Chapter-II
Performance Audit relating to Government company

PERFORMANCE AUDIT ON THE WORKING OF ASSAM ELECTRONICS DEVELOPMENT CORPORATION LIMITED

Assam Electronics Development Corporation Limited (Company) was incorporated in 1984, with the objective to promote, establish and develop electronics and allied industries in the State. Realising the role of Information & Communication Technology (ICT) in the governance and other spheres of life, Government of Assam (GOA) framed (2009) the State's Information Technology Policy 2009 (IT Policy) and nominated the Company as the nodal agency for implementation. During 2008-09 to 2012-13, the Company was engaged in implementation of 18 projects/schemes sponsored by the State/ Central Governments besides other activities like providing computer training, providing internet service, printing of driving licences (DL) and vehicle registration card (RC) *etc.* The present Audit Report covers the working of the Company during the period 2008-09 to 2012-13.

Highlights

The Company undertook 18 projects/schemes during 2008-13 and only 11 projects/schemes had fixed time schedule. The Company could complete only 5 out of these 11 projects/schemes within the targeted period. Out of the remaining 6 projects/schemes, 2 were completed with delays of 8 months while other 4 were still pending for completion even after expiry of 7 to 56 months from the scheduled dates.

(Paragraph 2.6)

As against 304 Points of Presence (PoPs) required to be completed under Assam State Wide Area Network (ASWAN), the Company could complete the construction of 270 PoPs only even after more than five years of the target date (July 2008).

(Paragraph 2.7.1.4)

By releasing interest free advance of ₹ 5.77 crore, the Company extended undue interest benefit of ₹ 1.64 crore to the contractor.

(Paragraph 2.7.1.5 (b))

Against an amount of ₹ 24.44 crore received for State Data Centre project scheduled for completion by June 2009, the Company could utilise ₹ 9.81 crore only till March 2013.

(Paragraph 2.7.2)

The Company could not properly monitor the operations of District Computer Centres (DCCs) due to non-submission of Status/Progress Reports by the franchisees on regular basis.

(Paragraph 2.8 (a))

The Company was retaining the scheme funds relating to completed projects and interest income earned there against without the knowledge of the scheme funding agencies. Ignoring the interest income earned against these scheme funds, the Company would have incurred operational losses during the five years from 2007-08 to 2011-12.

(Paragraph 2.9)

Absence of effective monitoring by the Apex Committee as well as non-constitution of other Committees as envisaged in the projects/scheme guidelines resulted in delays in implementation of projects/schemes.

(Paragraph 2.10)

Introduction

Background of the Company

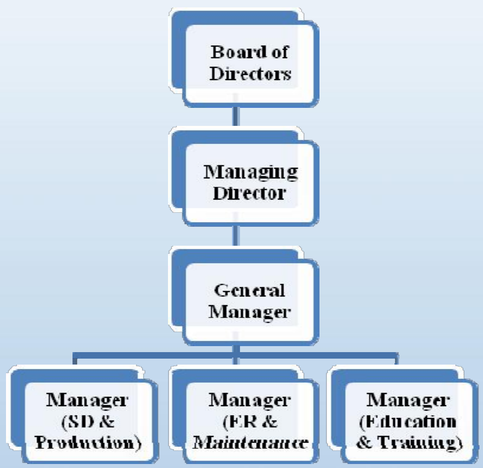
2.1 Assam Electronics Development Corporation Limited (Company) incorporated in 1984 was functioning under the administrative control of Department of Information Technology, Government of Assam (GOA) with the main objective to promote, establish and develop electronics and allied industries in the State. Realising the role of Information & Communication Technology (ICT) in the governance and other spheres of life, Government of Assam (GOA) framed (2009) the State's Information Technology Policy 2009 (IT Policy) and nominated (January 2009) the Company as the nodal agency for implementation. The Company, being the nodal agency, was responsible for:

(a) assisting the State Government in drawing up infrastructure architecture, (b) providing Optical Fibre Cable (OFC) network by involving State Power sector utilities, (c) implementing the National e-Governance Plan in the State, (d) hosting/maintaining the websites of Government agencies along with National

Informatics Centre, (e) digitalisation of paper based maps/images relating to Assam and (f) acting as a channelising agency for providing incentives to IT industries.

