encashment, remuneration means pay and allowances payable to the employee. However, the allowances for the purpose of leave encashment are not defined in the leave rules of the Company.

Audit observed (May 2007) that the Company had adopted the pay and allowances for its employees as applicable to the employees of the State Government. However, the leave encashment was made at 1.5 times the salary and allowances as against the payment equivalent to one time of salary and allowances as payable/applicable to employees of the State Government. Similarly, HRA was also included in allowances for leave encashment whereas the same was not to be included for State Government employees. This resulted in irregular payment of Rs 3.33 crore during the four year period ending March 2008 (excess payment due to 1.5 times remuneration Rs 1.93 crore and HRA-Rs 1.40 crore). Moreover, HRA is allowance of compensatory nature and inclusion of the same by the Company for leave encashment purposes resulted in employees getting HRA for more than 12 months in a year.

Though, no reply has been furnished by the Company, during the Audit Committee Meeting held on 12 December 2007 the Company agreed that the matter would be put up to the Board of Directors for recovery of the irregular payment in installments from the employees.

The matter was reported to the Government/Management (July 2008); their reply was awaited (December 2008).

### 3.2 Wasteful expenditure

#### **Award of contract without land ownership resulted in wasteful expenditure of Rs 93 lakh.**

The Company awarded (February 2004) a contract for providing and lowering, laying and jointing sewer gravity main (pipeline) from Sewerage Pump House in Sector-17 to Sewerage Treatment Plant in Sector-9 at Kharghar to a Contractor (S.S. Khilari), at their lowest tendered cost of Rs 1.96 crore. The work was to be completed by the end of February 2005. The contractor completed laying of 1,720 running metre (rmt) PSC pipe valuing Rs 93 lakh. As the Company could not make available the land to the contractor, the balance work of 875 rmt of MS pipe and MS bridge for pipeline remained incomplete. The Company foreclosed (September 2005) the contract.

Audit observed (November 2007) that part of the land through which the pipelines had to be laid belonged to the Maharashtra Industrial Development Corporation (MIDC), another State Government Corporation and the Company had not ensured the availability of land before issuing the work order in February 2004. Thus, the awarding of work without ensuring availability of land resulted in foreclosure of the contract and consequently the expenditure of Rs 93 lakh incurred on the project remained blocked since October 2005 and loss of interest thereon worked out to Rs 32.09 lakh<sup>£</sup>.

The Company's Superintending Engineer while accepting the fact replied (January 2008) that they had relied on the Land section of the Company which had certified the availability of the land. The contract was foreclosed as the swapping of land between the two organisations would have been time consuming. It was also stated that the pipeline would be used for transport of raw sewage in reverse direction to sewage pump house in Sector-16/17. The Company, however, has not made any definite plans for completion and utilisation of the pipeline even though three years have elapsed since the work was abandoned in September 2005.

The matter was reported to the Government/Management (April 2008); their reply was awaited (December 2008).

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<sup>£</sup>Rs 93 lakh x 11.5 per cent (borrowing rate of interest on bonds) x three years (from October 2005 to September 2008) = Rs 32.09 lakh.

### 3.3 *Non recovery of dues*

**The Company executed work for NIFT in excess of deposit amount and failed to recover its dues of Rs 81 lakh despite lapse of three years resulting in loss of interest of Rs 27.95 lakh.**

The Company entered (August 2002) into an Agreement with National Institute of Fashion Technology (NIFT), a Central Government Institute, for construction of Industrial Building for the NIFT at Kharghar, Navi Mumbai as 'deposit contribution work' to be executed by the Company at estimated cost of Rs 10.11 crore. The Agreement provided for payment of 50 *per cent* of the estimated cost of construction within 15 days on issue of work order and 45 *per cent* as per the progress of work every month. The balance five *per cent* was to be paid after defect liability period of one year after completion of the work. The Company completed the work (March 2005) by engaging a contractor at a total cost of Rs 11.03 crore.

Audit scrutiny (June 2007) revealed that as against the total expenditure of Rs 11.03 crore, the Company had recovered Rs 10.22 crore and the balance amount of Rs 81 lakh had not been received even after lapse of three years from the date of completion of work. The Company executed the balance work at increased cost without express approval and deposit of the increased cost by the NIFT. It was also seen that the Company did not initiate any effective steps for recovery of the balance dues. The loss of interest<sup>#</sup> on the amount blocked worked out to Rs 27.95 lakh for the period from April 2005 to March 2008.

The Company stated (October 2007) that NIFT was being pursued to make the balance payment. The fact remains that the Company failed to either seek the approval of NIFT for increased work or recover the increased cost before progressing with the balance work resulting in non recovery of its legitimate dues.

The matter was reported to the Government/Management (March 2008); their reply was awaited (December 2008).

#### **Maharashtra State Farming Corporation Limited**

### 3.4 *Non recovery of lease rent and unauthorised occupancy*

**The lessee continued to occupy the land even after the expiry of leave and licence period without payment of lease rent. The lessee also occupied additional 1,020 square feet unauthorisedly and the lease rent of Rs 32.49 lakh remained unrecovered.**

The Maharashtra State Farming Corporation Limited (Company), Pune entered (December 2001) into a Leave and Licence Agreement\* with

<sup>#</sup> Worked out at 11.50 *per cent* *i.e.* the rate of interest on the borrowings paid by the Company.

\* A leave and licence agreement is an agreement whereby the licensee obtains the right to use and occupy premises for a temporary period.

Shri Rajmata Mahila Pratishtan, Pune for leasing 500 square feet of land at their Head Office at Pune, for running a canteen for a period of three years ending December 2004. The Agreement *inter alia* contained provisions that the licensee shall not claim any tenancy rights or other rights under the Rent Act and shall not make any modifications or alterations in the site without the prior written permission of the owner. The agreement further, provided that the licensee should obtain all permissions, including Pune Municipal Corporation's (PMC) permission, to erect the temporary shed. The lease rent payable was Rs 15,101, Rs 17,501 and Rs 19,501 for first, second and third year of contract respectively.

Audit observed (December 2007) that the Company failed to ensure that the lessee complied with the provisions of the agreement. As a result, the lessee occupied additional area of 1,020 square feet of Company's land which came to the notice of the Company when the PMC, the Local Town Planning Authority, took action against the lessee for removal of unauthorised construction (December 2004). The Company did not take any action either to extend the lease or to evict the lessee from the plot on expiry of the lease Agreement in December 2004 and the lessee continued to occupy the land. The lessee was not paying lease rent and the dues accumulated to Rs 5.30 lakh up to May 2008, based on rates at which they had paid in the last year of the contract. The rent recoverable from the party in respect of the land occupied unauthorisedly worked out to Rs 27.19 lakh up to December 2007 based on the Company's own calculations. Thus, the absence of a system to monitor the Agreement resulted in non recovery of rent and unauthorised occupancy of the extended area.

