Chapter-IV

4. Miscellaneous topics of interest relating to Government companies and Statutory corporations

Government companies

City and Industrial Development Corporation of Maharashtra Limited

4.1 Loss of revenue

By charging lease premium less than prescribed rates, undue benefits of Rs.32.02 crore were passed on to educational institutions, newspapers groups and others.

City and Industrial Development Corporation of Maharashtra Limited (Company) allots plots for residential, commercial, public utility services, common facilities like primary schools, secondary schools and higher educational institutions. Undue benefit of Rs.32.02 crore was extended to 18 allottees by collecting premium less than chargeable as discussed below:

Allotment of plots to educational institutions

The Company charged premium for residential and commercial plots at lower than applicable rates resulting in revenue loss of Rs.3.87 crore.

4.1.1 Lokamanya Tilak Jankalyan Shikshan Sanstha, Navi Mumbai requested (July 2001) the Company for allotment of adjoining plots admeasuring 4,200 and 3,632 square metres for setting up an Engineering College. These plots were earmarked by the Company for residential and commercial purposes. After allotment of plots, the Sanstha requested (May 2002) the Company to apply the rate applicable for educational purpose instead of the rate applicable for commercial/residential purpose. Rightly, the Company did not agree. However, by accepting the request of then Minister of Labour (September 2002), the Company (November 2002) reduced the rate applicable in respect of plots admeasuring 6,432 square metres out of 7,832 square metres resulting in revenue loss of Rs.3.87 crore to the Company and benefit to the private party. The Company in its reply (October 2003) confirmed that the reduction in rates was done at the request of the then Minister of Labour, Government of Maharashtra.

4.1.2 The Company offered and issued a letter of intent (March 1993) for allotting plots admeasuring 40,993 square metres valued at Rs.2.07 crore to Terna Public Charitable Trust (Trust) for setting up an engineering college and hospital cum staff quarters at Nerul and Panvel respectively. As the reserve

price prevailing at the time of allotment had gone up, the Trust was asked to pay additional premium of Rs.65.36 lakh based on the reserve price prevailing at the time of allotment in 1997. On being objected to by the trust, it was decided (February 1997) to charge the rate as given in the letter of intent of 1993 with payment of simple interest at the rate of 15 *per cent* per annum till payment of entire premium. The Company collected (October 1997) lease premium of Rs.3.32 crore including interest of Rs.1.24 crore. In March 2002, the Trust requested for allotment of additional land admeasuring 20,000 square metres behind the existing college at Nerul. The Company made the allotment at the rate of Rs.2,500 per square metre instead of prescribed rate of Rs.3,750 per square metres. However, after a meeting convened by the then Chief Minister, (May 2002) the price was further reduced to Rs.1,250 per square metre alongwith the adjustment of Rs.1.24 crore paid by the trust as interest in 1997.

Benefit of Rs.6.24 crore was extended to a private party due to charging premium less than at prescribed rate.

The total benefit passed on to the private party due to deviation from the prescribed rate was Rs.6.24 crore including adjustment of interest of Rs.1.24 crore.

4.1.3 The Company allotted (1986-1999) plots admeasuring 21,032.70 sq.mtrs. to 10 educational institutions (as detailed in ***Annexure-22***) for opening primary and secondary schools. In January 1998, the Company observed that the allottees used these plots to establish professional colleges. Due to change of the usage from running of schools to professional colleges, additional premium of 50 *per cent* of reserve price was chargeable. However, while regularising the misuse of plots, the Company as stated in its agenda note, as per directions of the then Chief Minister decided (March 2000) to reduce the premium. A benefit of Rs.27.25 lakh was thus passed on to the allottees who failed to set-up schools. The allottees received a further benefit of Rs.20.06 lakh due to the failure of the Company to fully recover the lowered premium. This resulted in loss of Rs.47.31 lakh to the Company.

Charging of premium at less than prescribed rate and non recovery thereof resulted in loss of Rs.47.31 lakh to the Company.

Allotment of plots for newspaper groups

4.1.4 The Company allotted (July 1998-January 2002), five plots admeasuring 29,998.20 square metres in Vashi sector (Navi Mumbai) to five newspaper publishing groups at rates lower than applicable resulting in loss of Rs.21.25 crore detailed as below:

The Company allotted five plots to publishing houses at lower than prescribed rate, resulting in revenue loss of Rs.21.25 crore.

Sl. No.	Name of the allottee	Area allotted (in square metre)	Amount to be charged as per prescribed rate	Actual amount charged	Differ -ence
			(Rupees in crore)		
1	Prabhodhan Prakashan (Samana)	8,200.00	8.71	2.90	5.81
2	Bhartiya Vichar Dharshan (Tarun Bharat)	8,200.07	8.72	2.91	5.81
3	Hindustan Prakashan Sanstha (Vivek)	2,313.35	2.46	0.82	1.64
4	Prithvi Prakashan (Lokmat)	3,285.08	3.49	1.17	2.32
5	Dainik Pudhari	7,999.70	8.50	2.83	5.67
	Total	**29,998.20**	**31.88**	**10.63**	**21.25**

The Company did not have an effective mechanism to ensure that the land was not used for a purpose other than the purpose for which the allotment was made. During a survey conducted in September 2002, the Company observed that in four (Sl.No.2-5) cases where allotment was done between 1998 and 2000, printing presses were not set up. Instead the plots had been exchanged with private builders for construction of houses which were being sold in the open market. Despite this, the Company failed to take action to resume the land in terms of the agreement with the publishing houses (April 2003).

Allotment of plots for weigh bridge/warehouse

Allotment of land at lower than the rate earlier obtained through tender resulted in loss of Rs.19.16 lakh.

4.1.5 The Company invited tenders (May 1999) for sale of plots in Dronagiri node for weigh bridge activity and the rate received was Rs.3,456 per square metre. However, the Company allotted (June 2001) plot No.20 at Sector 2 in the same node admeasuring 1,200 square metres to Standard Weigh Bridge for weigh bridge activity (500 square metres) and warehousing activity (700 square metres). Tenders were not invited for this allotment. The rate charged for weigh bridge activity was Rs.2,250 per square metre which was much lower than the rate of Rs.3,456 per square metre. Thus, benefit of Rs.19.16 lakh was passed on to the private party. Another concession given to the party was increase in floor space index (FSI) from 0.5 to 1.0.

The reply of the Company (June 2003) that the FSI allowed was 0.5 is not true as the allotment letter mentions FSI of one.

The matter was reported to the Government/Company in April-June 2003, but the replies of the Company in respect of three cases and replies from Government in respect of all five cases had not been received (November 2003).

Maharashtra Film, Stage and Cultural Development Corporation Limited

4.2 Under valuation of land

The Company extended undue benefit to a private party by under valuation of land by Rs.28.20 crore.

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) entered into (October 2000) a joint venture agreement (Whistling Woods International Private Limited) with Mukta Arts Limited, Mumbai (firm) to establish an integrated films and television training institute cum research and studio complex.

Audit observed the following:

- The decision was taken by the then Managing Director without inviting competitive bids/approval of Board of Directors.

- Handing over of land was irregular since the Company was not the owner of land and had not taken Government's prior permission.

- The agreement envisaged that capital of the joint venture would be Rs.20 crore of which Rs.17 crore (85 *per cent*) was to be invested by the firm and rupees three crore (15 *per cent*) by the Company. Sharing of revenue was accordingly in the *ratio* 85:15. The value of the land admeasuring 20 acres (80,000 sq. mtrs.) which was handed over to the joint venture towards the Company's share of rupees three crore was wrongly shown as Rs.375 per square metre whereas the prevailing rate as notified by Bombay Municipal Corporation in that area was Rs.3,900 per square metre. The under valuation of land had two implications:

The Company passed on undue benefit to joint venture vendor by under valuing land by Rs.28.20 crore.