2.1.1 The Management of the Company is vested with the Board of Directors comprising of nine Members appointed by the GOA. The Managing Director acts as Chief Executive and is responsible for carrying out day to day operations of the Company with the assistance of one General Manager (ICT). The General Manager (ICT) is assisted by three Managers who are responsible for management of project/schemes and other revenue generating ventures allocated to them. The Organisational Chart depicting the hierarchy of the top management is as under:

Chart 2.1



Scope of Audit

2.2 The present Report covers the working of the Company during the period of five years from 2008-09 to 2012-13. During the period covered under the Report, the Company was engaged in implementing various projects/schemes sponsored by the State/Central Government. Besides, the Company was also engaged in providing several other services like providing computer training, providing internet service, printing of driving licence (DL) and vehicle registration card (RC) *etc*. for various departments of the GOA on entrustment basis.

During the period covered under the Report, the Company had undertaken total 18 Central/State funded projects/schemes. Out of said 18 projects/schemes, 8 projects/schemes were completed and remaining 10 projects/schemes were at various stages of implementation. The present Report involved scrutiny of records relating to implementation of all the 18 projects/schemes as well as examination of records relating to other activities undertaken up by the Company during 2008-09 to 2012-13.

Audit Objectives

2.3 The Performance Audit was conducted to assess whether:

- the schemes/projects were planned and executed in an economical, efficient and effective manner by adhering to the scheme guidelines and relevant rules/regulations;
- the Company achieved economy and efficiency in 'Other Activities' relating to imparting of computer training, providing internet services, printing of smart cards for Transport Department, *etc*.;
- the management of financial resources was efficient, effective and in compliance with the relevant statutory requirements;
- proper monitoring systems were in place to review ongoing projects as well as other commercial activities and whether prompt corrective measures were taken to overcome the deficiencies identified.

Audit Criteria

2.4 The audit criteria for assessing the achievement of the audit objectives were derived from the following sources:

- Information Technology Act 2008;
- IT Policy 2009, GOA;
- Guideline of GOA/GOI on implementation of various projects/schemes;
- Detailed Projects Reports of various Schemes implemented by the Company;
- General Financial Rules of GOA/GOI;
- Article of Association/ Memorandum of Association of the Company;
- Boards Minutes/Agenda papers, MIS Reports, Internal Audit Reports *etc.* of the Company.

Audit Methodology

2.5 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management in entry conference (3 May 2013), analysis of data/records with reference to audit criteria, scrutiny of records of the Company relating to Agenda/Minutes of the Board of Directors, annual reports, internal audit reports, *etc*. of the Company, interaction with the Company officials, raising of audit queries, issue of draft report to the Management/GOA for comments and final discussion of audit findings with Management/Government in exit conference (3 September 2013). The replies received (September 2013) from the Company as well as the views expressed by the representatives of the Company and GOA in the exit conference have been taken into consideration while finalising the Report. Formal replies of GOA, however, had not been received (November 2013).

Audit Findings

2.6 During the period under review, the Company received an aggregate amount of ₹ 796.96 crore against 18 Central/State Government sponsored Projects/ Schemes (as shown in ***Annexure** 7*). Out of these 18 projects, 10 projects were GOA funded and the other 8 projects were funded by GOI. Of the 10 projects sponsored by State Government, 5 projects were event-based, 3 projects were for creation of IT infrastructure and 2 projects were aimed at providing training to rural educated unemployed youth and students. Of the 8 GOI sponsored projects, 5 projects were for creation of IT infrastructure, 2 were pilot projects and 1 project was for creation of capacity building at Government Offices. In total, an amount of ₹ 709.39 crore was spent (by 31 March 2013) on these projects.

It may be observed that against 11 out of total 18 projects/schemes (Central:8; State: 10), for which scheduled date of completion was fixed, only 5 event based projects (45 *per cent*) were completed within the targeted period while 2 projects were completed with a delay of 8 months each. Remaining four[1] out of said eleven projects were still in progress (March 2013) with delays ranging from 7 to 56 months from the targeted dates.

Further, it was noticed that in respect of remaining 7 out of 18 projects, no target dates for completion were fixed by the sanctioning authority. As on 31 March 2013, six out of these seven projects were ongoing. Non-fixation of timeline for

[1] Serial no. A-1, A-2, A-4 and A-7 of ***Annexure-7***.

completion of these projects was indicative of deficient planning, which also contributed towards delays in completion of these projects.