The Company in reply to audit enquiry confirmed (February 2008) the non recovery of dues as well as unauthorised occupancy of extended area and stated that action would be taken against the licensee.

The matter was reported to the Government/Management (June 2008); their reply was awaited (December 2008).

### **Maharashtra State Electricity Distribution Company Limited**

#### **3.5 Shortfall in security deposit and misappropriation by bill collection agent**

**The Company did not revise the security deposit from agents and there was a shortfall of Rs 52.35 lakh. The bill collection agent misappropriated Company's revenue and Rs 8.80 lakh remained unrecovered.**

#### **Short recovery of security deposit**

**3.5.1** The Maharashtra State Electricity Distribution Company Limited (Company)<sup>■</sup> collects security deposit (SD) from private bill collection

<sup>■</sup> Erstwhile Maharashtra State Electricity Board.

agencies appointed for collection of bills from Low Tension (LT) consumers. The SD is equivalent to three days average collection in the previous quarter subject to a minimum of Rs 1,00,000. The purpose of adequate SD was to act as a deterrent for misappropriation/fraud by the collection agents apart from increasing the liquidity of the Company. The adequacy of SD was required to be reviewed every six months and the agents should recoup the shortfall, if any.

Audit scrutiny revealed (February 2007) that the Company has no internal control system to monitor the adequacy of SD and its revision/recovery as per the agreement entered into with the agents. The SD was not reviewed and revised to match three days average collection in the previous quarter and there was a shortfall of Rs 52.35 lakh as on March 2007 in respect of five<sup>#</sup> O&M circles test checked in audit. As a result, the Company's revenue is prone to misappropriation/fraud.

The Management in its reply (September 2008), which was also endorsed by the Government (November 2008) accepted that the SDs were not reviewed and recovered.

#### ***Misappropriation of revenue by bill collection agent***

**3.5.2** The Company entered into an agreement (May 1998) with Shri Siddheshwar Mahila Nagri Sahkari Pathsanstha Limited, Chinchwad (Pune) appointing them as agents for collection of energy charges from LT consumers in Chinchwad, Pune district. As per the agreement the agent was required to remit the amount collected on the same day or latest by next working day at the Company's Rastapeth office (Pune) by banker's cheque or pay order or any other manner as directed by the Company.

Audit scrutiny revealed (January 2008) that in contravention of the terms of the agreement, the Company allowed the agency to deposit the amount collected from consumers into its bank account and make payment to the Company by cheques drawn from that account. As a result of this arrangement, it was noticed that 19 cheques issued by the agent in favour of the Company between January to April 2007 valuing Rs 27.35 lakh towards bills collected from LT consumers were dishonoured. Though the dishonouring of cheques issued by the agent were proof of misappropriation of money by them, the Company continued to accept further cheques and the value of the dishonoured cheques remaining unpaid accumulated to Rs 14.80 lakh.

The Management in its reply (September 2008), which was also endorsed by the Government (November 2008), stated that the agent was allowed to make payment by cheque since the centralised cash collection system was in operation under which all deposits were made only in Bank of Maharashtra, Rastapeth (Pune). It was further stated that after adjusting further recovery and the SD, the remaining amount to be recovered was only Rs 8.80 lakh for which recovery proceedings were in progress (September 2008).

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<sup>#</sup> O&M Circle-Jalgoan, Kalyan, Vashi, Urban Circle-Ganeshkhind and Thane Circle.

The Company however should have opened a bank account in its name at Chinchwad and instructed the agent to remit the collection into that account. Further, the Company allowed remittances of collection by cheques even after dishonour of earlier cheques issued by the agent were known to them. Thus, undue favour shown towards the collection agent by diluting the terms of the agreement facilitated the default by the agent and non recovery of Rs 8.80 lakh.

### 3.6 Avoidable extra expenditure

**The Company accepted supply of meters against an expired contract which resulted in extra expenditure of Rs 71.90 lakh.**

The Company<sup>■</sup> finalised (March 2004) the tender for procurement of 14,50,000 Low Tension static single phase meters at the rate of Rs 219.60 per meter. The above quantity was decided after considering undelivered quantity out of earlier tender for similar meters, the contractual period of which had lapsed. While finalising the tender, the Board of Directors (BOD) issued (March 2004) specific directives that the past pending orders for supply of meters having similar specification be cancelled in view of the higher price.

Audit scrutiny revealed that the Company failed to implement the decision of the BOD to cancel the orders for the balance quantities of the previous tender/order where scheduled delivery period expired in January and February 2004, and accepted 97,942<sup>•</sup> meters (May 2004) at Rs 293.01 per meter. This resulted in an extra expenditure of Rs 71.90 lakh<sup>△</sup>.

The Management in reply to audit enquiry stated (August 2007) that as per provisions of the Contract Act, when one party to the contract is ready and willing to perform the obligations under the contract, the other party to the contract is not entitled to cancel the contract unilaterally. It further stated that the order was not cancelled in view of the urgent requirements of meters and the time required for delivery by new suppliers. The fact, however, is that the suppliers had already failed in meeting their obligations within the contract period, for which the Company did not penalise them for the belated deliveries as per the contract conditions but on the contrary asked them to supply at higher rates. They also ignored the Board's instructions to procure only against the new tender which was at lower rates.

The matter was reported to the Government/Management (March 2008); their reply was awaited (December 2008).

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■ Erstwhile Maharashtra State Electricity Board.

• 53,948 meters from Gillbert Electrical and Electronics Private Limited, Palghar and 43,994 meters from Accurate Meters, Delhi.

△ (Rs 293.01 – Rs 219.60 per meter) x 97,942 meters = Rs 71.90 lakh.

## Maharashtra State Power Generation Company Limited

### 3.7 *Unfruitful expenditure*

**Hasty decision of the Company to install Coal Mill Reject Handling System in all Power Stations simultaneously resulted in idle investment of Rs 12.06 crore, besides non achievement of intended benefits of lesser maintenance cost and pollution free environment.**

The Maharashtra State Power Generation Company Limited (Company)<sup>■</sup> invited global tenders (March 2003) for engineering, supply, erection and commissioning of 12 units of 210 MW pneumatically operated Coal Mill Reject Handling System (CMRHS) at five<sup>△</sup> Thermal Power Stations (TPS). CMRHS is an alternative system to the existing manual one for automatic collection and transportation of coal mill rejects (hard material in coal that cannot be ground in the coal mills) to the silo (dumping area). The system was expected to reduce the maintenance costs and give a pollution free environment. The Company received a single bid and accordingly an order was placed (November 2003) on Macawber Beekay Private Limited (MBPL) at Rs 18.17 crore<sup>#</sup> for execution of the entire work on turn key basis. The contract provided for 80 *per cent* payment to contractor on delivery of equipment at site and the balance in three installments (10 *per cent* and two installments of five *per cent* each) on erection, trial run and final acceptance by the owner respectively.