- The Company's contribution to capital is shown as rupees three crore instead of Rs.31.20 crore, thus under valuing land by Rs.28.20 crore.

- The revenue to be obtained by the Company would be 15 *per cent* instead of 64.73 *per cent* based on contribution.

In reply (July-August 2003) the management stated that it has been decided to renegotiate the agreement. However, the existing agreement has not been rescinded (September 2003). Action has also not been taken against officials responsible for the under valuation.

The matter was reported to the Government (June 2003); the reply had not been received (November 2003).

4.3 Undue benefit to a private party

Undue benefit of Rs.6.09 crore was extended to a private firm in repairs work of studios.

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) was operating two studio cum makeup rooms which required repairs. On the plea of its bad financial health, the Company entered into an agreement (February 2000) with M/s. House of Cine Arts Enterprises (firm) for financing the structural and technical repair work of the studios. As per agreement, the firm was required to carryout the repairs at its own cost and the anticipated yearly earnings of Rs.1.50 crore from studios was to be shared between the Company and the firm in the *ratio* of 65:35 for a period of 15 years.

Audit observed the following:

- Although, Chief Engineer, Maharashtra Industrial Development Corporation, based on a survey of the studio buildings informed the Company (November 1999) that no structural or construction defects exist in these buildings and the cost of repair works was estimated at Rs.80 lakh, an agreement was entered into (February 2000) with the firm providing for

a revenue sharing arrangement taking cost of repairs as rupees three crore. An amount of Rs.2.62 crore was stated to have been spent on repairs.

- The agreement stipulated that the firm was fully responsible for the repairs but a payment of Rs.20.47 lakh was made as architect's fee by the Company.

- The value of the studio was Rs.20 crore and firm was to spend rupees three crore on repairs for which the firm was allowed a disproportionately high share of 35 *per cent* of the anticipated yearly revenue of Rs.1.50 crore. During first 18 months, the Company paid Rs.97 lakh to the firm as its share of revenue. As stated by the Company (July 2003), the expenditure incurred by the firm was infact financed by the Company and hence the firm was not entitled for any revenue sharing. Thus, this resulted in undue benefit of Rs.97 lakh to the firm.

- The Company had Rs.2.36 crore in fixed deposit and Rs.3.05 crore of cash balance as on 31 March 2000. It was, therefore in a position to finance the repairs on its own without entering into a revenue sharing agreement. Despite this, the work was carried out through a private firm.

- As stated by the Company (July 2003), in addition to above, when the firm entered into revised memorandum of understanding with the Company the surrender value against his share of 35 *per cent* for prospective 15 years was considered as Rs.5.12 crore and the same was adjusted against loan and advances recoverable from the firm against other contracts. Thus, additional benefit of Rs.5.12 crore was extended to the firm.

Undue benefit of Rs.6.09 crore was extended to a private firm in the repairs work of studios.

Total undue benefit passed on to the firm in the repairs work of studios was Rs.6.09 crore.

The Company stated (July 2003) that the contract has been terminated (11 February 2003) and Financial Advisor and Chief Accounts Officer has been dismissed from service in June 2003. But no action has been taken against the then Managing Director.

The matter was reported to the Government (June 2003); the reply has not been received (November 2003).

4.4 Non-recovery of loan due to lack of security

The Company's dues of Rs.2.02 crore remained unrecovered due to disbursement of financial assistance without security.

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) entered (March 2002) into an agreement with Neelmudra Entertainment Limited (NEL) to provide financial assistance of Rs.1.70 crore to fill in the gap of seed capital for producing a bilingual feature film titled 'The Invaders'. The Company has terminated the agreement on

10 February 2003 and called for the refund of the whole amount of financial assistance and interest thereon.

Audit observed the following:

- The agreement was entered into by the then Managing Director without approval of Board of Directors.
- Instead of obtaining bank guarantee at the time of release of loan (March-September 2002), the agreement stipulated furnishing of bank guarantee within two years (by March 2004) of release of financial assistance.
- The agreement provided for property worth rupees two crore being kept as guarantee in the event of default. However, it was observed (March 2003) that NEL owned assets worth Rs.2.64 lakh only.
- The Company advanced Rs.1.95 crore between March-September 2002 as against the stipulated advance of Rs.1.70 crore. As on 31 March 2003 dues of Rs.2.17 crore (principal: Rs.1.95 crore and interest: Rs.21.89 lakh) were recoverable from the firm.

Due to lack of safeguards in the grant of financial assistance, the Company's dues of Rs.2.02 crore remained unrecovered.

The Company stated (July 2003) that an amount of Rs.15 lakh has been recovered from NEL and balance amount would be recovered after 150 days of termination of contract (10 February 2003). Although the stipulated period has elapsed on 10 July 2003 the balance amount of Rs.2.02 crore has not been recovered (August 2003) due to lack of safeguards in the grant of financial assistance. The reply was silent about the action being taken against officials responsible for the serious lapses in the matter.

The matter was reported to the Government (June 2003); the reply had not been received (November 2003).

Statutory corporations

Maharashtra State Electricity Board

4.5 Implementation of information technology in stores management

Implementation of information technology in stores management did not yield the desired results as the systems developed by the Board were deficient.

The stores wing of the Maharashtra State Electricity Board (Board) is responsible for procurement, receipt, storage, and issue of stores and disposal of surplus or scrap materials. The functions of stores wing comprised both accounting of receipts, issues and stock as well as monitoring of supplies. The computerisation of these functions was accomplished during 1998 by implementing three applications *viz.* stores management system (SMS), project material stock status reporting system (PMS) and distribution material stock status report system (DMS). The Board invested Rs.33.97 lakh in development of software (Rs.15.97 lakh) and in hardware (Rs.18 lakh) for the three applications.

Audit observations on major applications are discussed in the succeeding paragraphs.

Stores management system (SMS)

4.5.1 The Board initially developed (1988-1991) SMS through Tata Consultancy Services (TCS) at a cost of rupees three lakh. The system was developed in COBOL[✸] and was designed for batch mode operation at major stores only. The system was converted (1998) into an on line system in oracle[❅] on Unix/ platform at a cost of Rs.4.80 lakh for implementation at store centre level. The information technology wing of the Board modified the system in September 2000 by changing the platform from Unix[⊠] to Windows NT. The same was implemented at 11 major stores and 32 store centres.

The main objectives of SMS are to computerise recording of stores transactions *viz.* receipts, issues and stocks and to generate stock ledger reports. Values of receipts and issues are generated from SMS and posted in a

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[✸] COBOL – Common business oriented language.
[❅] Oracle – Programming language.
[⊠] Unix/Windows NT – Operating systems.

separate financial accounting system, through journal vouchers prepared manually after verification. Data from SMS is also used as input for DMS.

Non-standardisation of units of measurement of stock

4.5.2 The units of measurement of stock in the 'item master table' of SMS at different store centres are not standardised. For example, kilometre is used as unit of measurement at one store centre while in another it is metre. Lack of standardisation of stock units in 'item master' table of SMS at different store centres under a major store resulted in difference of Rs.190 crore between stock as per consolidated stock ledger and stock ledger as per financial accounting system generated by major store at Nashik in March 2003. After being pointed out in Audit, (June 2003) the Board brought down the difference to Rs.27.56 lakh (June 2003).