Audit observed (June 2007) that the Company did not have any previous experience in installation of such systems, in their TPSs. Further, the Company received single bid for installation of the system. Despite this, the Company placed orders for all the 12 units for five TPSs on the only bidder instead of placing the orders in a phased manner after successful trials in one or two units.

It was noticed that MBPL could not commission any of the CMRHS by the scheduled date (October 2004) which was subsequently revised up to June 2006. Despite extension of the time limit, the MBPL did not complete the work. Even after three years from the scheduled date of completion of work, MBPL could not ensure the working of CMRHS except in the case of TPS Koradi. The Company had already made payment of Rs 12.06 crore to MBPL in respect of the four TPSs where the CMRHS were not operational.

Thus, the injudicious decision of the Company to purchase/install CMRHS for all the TPSs in haste without testing the technology, resulted in unfruitful expenditure of Rs 12.06 crore. Further, the intended benefit of reduction in maintenance cost and pollution free environment was also not achieved and the manual handling of the coal mill reject by employing contract labour continued.

<sup>■</sup> Erstwhile Maharashtra State Electricity Board.

<sup>△</sup> TPS at Bhusawal, Chandrapur, Koradi, Nashik and Parli.

<sup>#</sup> Bhusawal-Rs 3.29 crore, Chandrapur-Rs 3.29 crore, Koradi-Rs 4.17 crore, Nashik-Rs 4.27 crore and Parli-Rs 3.15 crore.

The Management in its reply (May 2008), which was also endorsed by the Government (June 2008), accepted that there were delays in completion of supply and works by the contractor and delay was partially due to non availability of shutdown of the running coal mill in the operating TPSs. It further stated that the contractor was pressurised by issuing notice of Arbitration in terms of contract.

The CMRHS for which the Company placed orders in 2003 was still not functional in four TPSs out of five TPSs for which orders were placed. Considering the fact that the Company did not have any previous experience and there was single bid for the tender, the Company should have placed orders in a phased manner only after successful completion of one or two units. Further, the Company also failed to devise terms and conditions of the contract safeguarding its interest and opted for 80 *per cent* payment to contractor on delivery. This should have been on a lower side with a higher weightage for successful commissioning of the system.

### **3.8 Contracts relating to removal of stones, shale and extraneous material from coal at Thermal Power Stations**

**The eligibility criteria for the contracts were restrictive leading to creation of monopoly of two contractors at five TPSs in the State. There was no uniformity in penalty clauses resulting in non/short recovery of penalty of Rs 6.63 crore.**

The Company receives coal for its seven<sup>■</sup> Thermal Power Stations (TPSs) from collieries which contains stones, shales and extraneous material and these are required to be removed before feeding it into coal mills in order to avoid damage to plant and machinery. This work is carried out manually by deploying labourers round the clock in shifts at the TPSs in the Coal Handling Plants (CHPs). Contracts for supply of labour for carrying out this work are awarded by inviting tenders by the TPSs locally. Since these are labour supply contracts, the provisions of Minimum Wages Act are applicable. During the period 2001-08 the contracts for removal of “stones and shales” at four TPSs at Parli-Vaijanath, Khaparkheda, Nashik and Bhusawal were awarded repeatedly to two firms *viz.* Prince and Company and Chandy and Company. The annual value of each contract ranged between Rs 49.28 lakh and Rs 1.48 crore, the details of which are given in **Annexure 13**. Audit scrutiny of the contracts (February to April 2008) revealed the following:

#### ***Non relevant eligibility criteria for contractors***

**3.8.1** Scrutiny of the eligibility criteria fixed for the contractors for bidding for the work revealed that these were restrictive in nature and created monopolies instead of encouraging competition as detailed below:

While inviting tenders (August 1995) having estimated value of Rs 24.82 lakh at TPS Parli Vaijnath, the tender conditions stipulated the following criteria:

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■ Bhusawal, Chandrapur, Khaparkheda, Koradi, Nashik, Parli-Vaijnath and Paras.

- The bidders should have three years experience of CHP having installed capacity of 350 MT/Hr.
- Tender conditions further stipulated experience in execution of similar work against single order having value not less than 50 *per cent* of the value of work put to tender during the preceding five years or annual turn over of work executed not less than the value put to the tender during the preceding three years.

Audit observed that despite the execution of similar work to the satisfaction of the Company during November 1990 to March 1993 at TPS Parli-Vaijnath, A.S. Gite (the earlier contractor) could not participate in the tender due to revision of contract condition regarding value of the work executed by the Company and the contract was awarded to Chandy and Company on single quote received.

The Management stated (August 2008) that A.S. Gite did not fulfill the eligibility criteria and therefore his offer was not accepted. However, fixation of higher eligibility criteria restricted competition.

- The TPSs at Chandrapur and Koradi while inviting tenders for 2002-03 and 2003-04 stipulated that contractors should have five years of experience of removing stones and shales from running conveyor of CHP having capacity of 500 MT/Hr. of TPS only.

Scrutiny of tenders for the year 2002-03 and 2003-04 revealed that the offer of N.C. Biyani, Chandrapur for CSTPS Chandrapur and TPS Koradi was rejected despite having the requisite experience in removing stones and shales from running conveyor belt of CHP having installed capacity of 600 MT/Hr. at Western Coalfields Limited (WCL) at Durgapur. The nature of work *i.e.* removal of stones *etc.* at WCL and TPS was similar at both the plants and therefore the stipulation that the contractor should have experience only in TPS was restrictive which resulted in rejection of N.C. Biyani's offer. The contracts were awarded to Prince and Company and Chandy and Company.

The Management stated (August 2008) that they had revised the eligibility criteria by including the experience of coal mines also for future contracts.

***Undue favour in fixing of eligibility criteria regarding quantity and work experience***

**3.8.2** The tender conditions stipulated that the contractor should have experience of removal of minimum quantity of 15,000 (Parli-Vaijnath) to 50,000 MT (Nashik TPS) of stones and shales from coal. Since the quantity of stones and shales depend upon the quality of coal received from collieries, criteria regarding removal of minimum quantity had no relevance for satisfactory performance of the contract. On the contrary such stipulations restricted competition and were deterrent for obtaining competitive/best rates, as other contractors could not bid due to restrictions of quantity imposed which enabled the existing contractors to get the contract.

In 2001, the eligibility criteria regarding previous experience was further increased from three to five years, which could be met by the existing contractor solely since the earlier contracts were awarded to them. This criterion further restricted the competition and enabled the continuance of the monopoly of the existing Contractors *i.e.* Prince and Company and Chandy and Company and thus both bagged all the contracts awarded thereafter annually at Parli-Vajinath, Khaperkheda, Nashik and Bhusawal TPS.

Thus, the incorporation of qualifying criteria for tenders which were not relevant to the satisfactory performance of contract and fixing three to five years experience criteria resulted in perpetuating the monopoly of two contractors (Chandy and Company and Prince and Company) at Parli, Khaperkheda and Nashik TPS respectively.

The Management stated (August 2008) that the qualifying criteria were revised downward to attract competition in future contracts.

### ***Non recovery of penalty***

**3.8.3** In TPS Koradi, the contract provided for recovery of generation loss and cost of machinery damaged and shears pin failures due to existence of stones, shales, extraneous material in the coal. The TPS suffered a generation loss of 25.17 million units valuing Rs 3.29 crore and incurred an expenditure of Rs 13.84 lakh for replacement of damaged equipment whereas the recovery of penalty was restricted to Rs 9.69 lakh towards replacement of damaged equipment and the generation loss was not recovered despite clear stipulations to that effect in the contract. It was further noticed that in other TPSs, provisions for recovery towards generation loss (Rs 2.59 crore)<sup>#</sup> and the cost of machineries damaged (Rs 33.80 lakh)<sup>Δ</sup> were not incorporated in the contract and therefore could not be recovered.

The work order issued by CSTPS Chandrapur stipulated recovery of penalty for foreign extraneous material passing through conveyor belts and reaching to the bunker. It was noticed that for 557 such occasions penalty of Rs 37.65 lakh was recoverable for the period 2005-06 to 2007-08, whereas Rs 1.07 lakh only was recovered. The contract was continued despite poor performance of the contractor.

Thus, the insertion of restrictive tender conditions perpetuated the monopoly of two firms depriving the Company of competitive rates. There was no uniformity among the TPSs regarding recovery of penalty resulting in non/short recovery of penalty of Rs 6.63 crore from the contractors. Even though, the contracts were of high value, the Head Office of the Company failed to monitor these contracts which were finalised locally by the Chief General Managers at the TPSs.

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<sup>#</sup>Chandrapur: Rs 54.34 lakh; Khaperkheda : Rs 54.10 lakh; Parli-Vajinath : Rs 1.51 crore.

<sup>Δ</sup>Chandrapur: Rs 10.30 lakh; Khaperkheda : Rs 7.10 lakh; Parli-Vajinath : Rs 16.40 lakh.

The Management stated (August 2008) that with a view to have uniformity among the TPSs, fresh guidelines have been issued for incorporating the common/standardised penalty clause in all the contracts for stone picking.

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

### 3.9 Purchase of fire protection equipments

**The Parli TPS procured Fire Protection Equipments locally on urgent basis resulting in extra expenditure of Rs 41.61 lakh. Besides, material worth Rs 33.87 lakh was also lying as surplus in Stores.**

New Parli Thermal Project, Parli-Vajinath (NPTP) of the Company indented fire protection equipments for the Thermal Power Station (TPS) in October 2006. As per the prevailing purchase procedures, these purchases were to be finalised by the Head Office (HO). Based on the indent, the HO of the Company invited tenders in January 2007 and placed orders in June 2007 and material valuing Rs 33.87 lakh was received by NPTP in September-October 2007. In the meantime, the NPTP placed orders for fire protection equipments locally valuing Rs 60.55 lakh on single quotation basis between February and May 2007 as per instructions (December 2006) of the Executive Director (ED) of the Company.

Audit observed (July 2007) that the NPTP did not plan in advance for purchase of the fire equipments and sent (October 2006) the red indent for procurement of fire protection equipments to the Company's HO after lighting up of the TPS, in August 2006. On the ostensible reason of protection to the TPS, procurement of the fire safety equipments of same specification, were done locally on urgent basis at rates as high as up to three times when compared with the rates at which the HO of the Company procured the same equipments based on offers received in February 2007. The difference in rates of the local purchases and as per tenders received at HO are given below:

Sl. No.	Description of item	Rate of local purchase	Rate of Headquarter purchase	Difference
		<i>(In rupees per unit)</i>		
1.	Mechanical fire extinguisher IS 4947 (9 litre)	3,864	1,234	2,630
2.	Mechanical fire extinguisher IS 13386 (50 litre)	21,851	6,585	15,266
3.	Dry chemical powder IS 10658 (75 Kg.)	53,323	15,407	37,916
4.	Dry chemical powder IS 10658 (25 Kg.)	21,402	9,257	12,145
5.	Dry chemical powder IS 2171 (10 Kg.)	4,218	1,512	2,706
6.	CO <sub>2</sub> – 22.5 Kg. IS 2878/86	25,996	10,041	15,955
7.	CO <sub>2</sub> – 6.5 Kg. IS 2878/86	15,227	3,962	11,265

The purchase of material locally by the TPS resulted in total excess expenditure of Rs 41.61 lakh on total purchases of Rs 60.55 lakh made locally

when compared with the rates at which the purchases were made by the HO. It was also seen that despite receipt of offer of lower rates in the tender opened at HO in February 2007, the NPTP went ahead (between February and May 2007) with the local purchases at exorbitantly higher rates. Further, the HO of the Company did not consider the quantity procured locally and therefore excess material was received against the HO order valuing Rs 33.87 lakh which was kept in Stores (May 2008).

The Management stated (August 2008) that an internal enquiry had been ordered to investigate the matter and the reply would be furnished on receipt of the Report. The Government (September 2008) also endorsed the views of the Company. Further developments are awaited (December 2008).

### **Maharashtra State Road Development Corporation Limited**

#### **3.10 Loss due to incorrect calculation of the upfront toll price**

**The Company suffered a loss of Rs 21.31 crore due to adoption of lower traffic growth rate contrary to Government notification, incorrect rates of toll and incorrect working of net present value of the upfront toll price.**

The irregularities in extension of contract without inviting tenders for collection of toll for three years at five • entry points in Mumbai to Ideal Road Builders Limited (IRB) were mentioned in **paragraph no. 4.14** of Audit Report (Commercial) for the year ended 31 March 2007.

The Company awarded (November 2002) the contract for toll collection to IRB on upfront payment of Rs 225 crore for three years starting from 1 December 2002. Immediately after one month (24 December 2002) the contract was extended for further three years up to November 2008 by accepting additional upfront payment of Rs 202.50 crore without inviting tenders.

Audit observed (February 2008) the following:

- As per the Government Resolution dated 27 July 1999 the minimum yearly growth of traffic to be considered for fixation of upset price was five *per cent*. In violation of these directives, the Company adopted traffic growth for recovery of additional upfront price at lower rate of three *per cent* for the extended period of three years which resulted in short recovery of Rs 13.89 crore. There were no reasons on record for considering a lesser growth in traffic.
- The Cash flow submitted by the Contractor and accepted by the Company was prepared without considering the increased toll rates recoverable with effect from 1 October 2008 (as per the Government toll Notification dated 27 September 2002) applicable for two months (October and

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• Airoli bridge, Dahisar on Western Express Highway, Mulund on Eastern Express Highway, Mulund-Thane (West) on LBS Marg and Vashi on Sion-Panvel Highway.

November 2008) as the contract was awarded till 30 November 2008. As a result there was a short assessment of Rs 3.69 crore in the Cash flow and consequent short recovery of the upfront toll price due to non consideration of increased rates for October and November 2008.