Non-intimation of errors in data to store centres

4.5.3 Under the manual system, store centres were entering details of quantity received and issued in respective registers and sending the stores receipt note and material issue note to major stores. Details of prices were not available at store centres. Valuation of receipts and issues was done by major stores. In SMS, price details are entered by store centres and these are used by the system for valuation of receipts, issues and stocks. Audit scrutiny revealed following errors in data entry at store centres:

Stocks were under valued by Rs.71.39 crore.

- Receipts, issues and stocks of certain specified items are to be valued at predetermined standard rates prescribed by Director of Accounts of the Board for the purpose of accounting. These standard rates are to be incorporated in the 'item master' table in SMS. Standard rates entered in the 'item master' table differed from the rates prescribed by Director of Accounts resulting in under valuation of stocks by Rs.58.40 crore in Aurangabad, Nashik and Pune major stores (June 2003).
- For valuation of receipts of specified items as above, on entry of relevant details such as item code, quantity *etc.,* the system displays the standard rate as entered in the 'item master' table. Rate displayed is, however, allowed to be edited by the data entry operator. There is no need for allowing the standard rate to be edited as this leads to valuation at a rate different from that entered in the 'item master' table. Fifty one items were valued at a rate different from that entered in 'item master' table leading to under valuation of stock by Rs.12.99 crore in seven major stores[•] (June 2003).

[•] Aurangabad, Baramati, Kolhapur, Nanded, Nashik, Osmanabad and Pune.

- In respect of 336 items in stock (June 2003) a consolidated negative balance of Rs.115.48 crore was found in all the eight major stores taken up in audit. Audit observed that when the quantity issued is entered in the issue module, the system does not verify whether the quantity entered is more than quantity in stock. As such the system accepts entry of incorrect quantity in excess of quantity in stock leading to negative balances.

Errors in quantity or values noticed by major stores during verification are corrected manually in the printed documents before passing journal voucher and entry in the financial accounting system. However, such rectification is not being intimated to store centres for incorporating in SMS. There was difference of Rs.238.46 crore between stock as per SMS and as per financial accounting system as on 31 March 2003 in three major stores at Aurangabad, Nashik and Pune.

Need for automatic revision of standard rates

4.5.4 As per Electricity (Supply) (Annual Accounts) Rules, 1985, there should be a system for periodic revision of standard rates whenever significant variances are observed. Standard rates were last revised manually in April 2001. As standard rates and actual purchase rates are both stored in SMS, the system can be used to automatically revise the standard rates.

Adjustment to stock without authorisation

Adjustment to stock was made to reconcile the stock in hand with manual bin cards.

4.5.5 Adjustments to stock arise on account of entry of receipt/issue under wrong item code and errors in data entry relating to quantity/price. Such adjustments are required to be made only after authorisation and also after entry of adjusted figures in financial accounting system through journal vouchers. Audit observed that adjustments valuing Rs.141.89 crore were made to stock during September 2000-June 2003 by 20 store centres without written authorisation and also there was no corresponding adjustment journal voucher for such entries. Though data entry module for stock adjustments provide for mandatory entry of journal voucher number, dummy numbers were entered at store centres without actually passing journal vouchers. Audit observed that adjustment to stock was made to reconcile the stock in hand with manual bin cards. This resulted in difference between stock as per SMS and financial accounting system. Unauthorised adjustment to stock is fraught with the risk of manipulation of records.

Reporting of adjustment to stock on account of price variation

4.5.6 Price variation refers to variation in purchase rate of material due to changes in price of components calculated as per formula given in purchase order. Such price variation paid to supplier is required to be added to the cost of item if the same was in stock or to be passed on to the user units for accounting as consumption in case the item was already issued. Price variation module in SMS is not designed to segregate the proportionate variation to be added to stock and to be passed on to the units. The system also did not

provide for reporting of adjustments to stock on account of price variation in stock ledger.

Audit observed that adjustment to stock on account of price variation is being done manually. It was further observed that price variation aggregating Rs.64.59 lakh for 2002-03 had remained to be accounted for by major stores at Nashik and Pune. There is need for modifying the price variation module to ensure proper segregation of such variation and reporting adjustment to stock so that manual adjustment to stock could be avoided.

Lack of audit trail

4.5.7 The financial accounting system gives the details of opening stock, receipts, issues and closing stock in value terms for each major store. Item-wise details of above details in terms of quantity and value are available in the stock ledger report generated from SMS. Every entry in SMS has a corresponding entry in financial accounting system through journal vouchers prepared manually. However, 'audit trail' linking the two systems through reference to journal vouchers is not provided for except in the case of stock adjustments. In the absence of such 'audit trail', item-wise break up of the difference of Rs.238.46 crore between stock as per SMS and as per financial accounting system as on 31 March 2003 in three major stores of Aurangabad, Nashik and Pune could not be ascertained in audit. There is need for incorporating journal voucher numbers in SMS for providing 'audit trail'.

The Board stated (September 2003) that the feasibility of incorporating audit trail would be explored.

Adjustment to prior period after year end closing

4.5.8 SMS provides for year-end processing whereby closing stock at the end of each year is carried forward as opening stock of the next year. The system also accepts entry of data relating to prior period after carrying out year end processing. However, the system does not recalculate the opening balance by considering such data entered. This resulted in a consolidated difference of Rs.57.15 lakh between closing stock as on 31 March 2003 as per stock ledger generated for the month of March and opening stock as on 1 April 2003 in four major stores at Baramati, Kolhapur, Pune and Ratnagiri.

Need for system generated reports on delay in supplies and age wise analysis of inventory

4.5.9 SMS is designed to generate stock ledger reports and other management information system (MIS) reports such as materials pending inspection, division-wise issues and item-wise receipts and issues etc. However, MIS reports relating to delay in supplies, inventory carrying cost, expenditure details for budgetary control and age wise analysis of inventory are not being generated from the system. Audit observations based on analysis

of data using 'IDEA[©]'software, downloaded from SMS in 20 store centres are given below:

- There were delays in 4,901 out of 11,005 supplies during September 2000 to June 2003. Of these, 1611 supplies were delayed beyond 90 days. Evaluation of tender, *inter alia,* includes verification of the past performance of suppliers in delivering the materials within scheduled date. Details of orders placed on each supplier and delay in supplies are manually compiled at central purchase agency (CPA) of the Board. Data relating to purchase orders including scheduled date of delivery and actual date of receipt of materials is available in SMS. Report regarding delay in delivery of materials by suppliers should be generated from the system rather than through manual compilation.

There is need for age wise analysis of stocks.

- Store items (217) valuing Rs.4.45 crore received between September 2000 and June 2003 were in stock (June 2003) without any issues during this period. Of these, items (77) valuing Rs.1.62 crore were in stock for more than one year from the date of receipt without any issues being made. There is need for age wise analysis of stocks to identify slow moving and non moving inventory.

Lack of logical access mechanism and segregation of duties

4.5.10 SMS is designed to provide security levels to different categories of personnel by restricting access to each category of personnel to the extent required. For example, data entry operator would have access for only entering data and querying.

However, access to various categories of personnel is not being restricted. Thus, there is risk of unauthorised modification to program and editing of data directly in the tables.

The Board stated (September 2003) that the initial objective of SMS was to create computer awareness at the lowest levels and development of infrastructure for computerised stores management. The Board further stated that necessary action to standardise stock units, provide security features and modify the program to remove data errors would be taken.

Project material stock status reporting system (PMS)

4.5.11 The Board developed PMS in FoxPro[❁] for Windows platform at a cost of Rs.0.90 lakh to provide monthly stock status of all project materials. Data relating to receipts, issues and stock is entered in PMS at store centres. The same is forwarded every month to stores management wing, which generates monthly stock status reports detailing scheme wise stock position for each

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[©] Interactive data extraction and analysis software developed by CASEWARE IDEA INC. as a computer assisted auditing tool.

[❁] Programming software.

item and circulates them to CPA, transmission planning section and user divisions.

Identification of surplus stock after closure of a scheme

4.5.12 Project materials are indented and procured specifically for each scheme. A scheme is treated as closed after its commissioning. Materials in stock after closure of a scheme could be utilised for new schemes. Closure date of each scheme is therefore a vital input in PMS, but the closure date is not being entered. The monthly stock reports generated from the system showed only the scheme wise stock of each item without showing the surplus items in stock after closure of schemes. There were 320 items valuing Rs.21.20 crore in stock (June 2003) for more than three years as of June 2003 without issues. In the absence of closure date of schemes not being promptly entered in to the system, the Board is not aware of whether these items remained surplus after completion of schemes for which they were procured. Audit observed that materials valuing Rs.4.62 crore in respect of 30 schemes completed between 1998 and 2002 were in stock (June 2003). There is need for prompt entry of closure date of each scheme so that surplus materials could be identified and utilised for fresh schemes. Two instances of purchases made despite availability of materials in stock after completion of schemes are given below:

Non updation of stock lying in closed schemes resulted in additional procurement.

- In August 2001, there were 81 numbers of 198 Kv surge arrestors (item code: 19021203584) and 35 numbers of 120 Kv surge arrestors (item code: 19021103014) in stock (value: Rs.80.87 lakh). 18 schemes for which these surge arrestors were procured were already completed. The Board ordered (September 2001) 135 numbers of 198 Kv surge arrestors at Rs.77,546 each and 208 numbers of 120 Kv surge arrestors at Rs.39,434 each for fresh schemes without taking into account availability of existing stock. The Board stated (May 2003) that surge arrestors were important for protection to equipment against lightning and had to be kept in stock for maintenance as and when required. The fact remains that order was placed without taking into account the stock of closed schemes which indicate system deficiency.

- There were 7,140 numbers 11 Kv Anti fog disc insulators valuing Rs.27.04 lakh in stock at the end of year 2000. The scheme (Kharepatan-Finolex tap line) for which the insulators were procured was already completed. These insulators were therefore available for use against fresh schemes. Instead of utilising them for fresh schemes, the Board purchased additional 7,195 numbers of 11 Kv Anti fog disc insulators valuing Rs.27.25 lakh.

The Board stated (September 2003) that store centres do not know the dates of completion of schemes. There should be a process for promptly intimating date of completion of each scheme to the store centres.

Thus, the systems developed by the Board were deficient as access to data modification is not being restricted to specific authorised personnel; there was difference between stock as per SMS and financial accounting system; system is not being used to track delays in supplies; and age wise analysis of inventory is not being carried out. The Board accepted (September 2003) that less reliance is placed on these IT applications.

The matter was reported to the Government (October 2003); reply was awaited (November 2003).

4.6 Avoidable expenditure on purchase of steel pipes

Purchase of mild steel electric resistance welded (MSERW) pipes was made without calling for competitive tenders.

The Board procured 15,000 metres of MSERW pipes for Chandrapur thermal power station from Steel Authority of India Limited (SAIL) in November 2000 at the rate of Rs.2,557 per metre.

Audit observed the following:

Instead of calling for competitive tenders, the order was placed on single quotation basis. The purchase price of the material was much higher than the rate of Rs.1,856 per metre charged by SAIL in August 1999 obtained through competitive tenders. Payment of increase in price by Rs.701 per metre within a time span of 16 months (August 1999-December 2000) was not justified as there was not much variation in raw material prices declared by SAIL during April 1997-November 2000. Consequently, extra expenditure of Rs.1.05 crore was incurred.

The Board replied (September 2003) that the order was placed on SAIL as per the specific demand from Technical Director (Generation O&M) and that the rates of MSERW pipes were dependent on market conditions.

The reply is not tenable as the price of Rs.2,557 per metre paid in November 2000 was far in excess of the rate of Rs.1,856 per metre charged by SAIL in August 1999 though there was no variation in price of the billet used for making the pipes.

The matter was reported to the Government (June 2003); the reply had not been received (November 2003).

4.7 Incorrect computation of penalty in a case relating to theft of energy

Irregular revision of bills in a case of theft of energy resulted in revenue loss of Rs.53.50 lakh to the Board.

The Maharashtra State Electricity Board's (Board) inspection (23 January 1999) of electrical installations in the premises of Transauto and Mechaids Private Limited (TMPL), a high tension consumer, revealed that holes were drilled under the meter at all counters *viz.* KWH[❅], KVAH[✸] and RKVAH[✇]. The holes were situated in such a position that the working of meter could be stopped or slowed down by inserting thin wires through these holes. Since this was a meter which was transferred from another customer, there was a doubt whether the holes were existing at the time of installation at the premises of TMPL. It was confirmed by Chief Engineer, Bhandup zone that the meter was in proper condition without holes at the time of installation. On verification, it was found that the connected load was 1,290 KW. The existence of holes in meter constituted pilferage or dishonest abstraction of energy in terms of condition 31 (e) of the Conditions and Miscellaneous Charges for Supply of Electrical Energy. In such cases, the condition *ibid* provides that the consumer should be billed for demand and energy charges calculated on the basis of assessed demand, which should be the higher of contracted demand or 60 *per cent* of actual connected load at the time of inspection. The consumer was also liable to be charged 25 *per cent* of the bill as surcharge. Accordingly, the Board issued a bill (February 1999) for Rs.54.48 lakh including surcharge of Rs.10.90 lakh for the period March 1998-January 1999.

The consumer contended (May 1999) that his usage was only 600 KVA and the Board revised the bill to Rs.0.98 lakh including surcharge of Rs.0.20 lakh on the orders of Appeal Committee of the Board by taking the assessed demand as 600 KVA. The revision of bill was clearly in violation of the rules. The contracted demand was 800 KVA. The connected load was 1,290 KW and 60 *per cent* of connected load worked out to 774 KW. The assessed demand for the purpose of the bill would therefore be 800 KVA and not 600 KVA.

Undue favour of Rs.53.50 lakh was extended to a consumer who tampered with the meter.

The irregular revision of bill in a case of theft, resulted in undue favour of Rs.53.50 lakh to the consumer with corresponding loss to the Board. The Board confirmed (October 2003) the facts and figures.

The matter was reported to the Government (May 2003); their reply had not been received (November 2003).

[❅] KWH – Kilo watt hour.

[✸] KVAH – Kilo volt ampere hour.

[✇] RKVH – Rector kilo volt ampere hour.

4.8 Short recovery of demand charges

Irregular benefit of Rs.52.23 lakh was extended to a consumer due to billing on staggered contract demand basis despite release of full contract demand in one stage.

Sterlite Industries (India) Limited (SIL), Aurangabad, a high tension consumer, requested (August 2000) the Board to enhance contract demand (CD) from 1,584 to 9,526 KVA and connected load (CL) from 1,800 to 10,209 KW. SIL paid the requisite charges of Rs.1.67 crore between September 2000-March 2001. Chief Engineer (Aurangabad zone) approved release of enhanced CD and CL on 21 April 2001. The same was actually released in May 2001. SIL was also billed (May 2001) for demand charges as per CD of 9,526 KVA. Subsequently, SIL requested (July 2001) revision in billing based on CD of 4,864 KVA up to October 2001, on 7,014 KVA up to April 2002 and on full CD of 9,526 KVA thereafter. The Board accepted (November 2001) the request and refunded demand charges of Rs.29.49 lakh collected up to October 2001. Revision in billing agreed to by the Board was not in order in view of the following:

The Board revised its billing for demand charges based on staggered contract demand after actual release of full CD in one stage resulting in short recovery of Rs.52.23 lakh.