- The Net Present Value (NPV) of future receipts is decided with reference to the date of receipt of the discounted value amount. Any extension of that date results in shortfall in receipt of the NPV amount. The Company accepted the NPV of the toll receipts for the extended period of three years from 1 December 2005 to 30 November 2008 at Rs 202.50 crore as on 1 December 2002 at the rate of 12 *per cent* per annum with quarterly rest whereas the party was allowed to pay the amount on 25 January 2003, *i.e.* after 56 days. The concept of NPV is based on the date of receipt of money and therefore the NPV should have been worked out as on 25 January 2003 *i.e.* the date of receipt of NPV. By not doing so, the Company short recovered Rs 3.73 crore by not taking into account the actual date of payment of the NPV.

Thus, due to adoption of lower rate of increase in traffic, lower rates of toll for two months and not working out NPV as on date of receipt of upfront payment, there was a loss of Rs 21.31 crore in toll revenue. This loss needs to be recovered from the contractor. Loss due to absence of competition is not quantifiable.

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

### **3.11 Loss due to defective contract clause**

**Non inclusion of provisions for recovery of additional toll revenue in the contract terms and conditions resulted in loss of potential revenue of Rs nine crore.**

The Company awarded (December 2002) a contract to Ideal Road Builders Limited for collection of toll revenue at five entry points in Mumbai for a period of six years *i.e.* up to November 2008. The Company subsequently conducted a traffic survey to assess the quantum of revenue leakage on the existing bypasses at Vashi and decided to shift the toll station (December 2006) by incurring a cost of Rs two crore. It was expected that the additional revenue to be generated after the shifting of the toll station would be in the range of Rs 9-10 crore during the remaining period of the contract up to November 2008.

Audit observed (February 2008) that as per the terms of the contract for collection of toll, the contractor was required to quote the upfront amount considering the leakage of revenue. The Company was required to demand expected additional revenue from the contractor. However, the Company did not do so for want of necessary provisions in the contract. This had resulted in undue benefit to the contractor and loss of potential revenue of Rs nine crore based on the minimum revenue increase estimated by the Company for the remaining period of the contract.

The Company in reply to audit enquiry accepted (April 2008) that in the tender conditions sharing of revenue on plugging of the leakage of revenue was not considered and no clause was incorporated in the contract for such recovery.

The matter was reported to the Government/Management (April 2008); their reply was awaited (December 2008).

### **3.12 Wasteful expenditure on construction of site office**

**The Company incurred wasteful expenditure of Rs 70.26 lakh on construction of temporary site office which violated CRZ norms and had to be demolished subsequently.**

The Company decided (July 2003) to construct a site office building of temporary nature at Nepean Sea Road for Company's Bandra-Worli Sealink Project. As the site office was falling in the Coastal Regulation Zone (CRZ) area, the Company took permission (December 2003) from the Environment Department, Government of Maharashtra (ED, GoM) for construction of office of a temporary nature. The Municipal Corporation of Greater Mumbai (MCGM) being the Town Planning Authority, also approved the plan for construction of office and issued no objection certificate (July 2004) subject to the condition that the mode of construction shall be purely of temporary nature\*. Accordingly, the Company awarded (August 2004) the work for construction of the building to a contractor at a cost of Rs 1.71 crore and also appointed (August 2003) a Project Management Consultant at Rs 7.28 lakh (four per cent of estimated cost of Rs 1.82 crore). The Consultants were responsible for complete project management services including submission of concept plan, design, assistance for obtaining permissions, drawings and day to day supervision of the work.

When the construction work reached up to the plinth level, the Ministry of Environment and Forest (MoEF), Government of India, on the basis of records, reports and other evidence including letters of the Company to Maharashtra Coastal Zone Management Authority (MCZMA), found (July 2007) that the Company had resorted to the construction of a permanent structure instead of the permitted temporary structure. It was also found that the Company had deviated from the plan approved by the ED, GoM. Therefore, MoEF issued orders (July 2007) under Section-5 of Environment (Protection) Act, 1986, to Chairman, MCZMA for demolition and removal of the construction, which was conveyed (July 2007) to the Company by the MCZMA. The Company demolished (December 2007) the structure by appointing an agency at a cost of Rupees two lakh.

Audit observed (January 2008) that the Company did not adhere to the conditions imposed by the ED, GoM/MCGM that the project office should be a temporary structure and instead, constructed a permanent structure in violation of the CRZ notifications and the approvals. This necessitated the demolition of the structure resulting in wasteful expenditure of Rs 70.26 lakh

\* In Ladi-coba-Ladi slab and RSJ beam and column.

(construction cost) including Consultants' fees of Rs 2.36 lakh and cost of demolition of Rs two lakh.

The Consultants who were responsible for complete project management services did not ensure that the construction was as per the conditions stipulated in the approvals of the statutory authorities. The Company also did not fix any responsibility or penalise them for their failure and the consequential wasteful expenditure incurred. The Chief Engineer of the Company who was in charge of the work was also not held responsible for the lapse and the consequential loss.

The Management stated (May 2008) that the construction was of purely temporary nature and carried out as per approval of MCGM. The reply is not in accord with facts since the construction carried out by the Company was a permanent structure, as verified by the appropriate authorities and accordingly demolition orders had been issued.

The matter was reported to the Government (March 2008); the reply was awaited (December 2008).

### **3.13 *Loss of revenue due to delay in finalisation of bids and execution of Agreement***

**The Company delayed finalisation of advertisement revenue bids and subsequent agreement resulting in loss of revenue of Rs 66.66 lakh.**

The Company invited (May 2007) tenders for leasing the right to display advertisements along the Mumbai-Pune Expressway for a period of five years. The bids were opened on 15 June 2007 and the highest offer of Rs 7.51 crore from Sanjay Knit Private Limited was approved by the Board on 29 August 2007. The Letter of Acceptance (LoA) was issued on 11 October 2007 and the Agreement entered into on 15 December 2007. The work order issued on 18 December 2007 was made effective from 26 December 2007.

Audit scrutiny (February 2008) revealed that there was delay in finalisation of the bids as evident from the fact that the bids were opened on 15 June 2007, approved by the Vice Chairman and Managing Director on 19 June 2007 and were submitted to the Board for approval only on 29 August 2007, despite the fact that during the intervening period the Board had met on four occasions (on 29 June, 16 July, 08 August and 22 August 2007). Thus, there was a delay of 60 days in submission of the proposal to the Board by the Finance Section of the Company. Even after approval of the Board on 29 August 2007, the LoA was issued on 11 October 2007 *i.e.* after a delay of 42 days. The contractor was required to deposit the offer amount and execute the agreement within 15 days from the date of issue of LoA. It was seen that though the contract should have been made effective from 26 October 2007 *i.e.* 15 days from the date of issue of LoA, the work order was issued only on 18 December 2007, and made effective for five years from 26 December 2007, and consequently the Company lost another 60 days' revenue.