- At the initial stage, SIL had requested for increased demand without any staggering. The sanction in September 2000 was not for increase of load in phases.
- Although in the letter dated 3 April 2001 the Company sought the increase in a phased manner, in the agreement signed thereafter on 16 April 2001, the load was to be increased in one stage and not in a staggered manner. The full enhanced CD and CL was released in May 2001.

Thus, subsequent revision of bills in November 2001, at the request of SIL, despite actual release of full CD of 9,526 KVA in May 2001 resulted in short recovery of demand charges amounting to Rs.52.23 lakh (including Rs.29.49 lakh collected and refunded).

The Board in its reply (August 2003) accepted that there was no clause in the agreement to release CD and CL in phases but due to the difficulties faced by the consumer in availing full load, the billing was revised and there was no intention to favour the consumer. The reply is not tenable as short recovery of demand charges was a benefit to the consumer.

The matter was reported to the Government (May 2003); the reply had not been received (November 2003).

4.9 Avoidable payment of commitment charges

Due to delayed closure of loan accounts, the Board paid avoidable commitment charges of Rs.24.11 lakh.

Power Finance Corporation Limited (PFC) sanctioned (December 1994 -July 1996) loan of Rs.45.10 crore for establishment of 132 and 220 KV sub-stations. As per the terms of sanction, the Board was liable to pay commitment charges at the rate of one *per cent* per annum on the unavailed loan till the actual drawal of loan.

The Board completed these schemes during 1997-99 by availing loans amounting to Rs.30.06 crore from PFC and the balance loan (Rs.15.04 crore) was not availed.

The Board paid commitment charges of Rs.24.11 lakh due to delay in closure of loan accounts of PFC after completion of schemes.

Due to delay in closure of loan accounts, the Board had to pay Rs.24.11 lakh towards commitment charges.

The Board replied that delay in closing of loan accounts was mainly due to procedure involved. The reply is not tenable as the Board delayed closure of the PFC loan accounts by periods ranging up to as much as 56 months from the date of completion of schemes due to delayed communication of completion of scheme by the projects.

The matter was reported to the Government (May 2003); the reply had not been received (November 2003).

4.10 Additional expenditure due to abnormal delay in finalisation of tender

Due to non finalisation of tender within the validity period, the Board procured the material at higher rate which resulted in additional expenditure of Rs.24.35 lakh.

The Board invited tenders (April 1999) for procurement of 36,075 MT rolled steel joists (RSJ) of four different sizes on biennial rate contract basis. The tender was opened on 30 June 1999 with validity up to 31 December 1999. Out of 15 offers received, 10 were found technically and commercially acceptable (7 past suppliers and 3 new suppliers).

Based on the recommendations of Committee on Public Undertakings, the Board had issued (April 1997) instructions to finalise tenders within the original validity period so as to avoid non extension of validity period by the competitive tenderers. It was also instructed that the tender finalisation should be completed in all respects within six months (180 days).

The Board asked the tenderers (December 1999) to extend the validity period of offer up to 29 February 2000. Tender was finalised (February 2000) after a delay of eight months from the date of opening (June 1999), even though six clear months were available to the Board. As a result, the lowest bidder

Failure of the Board to finalise the tender within validity period resulted in additional expenditure of Rs.24.35 lakh.

(Radhakrishna Steels Limited) refused to extend the validity period and the Board had to procure material (1,585 MT) at higher rates resulting in extra expenditure of Rs.24.35 lakh[•].

The Board attributed (April 2002) the delay in finalisation of tenders to internal reasons. The delay was avoidable since clear period of six months was available to the Board for finalisation of tenders. It is also pertinent to point out that this delay occurred despite COPU's recommendation regarding finalisation of tenders within validity period.

The Board/Government stated (August/September 2003) that the loss was notional as the party was not financially sound to execute the order. The reply is not tenable as the party had capacity to supply 8,800 MT as per the factory inspection carried out by the Board at the time of evaluating the offers.

4.11 Irregular waiver of interest receivable

The Board irregularly waived the interest of Rs.12.23 crore on liquidity letter of credit (LLC) loan.

Due to irregular waiver of interest on LLC loan, the Board suffered loss of Rs.12.23 crore.

The Maharashtra State Electricity Board (Board) invested in the equity capital of Dabhol Power Company (DPC) through Maharashtra Power Development Corporation Limited (MPDCL), a deemed Government company, with all shares held by the Board. The Board advanced an amount of Rs.90.38 crore to enable MPDCL to provide liquidity support to DPC in the form of LLC[♦]. In terms of provisions of amended and restated Trust and Retention Agreement, DPC was to reimburse the above amount to MPDCL with interest thereon at the rate of 17 *per cent* per annum and the cost of maintaining the LLC towards liquidity support. The interest on LLC loan up to 31 March 2002 worked out to Rs.15.36 crore and income tax deducted at source thereon was Rs.3.13 crore but Board waived interest on the loan. The waiver of interest has also resulted in a loss of Rs.3.13 crore to the exchequer.

The Board stated (July 2003) that power purchase agreement with DPC was already rescinded and the likelihood of receiving any amount from DPC appeared very bleak. The waiver of interest was done keeping in view overall development on DPC front.

The reply is not acceptable since waiver of interest is detrimental to the Board's future claims on DPC which are not fully settled till date.

[•] The value of material procured (1,585 MT) was Rs.273.32 lakh (1,105 MT at the rate of Rs.17,524 per MT and 480 MT at the rate of Rs.16,600 per MT). The value as per L-1 rate of Rs.15,708 per MT was Rs.248.97 lakh. Extra expenditure of Rs.24.35 lakh (Rs.273.32 lakh – Rs.248.97 lakh).

[♦] LLC –Letter of credit opened by MPDCL in favour of DPC to provide liquidity support as per provision of trust and retention agreement.

The matter was reported to the Government (May 2003); the reply had not been received (November 2003).

4.12 Avoidable extra expenditure

Procurement of grinding balls at rates higher than the lowest acceptable rate resulted in avoidable extra expenditure of Rs.27.54 lakh.

Maharashtra State Electricity Board (Board) invited (April 2001) open tenders for procurement of 520 MT of hi-chrome grinding balls for coal mills.

Tenders were opened on 7 June 2001 and offers of four firms (one from BHEL and three from new firms) were found technically and commercially acceptable. All the firms offered entire tendered quantity of 520 MT.

Due to procurement of material at rates higher than L-1, the Board incurred avoidable expenditure of Rs.27.54 lakh.

The rates offered by three firms[♣] were Rs.31,160, (L-1) Rs.34,311.85 (L-2) and Rs.44,398 per MT (L-3). While submitting the tender, L-2 agreed to match the rates of the lowest acceptable tenderer *i.e*. Rs.31,160 per MT. But L-3 refused to match the L-1 price. No order, therefore, should have been placed on L-3. But the Board procured 40 *per cent* quantity (208 MT) from L-3 at the rate of Rs.44,398 *i.e.* Rs.13,238 per MT higher than the lowest rate of Rs.31,160 per MT offered by the two other firms. This resulted in avoidable expenditure of Rs.27.54 lakh.

The Board stated (May 2003) that since L-3 had supplied the material through BHEL as mandatory spares, it had proven its performance with the Board and, therefore, more business was allotted to it. The reply was not tenable, as both the parties L-1 and L-2 were technically acceptable and L-3 had refused to match L-1.

The matter was reported to the Government (April 2003); the reply had not been received (November 2003).

♣ L-1–Welcase Steel Limited, Bangalore, L-2–Ball and Cylpebs Limited, Jhansi, L-3 – AIA Engineering Private Limited, Ahmedabad.

Maharashtra State Road Transport Corporation

4.13 Release of payment despite short receipt of material

Full payment despite short receipt of material resulted in over payment of Rs.73 lakh to the supplier.

Maharashtra State Road Transport Corporation (Corporation) procures Aluminium rolled products (sheets) from Bharat Aluminium Company Limited (BALCO) through yearly rate contracts (RCs).

It was noticed in audit scrutiny of receipt of aluminium sheets at Nagpur workshop of the Corporation that 8,691 sheets were short received during 1998-2000. Corresponding weight of these sheets was worked out to 20.068 MT valued at Rs.66 lakh based on the prevailing rate of RCs. Two cases illustrating the shortage are given below:

Challan No. and Date	No. of sheets as per challan	Weight as per challan	No. of sheets actually received	Weight of material received	No. of sheets short received	Value of shortages (Rupees in lakh)
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
5,188 7-9-1998	354	9.171	305	9.171	49	1.43
5,983 30-9-1998	343	8.912	303	8.912	40	1.17

- In the two consignments it is not clear how the weight of material received and the weight of material as per challan was same despite shortages in the number of sheets.

- The Corporation was very much aware of the short receipt of material as early as October 1998 but made no efforts to investigate the matter. Stores section did not intimate Accounts section about the shortage of material. Consequently, full payment was made to BALCO. The Corporation did not indicate short receipt of material on the lorry receipt which was the basis on which BALCO paid the transporters.

- As per the terms of RC, complaint regarding shortages in quantities received was to be intimated to the supplier within 15 days of receipt of material for further necessary action. However, the Corporation lodged claims on BALCO for Rs.73 lakh on account of shortages noticed during 1997-2002 only in July-September 2002. The claims were rejected by BALCO being time barred. Thus, delay in lodging the claims rendered them time barred and irrecoverable.

The Corporation/Government while accepting the fact of overpayment stated (June/August 2003) that police complaint has been lodged and departmental action against defaulting officials had been initiated.

4.14 Blocking of funds

Blocking of funds of Rs.2.32 crore in unutilised leasehold land resulted in loss of interest of Rs.3.74 crore.

Maharashtra State Road Transport Corporation (Corporation) acquired (December 1989-June 1991) leasehold land admeasuring 2,45,535.68 sq. mtrs. from Maharashtra Industrial Development Corporation (MIDC) during for construction of divisional workshops, depots, bus stations, tyre retreading plants *etc.* as detailed below:

Location	Area in sq. mtrs.	Date of possession	Amount of lease premium paid *(Rupees in crore)*
Dombivali	41,917.00	5 June 1991	1.05
Bhosari	44,462.00	17 March 1990	0.67
Osmanabad	26,931.68	11 October 1990	0.03
Solapur	97,800.00	4 December 1989	0.29
Ambad	34,425.00	24 January 1991	0.28
	245,535.68		**2.32**

An amount of Rs.2.32 crore remained blocked in acquiring of land which was not utilised for 12 years. The loss of interest on blocking of funds was Rs.3.74 crore.

The Corporation has spent Rs.2.32 crore. More than 12 years have lapsed and the land remains unutilised resulting in blocking up of funds and loss of interest of Rs.3.74 crore. In addition Rs.23.67 lakh has been paid as open land tax to the local authorities for Dombivli plot. Since the agreement with MIDC stipulated levy of additional premium in the event of non construction within a period of 18 months, the possibility of this liability arising in the future cannot be ruled out.

The Corporation/Government stated (June/July 2003) that the financial position of the Corporation was reasonably good till 1995 and thereafter it started incurring losses. Hence there was no alternative but to postpone construction activities.

The reply is not acceptable as there was no construction due to lack of firm construction plans even when the Corporation's financial health was good. It remains doubtful as to whether land acquired on lease basis would be utilised.

4.15 Extra expenditure

The decision of the Corporation to purchase fully fabricated 200 mini buses instead of purchasing the chassis and getting the body building done at its central workshops resulted in extra expenditure of Rs.1.94 crore.

In November 2000, Corporation decided to purchase 200 Mini buses with 20 seats capacity. Departing from the prevailing procedure of purchasing chassis and getting the body building done at its central workshops, the

Corporation chose to purchase fully fabricated buses. This resulted in extra expenditure of Rs.1.94 crore[•].

The Corporation/Government stated (May/August 2003) that purchase of private buses was made in view of urgency for introduction of mini buses. It also stated that some time would be required for manufacture of prototype, fixation of norms to prepare specification for materials and spares, to plan material procurement and development of jigs and fixtures for fabricating bus body components of mini buses *etc.* if buses were to be built in its own workshops. If the cost of design and development of jigs, fixtures, *etc*. was included in the cost of estimate for inhouse fabrication, the estimated fabrication cost of Rs.2.36 lakh would have exceeded the price of Rs.2.46 lakh paid to the body builder of TELCO. The cost of in-house fabrication was stated to be marginally lower only by Rs.10,000.

The reply is not tenable as the difference in cost was not Rs.10,000 but was much higher, as out of the in-house fabrication cost of Rs.2.36 lakh, only the material cost of Rs.1.49 lakh would have been incurred resulting in saving of Rs.0.97 lakh per bus. Further, the bodybuilding is not a technically complex item of work that would require time for standardisation and fixation of norms. The construction of mini buses would not have affected normal workshop operations since this was included within Corporation's annual fleet replacement plan. Since the monthly capacity of the three central workshops is 153 buses, the full requirement of 200 buses could have been met within a time span of about 40 days.

4.16 Loss due to procurement at higher rate

Extra expenditure of Rs.13.80 lakh was incurred due to procurement at higher rates.

Maharashtra State Road Transport Corporation (Corporation) invited limited tenders (April 2002) for procurement of (September 2002) 40,500 nylon tyres. The details of offers received are as follows:

Sl. No.	Name of the supplier	Cost of tyres (Rupees)	Past performance (kms. per tyre)	Cost per km. (CPKM) (in paise)
1	Wearwell	4,874.25	45,005	10.83
2	M.R.F.	5,081.14	47,283	10.75
3	Vikrant	5,149.64	47,334	10.88
4	J.K. Tyres	5,035.21	45,407	11.09
5	Apollo	5,231.25	44,184	11.84
6	Goodyear	5,461.83	45,918	11.89
7	Ceat	5,062.50	41,532	12.19
8	Birla	5,766.75	46,535	12.39

[•] Per bus saving in inhouse construction was Rs.0.97 lakh (Rs.2.46 lakh – 1.49 lakh) x 200 buses.

Orders were placed with M.R.F. (24,300 tyres), Vikrant (12,150 tyres) and Apollo (4,050 tyres).

Audit observed the followings:

- Though the CPKM in respect of tyres offered by J.K. Industries was lower than that of Apollo Tyres Limited, no orders were placed on J.K. Industries on the ground that its past performance was poor and the two firms, J.K. Industries and Vikrant tyres were the same. It was also observed that an order was placed on Apollo tyres for 4,050 tyres though the firm had offered to supply 1,500 tyres

Rejection of the economical offer of a firm resulted in extra expenditure of Rs.13.80 lakh.

The rejection of offer of J.K. Industries was not correct as its past performance was better than that of Apollo tyres and Vikrant tyres & J.K. Industries were two different firms.

This resulted in extra expenditure of Rs.13.80 lakh♣ taking into account the better mileage given by J.K. Industries. In reply (July 2003), the Corporation stated that the performance of J.K. Industries Limited was not good. The reply is not borne by facts.