Thus, the avoidable delay in finalisation of bids resulted in a loss of 162 days' revenue amounting to Rs 66.66 lakh. Further, the Company had not initiated any action against the officers responsible for the delays and the consequent loss.

The Management accepted (July 2008) that proposal was belatedly submitted to the board on 29 August 2007 and the issue of LoA was delayed due to the non receipt of copy of approved Board minutes and thereafter the issue of work order was delayed due to request for relaxation in terms and conditions of contract sought by the contractor after issue of LoA. The Government endorsed the views of the Company (August 2008).

The reply is however silent regarding the reasons for delayed submission of the proposal to the Board in August 2007. The confirmation of minutes for issue of work order is not a valid argument since in number of cases the Company had acted without waiting for such a confirmation.

### **3.14 Loss due to incorrect estimation of toll revenue and delay in finalisation of toll contract**

**The Company incurred loss of Rs 47.62 lakh due to incorrect estimation of toll revenue and belated finalisation of toll collection contract.**

The Company through CRISIL, a private rating agency, estimated the toll revenue for Malegaon Mehekar Road (at kilometre 4/200) at Rs 2.43 crore in normal situation. The agency estimated a higher revenue of Rs 5.53 crore subject to certain conditions such as completion of an important link road (Ghoti to Nagpur) to be constructed by the Company for the traffic to build up. The Company invited tenders (March 2006) for collection of toll on Malegaon Mehekar Road for a period of 104 weeks from 3 June 2006. The highest offer of Rs 3.27 crore received (April 2006) from Souvenir Developers was rejected as it was less than the estimated toll revenue of Rs 5.53 crore as estimated by CRISIL. The Company conducted another traffic survey (May 2006) which was also found to be on the higher side (Rs 5.33 crore) due to non consideration of loss of toll revenue on account of discount allowed to frequent travellers, concessions, exemptions *etc.* A third survey was conducted in September 2006 based on which the estimated revenue was scaled down to Rs 3.57 crore based on which tenders were re-invited and finalised and awarded (April 2007) to the highest bidder, Souvenir Developers at Rs 3.27 crore (equivalent to the offer received in March 2006 from the same party).

Audit scrutiny (December 2007) revealed that though the link road was not completed, the Company adopted the higher estimated revenue of Rs 5.53 crore instead of the normal revenue estimated by CRISIL at Rs 2.43 crore. This resulted in receipt of lower offers in comparison to the estimates and they had to be rejected. Consequently, toll collection was entrusted to Nilwar Agro Agencies and Souvenir Developers on temporary basis during the period from 3 June 2006 to 30 April 2007 at Rs 30,000 per day as against the rate of Rs 44,917 per day offered by Souvenir Developers

when tenders were invited in March 2006. Moreover, the Company actually received Rs 40,587 per day for the previous contract for the period June 2003 to June 2006 awarded to Nilwar Agro Agencies. This resulted in a loss of Rs 47.62 lakh<sup>#</sup> to the Company.

The Management in its reply (July 2008), which was endorsed by the Government (September 2008), stated that there were inaccuracies in the traffic survey and toll estimates which led to fixation of higher upset price and rejection of tenders. The reply is not acceptable, as the Company had not studied the consultant's (CRISIL's) report in detail before arriving at the estimated toll revenue before inviting the tenders. Fixation of unrealistic tender price resulted in rejection of valid offers, continuation of existing contract at lower rates and consequential loss of revenue due to delay of one year in finalising the new toll contract.

### **3.15 Unfruitful expenditure on unviable project**

**The Company incurred unfruitful expenditure of Rs 43.26 lakh on Rail Over Bridge Project at Manjari which was subsequently abandoned.**

Under the Integrated Road Development Project (IRDP), Pune, notified by the Government of Maharashtra (23 February 2001), the Rail Over Bridge at Manjari in Pune (estimated cost of rupees eight crore) was one of the 33 works included therein. Even though Public Works Department (PWD) was responsible for land acquisition for the work, the Company due to paucity of funds with PWD decided (January 2003) to acquire the land. The Company borrowed funds and acquired (May 2005) the land at a cost of Rs 28.82 lakh and handed it over to the PWD (May 2005) for removal of encroachments. Initially the works could not be executed for want of encumbrance free land. Subsequently in September 2005, the Company decided to drop the work from IRDP, Pune as it was considered non viable as an independent Build, Operate and Transfer project, being outside the Pune Municipal Corporation limits. The land was in possession of PWD.

Audit scrutiny revealed (July 2007) that though the Company was aware that land proposed for acquisition was not encumbrance free land, they engaged (2002-03) consultants for pre and post tender activities without ensuring the possession of the land. The Company paid the consultants Rs 10.62 lakh towards pre and post tender activities and terminated (November 2004) their services due to non acquisition of land. Payment of codal/drawing/general charges of Rs 3.82 lakh made (October 2001) to the Railways also proved wasteful since the Company decided not to take up the project. The subsequent efforts (December 2007) of the Company to recover the land cost from the PWD did not fructify.

Thus, the action of the Company in venturing into the project without ensuring its financial viability, acquiring land which was not its responsibility and haste in appointing consultants resulted in an unfruitful expenditure of Rs 43.26 lakh.

<sup>#</sup> ((Rs 44,917 - Rs 40,587 per day x 18 days)) + (Rs 44,917 - Rs 30,000 per day x 314 days)).

The Management stated (May 2008) that the funding of land acquisition was made as per the instructions of the then Chairman of the Company. The consultants were appointed to frame the drawings and estimates and the charges to Railways were required to be paid as per their demand. The Company further stated that the recovery was being pursued with PWD.

The fact remains that the project was abandoned due to its non viability which the Company should have assessed before taking up the project.

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

### **Shabri Adivasi Vitta Va Vikas Mahamandal Limited**

#### **3.16 Procurement of toolkits**

**Advance procurement of tool kits without obtaining the approval of Government for distribution on subsidy basis, resulted in unfruitful expenditure of Rs 35.58 lakh on toolkits lying unutilised.**

The Company is engaged in socio-economic upliftment of tribal communities. In order to develop the entrepreneurial skill of tribal communities and prepare them for self employment, the Company imparts training to them in various trades like repairing of two wheelers, TV, radio and home appliances, tailoring *etc.* On completion of training, the Company proposed to distribute toolkits to the beneficiaries initially as loan which would be adjusted against grants of maximum up to Rs 7,500 payable under the Scheme. The State Government is also implementing similar Schemes through Tribal Development Department where toolkits are distributed under various programmes on 100 *per cent* subsidy basis *i.e.* free of cost to the beneficiary. The Company imparted training to 2,732 beneficiaries up to August 2006.