- In order to have transparency in procurement of tyres, the orders should be placed strictly on the basis of cost/performance as measured by CPKM. The number of parties and the allocation of quantity should be decided before opening of price bids. The present procedure prescribes only the allocation of quantities but does not provide for determining the number of parties before opening of the price bids.

- No orders were placed on Wearwell tyres (L-1) on the ground that its past performance was not satisfactory. As the procurement made was through limited tender, rejection of a party after opening of price bids was against the norm of transparency.

The matter was reported to the Government (June 2003); the reply has not been received (November 2003).

♣Difference in rates Rs.5,231.25 (Apollo) (-)Rs.5,035.21 (J.K. Industries) per tyre is Rs.196.04 per tyre. Totalling 4,050 tyres procured = Rs.7.94 lakh.
Difference in milage per tyre 45,407(J.K. Industries) – 44,184 (Apollo) x 4,050 tyre = 49,53,150 kms. Total value of 112 tyres x Rs.5,231.25 = 5.86 lakh.

Maharashtra State Financial Corporation

4.17 Loss due to inadequate security

Sanction of loan without adequate security and delayed action for recovery resulted in non recovery of dues of Rs.16.59 crore.

Maharashtra State Financial Corporation (Corporation) sanctioned and disbursed (March 1996) a short term loan (STL) of rupees one crore to Shan Interwell (India) Private Limited, Thane (Unit), a medium scale industry to meet its working capital requirements. STL was repayable in 11 monthly instalment with interest at the rate of 23 *per cent*[◆] per annum.

Audit analysis revealed that the Corporation disbursed the STL without obtaining proper security and made poor efforts in enforcing recovery as discussed below:

- The disbursement was made by taking 5.5 lakh shares as security for value of Rs.2 crore. When the party defaulted on repayment, the value of shares had declined rapidly and their worth was only Rs.4.4 lakh. Clearly shares were not effective security for advancing a loan.

- The personal guarantees provided by the directors proved to be very ineffective in recovering the dues when the party defaulted.

- The post dated cheques given by the Company proved to be ineffective security in enforcing recoveries.

- The post dated cheques given by unit as security were dishonored by bank from July 1997 onwards. However, the Corporation failed to take any action against the unit under section 138 of Negotiable Instrument Act, 1938 for dishonour of cheques.

- As far as personal guarantee of directors is concerned, the Corporation filed petition in form of miscellaneous application under 31(1)(aa) of State Financial Corporations Act, 1951 in district court, Thane only in March 1999. The case was pending (August 2003) in Court of Law.

Due to lapses at the stage of disbursement of loan and again after default of dues by the loanee, the Corporation has not been able to recover the principal of Rs.88.80 lakh and interest of Rs.15.70 crore up to February 2003.

The matter was reported to the Government/management (May 2003); the reply had not been received (November 2003).

[◆] In case of default, penal interest at the rate of two *per cent* per month was leviable on the defaulted amount for defaulted period.

4.18 Irregular disbursement of loan

Loss of Rs.1.74 crore was incurred due to non observance of vital pre disbursement conditions and failure to undertake verification of receipt of machinery.

Maharashtra State Financial Corporation (Corporation) sanctioned (September-November 1991) two loans to Krishna Medicare Private Limited for Rs.90 lakh to be used for installation of electro medical equipment. The outstanding dues against the unit (November 1999) was Rs.1.89 crore (principal: Rs.77 lakh : interest and expenditure: Rs.1.12 crore) Audit observations with reference to above transactions are as follows:

- The terms of sanction clearly stipulated that the unit was to raise paid-up capital of Rs.49 lakh and pledge the shares with the Corporation as security before disbursement of loan. But loan was disbursed without this vital condition being fulfilled.

Payment was made to the equipment supplier without ensuring that advance payment was made by the loanee.

- The Corporation released (June 1992) payments of Rs.85 lakh to M/s.WIPRO GE medical systems (Supplier) on the basis of *pro forma* invoices. The supplier supplied only one machine to the unit though the amount paid was for two machines. Disbursement of money merely on the basis of *pro forma* invoices in the absence of prior verification of advance payment to the supplier by the loanee was in contravention of the laid down procedure.

Corporation failed to verify receipt of machine after disbursement of money to the supplier.

- In the letter dated 18 June 1992, it was clearly stated that the entire medical equipment was to be supplied to the loanee within 15 days. The Corporation should have ascertained the status of supply of equipment promptly and initiated criminal action against supplier for non delivery/ return of amount advanced. The post disbursement inspection was carried out only in September 1998, after a delay of six years. Due to the enormous delay, the Corporation could sell the machine in June 2002 for a meagre price of Rs.15 lakh.

As a result of these irregularities, an amount of Rs.1.74 crore (principal: Rs.77 lakh : interest: Rs.97 lakh) remained unrecovered (September 2003).

The Corporation stated (August 2003) that the payment was released on *pro forma* invoice based on the certificate of a Chartered Accountant that machinery had been acquired and installed. The reply is not tenable as the required verification should have been carried out by the Corporation itself instead of relying merely on the certificate of a Chartered Accountant.

The matter was reported to the Government (May 2003); the reply had not been received (November 2003).

4.19 Disbursement of loan to an unviable project

Loan was disbursed to a technically unviable project and was settled for part of the disbursed amount resulting in loss of Rs.1.74 crore.

The Corporation sanctioned (July 1994) a term loan of Rs.90 lakh to Sarnobat Chemicals (unit) for setting up a plant to manufacture Sodium Hydro Sulphate (Chemicals) used in textile and jaggery industries. The Corporation disbursed (February/March 1995) loan of Rs.88 lakh to the unit. The unit started production in 1995 and stopped production within a month *i.e.* April 1995. The total outstanding dues as on August 2000 was Rs.2.35 crore (principal: Rs.88 lakh and interest: Rs.1.47 crore).

The scrutiny of above loan transaction revealed the following:

Disbursement of loan for a project, which was not technically sound and settlement of dues for only part of disbursed amount resulted in loss of Rs.1.74 crore.

- At the time of release of loan, the Corporation was clearly aware that most of the units manufacturing the product were either in the medium or large scale sector and small scale units were not successful. Given the serious reservations it had on the viability of the project in the small scale sector, the Corporation rightly stipulated a condition in the sanction that disbursement would be made only after successful production of proposed product of required quality at rated capacity for two months. However, without this vital clause being fulfilled, the disbursement was made. The unit stopped production in April 1995 *i.e.* within one month of commissioning.

- Though the unit became a defaulter within six months of availing of loan, the Corporation delayed taking action by four years (November 1999) by which time the value of assets offered as security and collateral security declined from Rs.1.22 crore to Rs.61.38 lakh.

- In violation of own guidelines for one time settlement, (OTS) the Corporation accepted (July 2001) the unit's offer of Rs.61.38 lakh under OTS which was lesser than the outstanding principal by Rs.26.62 lakh.

The Corporation while accepting the facts stated (February 2003) that recovery proceedings were time consuming and hence OTS was accepted considering that the promoter had lost considerable amount in the project. The fact remains that the Corporation had financed a project which was unviable and non recovery of the full amount on the ground that the promoter had lost money is not tenable.

The matter was reported to the Government (May 2003); the reply had not been received (November 2003).

4.20 Sanction of loan without adequate safeguards

The dues of Rs.5.13 crore became irrecoverable due to inadequate securities with the Corporation.

Recovery of loan became doubtful due to inadequate securities and decline in share value.

The Corporation sanctioned and released (October 1995) Rs.1.10 crore to Mayo India Limited (MIL) after deducting Rs.40 lakh in respect of earlier outstanding loan as short term loan (STL) which was repayable in 11 monthly instalments alongwith 22 *per cent* interest. MIL paid Rs.33.43 lakh towards principal up to July 1996 and defaulted in payment of both principal and interest thereafter. The total dues recoverable (March 2003) from MIL was Rs.5.13 crore (principal: Rs.1.16 crore, interest and expenditure: Rs.3.97 crore).

Audit observed following irregularities with reference to above mentioned transaction:

- Loan was disbursed without any charge on the assets. As a result, the Corporation was unable to take action when the party defaulted in repayment.
- STL was released against the pledge of 3.05 lakh shares of Nath Pulp and Paper Mills Limited (NPML), Aurangabad and 0.99 lakh shares of Nath Seeds Limited (NSL), Aurangabad, without having a transfer deed executed in its favour.
- Even if the title deed was executed, the shares would have turned out to be ineffective security as the value of shares rapidly declined to Rs.13.41 lakh in February 2003. There is a need to have a re-look at the practice of taking shares as security.

The dues of Rs.5.13 crore became irrecoverable due to inadequate securities with the Corporation.

Due to disbursement of loan without following the vital procedure of obtaining adequate security, the Company has been unable to fully recover the loan advanced.

The matter was reported to the Government/Corporation (April 2003); the reply had not been received (November 2003).

Maharashtra Industrial Development Corporation

4.21 Idle outlay in millennium business park

The construction of galas and recreation centre in millennium park despite decline in demand resulted in idle outlay of Rs.163.32 crore on unsold galas.

Maharashtra Industrial Development Corporation (Corporation) decided (1995-96) to construct millennium business park (MBP), at Trans Thane Creek (TTC) industrial area to house heavy and light engineering, garment and leather industries. Analysis in audit revealed the following irregularities:

- Though tenders were invited in May 1995 for design and construction of these buildings, final decision was taken in January 1998. The Corporation constructed (June 2001) 1,326 galas at a cost of Rs.264.49 crore. The demand from entrepreneurs had declined between 1995-1998 and many of the existing industries in TTC industrial area were closed down due to industrial recession. The Corporation had not carried out market survey to ascertain extent of demand. The Corporation should have taken up the project on experimental basis with limited buildings.

The construction of galas in millennium business park despite decline in demand resulted in idle outlay of Rs.161.17 crore in unsold galas.

As a result, the Corporation could lease out only 894 galas by relaxation in conditions such as handing over possession on payment of 20-30 *per cent* of premium, payment of balance premium in 28 instalments with interest at 17.5 *per cent* per annum and moratorium period of two years.

Consequently, apart from reduced revenues in respect of the 894 galas, 432 galas costing Rs.161.17 crore have remained idle for more than two years.

The construction of recreation centre without proper demand survey resulted in idle outlay of Rs.2.15 crore.

- The Corporation decided to construct a recreation centre (clubhouse) with provision for facilities like medical centre, food kiosks, restaurant, recreation and fitness centre. The Corporation had neither ascertained before hand the extent of possible need/utilisation of such a recreation centre by the intended buyers nor had it firmed up the modalities for running the centre. As a result, the recreation centre constructed in June 2001 at a cost of Rs.2.15 crore remained idle. Efforts to lease/hire out the building have not been successful so far. The possible need/utilisation of such a recreation center should have been ascertained before undertaking construction.

Unwarranted payment of Rs.12.08 lakh as coordination charges was made to another contractor.

- The work of providing, erecting and commissioning of a 22/11KV sub-station in millennium business park was awarded to Alstom Limited at a cost of Rs.1.94 crore. The scope of work awarded to Alstom Limited included the liasioning/ coordination of sub-station work. But the Corporation paid Rs.12.08 lakh as coordination charges at the rate of six *per cent* of the cost of works to B.G. Shirke which was awarded civil and allied work.

The Corporation accepted (August 2003) the fact of idle galas in millennium business park and clubhouse and stated that efforts were being made to sell the galas and the clubhouse.

The matter was reported to the Government (June 2003); the reply had not been received (November 2003).

4.22 Investment in common effluent treatment plant

Investment of Rs.11.82 crore in common effluent treatment plant remained grossly under utilised.

The Corporation constructed (May 1999) at a cost of Rs.11.82 crore a common effluent treatment plant (CETP) with a capacity of 11.5 million litre per day (MLD) in Ranjangaon Industrial Area (May 1999).

Scrutiny in audit revealed the following:

- Despite the enormous capacity created, only a meagre quantity of 0.08 MLD of effluent from one unit was treated at CETP.
- The construction of CETP involving a huge expenditure of Rs.11.82 crore should not have been undertaken without ensuring that the industrial units would discharge their effluents to CETP.

The failure of the Corporation to obtain firm commitment from industries for use of CETP resulted in gross under utilisation.

The Corporation stated (August 2003) that it has been made compulsory to connect to CETP from June 2003 and Maharashtra Pollution Control Board (MPCB) has been requested to issue consent to the plot holder with the condition that plot holder should connect his factory to CETP. The Government stated (September 2003) that the Corporation has been instructed to incorporate suitable clause in the allotment letter and obtain firm commitment from the entrepreneurs to make use of CETP. The fact remains that failure to obtain firm commitment from industries for use of CETP resulted in gross under utilisation (99.3 *per cent*) and avoidable idle outlay of Rs.11.82 crore. Loss of interest at the rate of 12.5 *per cent* (based on borrowing rate from SIDBI) on the idle outlay worked out to Rs.5.91 crore for four years up to May 2003.

4.23 Irregular appointment of an intermediary

Avoidable payment of Rs.1.07 crore was made to an intermediary.

The Corporation obtained (May 2001) loan of Rs.70 crore from ICICI Limited. The loan was secured by charge on trust retention account, water collection account and mortgage of present and future movable and immovable assets at Kuber Chambers, Pune. The Corporation also agreed to provide additional security as may be acceptable to ICICI in the event of security provided becoming inadequate. The Corporation paid (January 2003) Rs.1.07 crore as arrangers fee and commission to SICOM Limited on the above loan. As the loan was obtained only from one source, which did not require administrative or financial services of an intermediary, the payment of Rs.1.07 crore to SICOM was avoidable.

The Corporation stated (July 2003) that SICOM was engaged to mobilise funds from market. The Government endorsed (October 2003) the reply of the Corporation. The reply is not tenable as the Corporation was a statutory body with sound financial position and the agreement was executed directly between the Corporation and ICICI with the Corporation providing all the securities for repayment as described above. The appointment of an intermediary and payment of fee/commission was irregular since the loan was arranged on the strength of Corporation's financial position and security offered. The payment of Rs.1.07 crore was avoidable.

4.24 Undue benefit to a private firm

Due to inclusion of a clause in the agreement in violation of rules, undue benefit of interest of Rs.11 crore was extended to a private commercial firm.

The Corporation allotted (June 2000) 5,05,875 square metre of land at Patalganga to Reliance Patalganga Power Limited (RPPL) for proposed power project on the total premium of Rs.23.34 crore. The Corporation received (February 2000) advance amount of rupees four crore before allotment.

As per Rule 12 of MIDC Disposal of Land Regulations, 1975, the allottee has to pay the balance land premium within 30 days from the date of receipt of allotment letter. In violation of the rule, the allotment letter issued by the Corporation wrongly stipulated that balance premium was payable on the date of taking possession. The possession of the land has not been taken by RPPL so far (September 2003). Had the Corporation followed Rule 12, it could have earned interest of Rs.11 crore on balance premium (Rs.19.34 crore) for the period July 2000 to September 2003.

The Government while endorsing the views of the Corporation stated (August 2003) that allotment by deferred payment was accepted considering huge outlay in power sector. The fact remains that benefits have been extended to a private commercial firm in violation of the rules.

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Countersigned

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The