As per the Scheme approved by the Company (September 2006) the trainees were to be given toolkits on loan basis subsidised to the extent of Rs 7,500 and balance cost, if any, to be borne by the beneficiaries. The Scheme was, however, subject to approval by the Government (Tribal Development Department). Audit scrutiny revealed (July 2007) that pending approval to the Scheme, the Company procured 769 toolkits valuing Rs 41.82 lakh between December 2006 to March 2007 from a private firm for distribution to the beneficiaries. The distribution of toolkits on loan basis required submission of loan application and documentation which was not acceptable to the trainees. The Government approval to the Scheme of the Company was not received and it was seen that out of 769 toolkits procured at a cost of Rs 41.82 lakh (for eight type of trades/business), 642 toolkits (83 *per cent* of total toolkits) valued Rs 35.58 lakh were not distributed and were lying idle with the Company (June 2008).

The Management in reply to audit enquiry accepted (June 2008) that the Tribal Development Department was distributing similar toolkits on 100 *per cent* subsidy basis whereas the Company was distributing the same initially on loan

basis and therefore the beneficiaries were not willing to take delivery of the toolkits.

The fact remained that the Company did not assess the requirement for toolkits from the beneficiaries in advance nor did it implement the Scheme on lines of similar Schemes being implemented by the Tribal Development Department where toolkits were given free, resulting in non achievement of the objectives of the scheme and blockage of Rs 35.58 lakh on the unutilised toolkits.

The matter was reported to the Government/Management (July 2008); their reply was awaited (December 2008).

**Maharashtra Small Scale Industries Development Corporation Limited**

**3.17 Extra expenditure on purchase of playground equipments**

**The Company neither invited tenders nor considered the available valid offer for purchase of playground equipment resulting in extra expenditure of Rs 21.32 lakh.**

The Government of Maharashtra approved (November 2005) the proposal of Tribal Development Commissioner, Nashik to purchase 187 sets of playground equipments for Ashram Schools in the State through the Maharashtra State Small Scale Industries Development Corporation Limited (Company).

Meanwhile, the Company had received (February 2005) a *suo-moto* offer from Arihant Industrial Corporation Limited, Vasai (firm) to supply the equipment at the rate of Rs 1,11,900 per set (inclusive of tax including VAT) and the offer was valid up to 31 March 2006.

The Company, however, neither invited tenders for such a major purchase in order to have the competitive rates nor considered the available *suo-moto* valid offer of the firm. The Company placed orders (December 2005) on the firm for supply of 187 set of playground equipment at higher rate of Rs 1,23,300 per set (inclusive of taxes including VAT) for a total value of Rs 2.31 crore.

Thus, failure to invite tenders and not considering the existing valid offer of the firm resulted in an extra expenditure of Rs 21.32 lakh\* to the Company on the purchases. Incidentally, the same firm had earlier supplied the same set of equipments in January 2006 to Bhiwandi Municipal Corporation at the rate of Rs 1,11,900 per set.

The Management stated (April 2008) that they had not reconfirmed the correctness of rates assuming that the Tribal Development Department had verified the rates resulting in acceptance of higher rate.

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\* (Rs 1,23,300 – Rs 1,11,900) x 187 sets = Rs 21.32 lakh.

The reply is not acceptable since the Company should have either invited tenders for such a major purchase or considered the available valid offer of lower rate from the same firm to avoid additional extra expenditure.

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

## Statutory Corporations

### Maharashtra State Road Transport Corporation

#### 3.18 Avoidable extra expenditure

**The Corporation rejected price increase claims of the supplier and resorted to local purchases, and incurred extra avoidable expenditure of Rs 1.27 crore.**

Maharashtra State Road Transport Corporation (Corporation) entered (March 2004) into Rate Contracts (RC) for purchase of Aluminum Extruded Sections and Aluminum Rolled Products with Hindalco Industries Limited (Suppliers) for a period of one year from 6 March 2004 to 5 March 2005 and 11 March 2004 to 10 March 2005 respectively (RC No.368 and 390). The contract stipulated that the prices would be firm for a quarter *i.e.* the rate prevailing on the first day of the quarter will remain firm for a period of three months and any revision during the period of the quarter will be applicable for the next quarter. The supplies were not to be stopped for want of price rise. The firm sought for price increase (March 2004) for the products supplied since April 2004, but the Corporation rejected the claims of the firm as their claims were not supported by documentary evidence *i.e.* current pricelist of each item and present ingot rates. Due to non acceptance of the price increase proposals, the firm stopped delivery against the RC No. 368 (June 2005) and 390 (September 2004). The Corporation without finalising the price revision claims for earlier contracts awarded a subsequent contract (RC No. 9 for the period May to November 2005) in September 2005 which was also not executed by the supplier due to non acceptance of earlier claims for price revision.

Audit observed (October 2007) that the Corporation delayed the acceptance of price revision which the supplier was entitled to as per tender conditions, forcing the supplier to back out of the contract. Consequently the Corporation resorted to local purchases at its Central Workshops at Dapodi (Pune) and Aurangabad at higher rates during November 2005 to April 2006. This resulted in extra expenditure of Rs 1.27 crore for items procured locally against RC. No.9, worked out on the basis of the difference between the rate at which the local purchases were made and the contracted rate for supplies against RC. No.9.

The Management stated (July 2008) that the claims for increase in rates were not supported by documentary evidence. Despite the efforts of the Corporation to sort out the issues, the Supplier had taken a rigid stance and stopped the supplies. Subsequently, in June 2007 the Tender and Stores Committee (T&SC) accepted the price revision based on the recommendation of another Committee set up for the purpose.

The reply of the Corporation is not acceptable since the T&SC which was constituted in October 2003 and was in existence in March 2004, should have considered the request for price revision made by the supplier in March 2004. Besides, aluminum being a metal, the admissibility of the claim for increase in rate could also have been independently verified by the Purchase/Stores Department from the market. It would have been beneficial to the Corporation to accept the increased rate demanded by the supplier rather than resort to expensive local purchases so that extra expenditure of Rs 1.27 crore could have been avoided.

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

### **Maharashtra Industrial Development Corporation**

#### **3.19 Loss of revenue due to sale of plots at concessional rate**

#### **The Corporation allotted land for Textile park at a concessional rate without Government approval resulting in a loss of Rs 3.20 crore.**

The Maharashtra Industrial Development Corporation (Corporation) allotted (March 2006) two lakh square metres of land in Nardhana Industrial area in Dhule district, at a rate of Rs 30 per square metre to Vertex Spinning Limited (VSL). Subsequently, VSL requested the Corporation to allot 16 lakh square metres of land (including the two lakh square metres allotted earlier) at a concessional rate of Rs 10 per square metre for development of an integrated textile park. VSL stated that the developed park would be occupied by various textile processing units which would contribute to the development of the area. Considering the request of VSL, the Corporation allotted (November 2006) 16 lakh square metres of land at a concessional rate of Rs 10 per square metre by including the two lakh square metres of land which had already been allotted at the rate of Rs 30 per square metre in March 2006. The advance possession of the land allotted was handed over in December 2006/ January 2007. The Corporation received (March 2006 to September 2007) total premium of Rs 1.60 crore for the land allotted.

Audit scrutiny (October 2007) revealed that as per instructions issued (July 1987) by the Government, the Corporation was required to take prior permission for allotting land at the concessional rate. However, the Corporation, without the approval of the State Government, allotted land at the concessional rate of Rs 10 per square metre when the prevailing rate of allotment at the industrial area was Rs 30 per square metre. Thus, irregular

concessions granted by the Corporation to the lessee resulted in loss of revenue of Rs 3.20 crore.

The Management stated (July 2008) that it had approached (December 2006) the State Government for approval of the allotment of land at concessional rate and the proposal was under consideration of the State Government. The State Government stated (October 2008) that the Department has given post facto approval to this proposal subject to the condition that Corporation should load this notional loss on the remaining plots to be allotted and on other items.

The reply is not acceptable since the instructions issued by the Government (July 1987) specify that the allotment of land at concessional rate in industrial area could be made only with the prior permission of the Government.

### **3.20 Excess expenditure due to delay in finalisation of tender**

**Due to delay in finalisation of tender, the Corporation had to incur additional expenditure of Rs 66 lakh in installation of VT pumps for water supply schemes and did not take benefit of anticipated savings of Rs 1.62 crore on account of electricity consumption.**

The Corporation invited tenders (June 2003) for replacement of Vertical Turbine (VT) pumps at their Raw Water Works and Pure Water Pumping Stations situated at Patalganga (Raigad), Shahad and Jambhul (Thane). The replacement envisaged a monthly saving of Rs 13.38 lakh on account of saving in electricity consumption.

The Corporation failed to finalise the tenders received in December 2003 even within the extended validity period (July 2004) of the tender, due to delays and the bidder did not agree for further extension of validity period of his offer. Therefore, the Corporation re-invited the tenders (November 2004) and issued work orders (May, June and August 2005) with a stipulated date of completion of November 2005, February and March 2006 for Patalganga, Shahad and Jambhul respectively.

Audit observed (October 2007) that the Corporation had to incur an additional expenditure of Rs 66 lakh being the difference between the value of the offers received in the first tender (Rs 2.31 crore) which was not finalised and the value of the accepted tender (Rs 2.97 crore). Further, non-finalisation of tender delayed the installation of the pumps and consequently the Corporation could not avail of the benefit of the anticipated savings of Rs 1.62 crore<sup>^</sup> in electricity consumption.

The Management accepted (May 2008) that the contract could not be finalised even during the extended period of validity due to delay in approval of competent authority. It was further stated that the envisaged saving would be

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<sup>^</sup>At the rate of Rs 1.86 lakh per month for 10 months for Raw Water Works (RWW) at Patalganga; Rs 3.62 lakh per month for 13 months for RWW at Shahad; Rs 1.86 lakh per month for 16 months for Pure Water Works at Shahad and Rs 6.04 lakh per month for 11 months for RWW at Jambhul.

available during the extended life of the pumps. The Government endorsed (June 2008) the views of the Corporation.

The fact thus remains that the delays in approval were avoidable and further, savings in energy consumption during the extended life of pumps would not compensate for the loss incurred owing to the delayed period.

### 3.21 *Wasteful expenditure*

**The Corporation incurred wasteful expenditure of Rs 56.50 lakh on consultant fee for a project which was abandoned due to non receipt of necessary permissions from the Municipal Corporation of Greater Mumbai.**

The Corporation as part of its proposal for construction of IT 2000 building in Santacruz Electronic Export Processing Zone (SEEPZ), Mumbai approached (August 2000) the Municipal Corporation of Greater Mumbai (MCGM) for obtaining permission for cutting trees on land forming part of the project. Though the permission for cutting trees was pending, the Corporation appointed (November 2000) a private Company for architectural services at two and half *per cent* of the estimated cost of the project of Rs 61.08 crore. The architect carried out (2001) the work of providing estimates, tender documents and all the drawings required for the execution of work and the Corporation invited (2001) tenders for execution of work. In October 2000, the Corporation communicated partial compliance to the requirements of Tree Authority (TA) necessary for the permission, but did not pursue the matter further with the TA till June 2004, when the Corporation's approved plan were submitted to the Authority. The project was to be abandoned (July 2005) as the Tree Officer, MCGM denied (July 2005) permission for cutting the trees. The architect was paid (January 2008) Rs 56.50 lakh for the work carried out by him.

Audit observed (February 2008) that the Corporation's injudicious decision to appoint a consultant for exhaustive architectural services for construction of IT 2000 building before getting the necessary clearances/permissions resulted in wasteful expenditure of Rs 56.50 lakh.

The Management admitted (August 2008) that the project could not be taken up for execution due to the objection taken (July 2005) by the TA of MCGM. However, consultants were paid for the services rendered by them and as approved by the competent authority. The Government (August 2008) also endorsed the views of the Corporation. The reply is not acceptable, since the Corporation went ahead with the project without obtaining the necessary permissions which resulted in wasteful expenditure.

**General**

**3.22 Follow up action on Audit Reports**

*Explanatory Notes outstanding*

**3.22.1** Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department of the State Government issues instructions every year to all administrative departments to submit explanatory notes to paragraphs and reviews included in the Audit Reports within a period of three months of their presentation to the Legislature, in the prescribed format, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Report for the year 2005-06 was presented to the State Legislature, four departments (Social Justice and Co-operation and Textile (one review each), Urban Development (one paragraph), Cultural and Social Welfare (two paragraphs)) which were commented upon, did not submit replies to five out of 24 paragraphs/reviews as of 30 September 2008. The Audit Report (Commercial)-2006-07 containing six reviews and 28 paragraphs was presented to the State Legislature on 30 December 2008.

**Compliance to Reports of Committee on Public Undertakings**

**3.22.2** Action Taken Notes (ATNs) to 120 recommendations pertaining to 18 Reports of the COPU presented to the State Legislature between April 1995 and September 2008 had not been received as on September 2008 as indicated below:

<b>Year of COPU Report</b>	<b>Total no. of Reports involved</b>	<b>No. of recommendations where ATNs were not received</b>
1995-96	1	7
1997-98	2	21
1998-99	1	6
1999-2000	1	11
2000-01	1	1
2001-02	1	3
2005-06	2	4
2006-07	3	22
2007-08	6	45
<b>Total</b>	<b>18</b>	<b>120</b>

***Response to inspection reports, draft paragraphs and reviews***

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2008 pertaining to 60 PSUs disclosed that 1,935 paragraphs relating to 457 Inspection Reports remained outstanding at the end of September 2008. The department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2008 is given in **Annexure-14**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 21 draft paragraphs and three draft performance reviews forwarded to various departments between March and July 2008 and included in the Audit Report, 13 draft paragraphs and one draft performance review as detailed in **Annexure 15**, were not replied to (December 2008).

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



**MUMBAI**

**(SAYANTANI JAFI)**

**The 26 March 09 Accountant General (Commercial Audit), Maharashtra**

*Countersigned*



**NEW DELHI**

**(VINOD RAI)**

**The 06 April 2009**

**Comptroller and Auditor General of India**