As against total funds aggregating ₹ 796.96 crore received for implementation of 18 projects/scheme, the Company could utilise ₹ 709.39 crore (89 *per cent*) leaving unutilised funds to the extent of ₹ 87.57 crore (11 *per cent*). It was observed that in respect of two[2] out of seven ongoing projects (excluding three training based programmes), the intended benefits of the schemes could not be availed even after spending more than 80 *per cent* of the sanctioned costs. Further, the pace of implementation of other three[3] ongoing projects sanctioned during November 2006 to June 2009 was very slow as the spending against these projects was below 40 *per cent* of the sanctioned costs.

The delays in completion of the projects/schemes were due to various deficiencies like, post sanction revision in the scope of the project ***(para 2.7.1.3)***, delays in identification/handing over of project site ***(para 2.7.2)***, delay in finalisation of RFP/tendering document ***(para 2.7.2)***, non-fixation of event-wise schedule of deliverables for the consultants ***(para 2.7.2)***, wrong selection of department for covering under the scheme ***(para 2.7.3)***, non-provisioning for compatible power supply required for the project ***(para 2.7.4)***, *etc*.

Audit findings on implementation of schemes/projects have been discussed in succeeding paragraphs.

Audit objective: Whether the schemes/projects were planned and executed in an economical, efficient and effective manner by adhering to the scheme guidelines and relevant rules/regulations

(*Para 2.7.1 to 2.7.6*)

Planning and Execution of Projects

Government of India sponsored schemes/ projects

National e-Governance Plan

2.7.1 National e-Governance Plan (NeGP) was approved (May 2006) by GOI with the objective to make all Government services accessible to the common

[2] Serial no. A-1 and B-5 of ***Annexure-7***.
[3] Serial no. A-2, A-4 and A-7 of ***Annexure-7***.

man in the locality through common service delivery outlets and ensure efficiency, transparency and reliability of such services at affordable costs. NeGP envisaged bringing the different initiatives launched by different States/Departments under a common umbrella to achieve the vision. As part of GOI's initiatives, GOA launched the NeGP in the State of Assam in the year 2005. The Company acts as the State Designated Agency (SDA)/State Implementing Agency (SIA) for the scheme and holds the overall responsibility for implementation of the scheme in the State including receipt and utilisation of scheme funds as well as rendering of the accounts/Utilisation Certificates for all individual components of e-Governance Plan in the State. As a part of implementation of NeGP in the State, various programmes were launched in the State. An Apex Committee, headed by the Chief Secretary to GOA, was constituted (15 June 2009) by GOA. The Apex Committee was responsible for allocation of resources for various programmes under the scheme, setting priorities among various sub-projects and also for overseeing the progress of overall implementation of the NeGP in the State. Audit findings on implementation of these programmes under NeGP were discussed in following paragraphs:

Assam State Wide Area Network

2.7.1.2 To establish infrastructure for network connectivity in the State, GOI sanctioned (March 2005) Assam State Wide Area Network (ASWAN) with the stipulation to complete the project by July 2008 at a sanctioned cost of ₹ 72.50 crore. ASWAN envisaged network connectivity of data, voice and video communication with regard to:-

- connection to all State Headquarters up to the Block level *via* District/ sub-Divisional Headquarters, in a vertical hierarchical structure with a minimum bandwidth capacity of 2 Mbps[4] per link.
- creation of one Point of Presence (PoP) at each of Block Headquarter with Configurable Aggregation Equipment to enable vertical/horizontal connectivity.
- providing for the connectivity to Inter-State communication gateway *viz.* NICNET[@] (which acts as a network backbone at the national level)

Against the said sanctioned amount, the Company received ₹ 65.35 crore (including ₹ 3.83 crore earned as interest on the amount received and invested in

[4] Mega bits per second
[@] National Informatics Centre (NIC) Network

Bank deposits) and spent ₹ 61.54 crore (till March 2013). The project was still under progress (March 2013) even after expiry of more than 56 months of the scheduled date (July 2008) of completion.

Deficiency in planning

2.7.1.3 Being the nodal agency for implementation of projects/schemes, the Company is responsible for preparation of execution plans in accordance with the broad guidelines of various Central/State schemes. It is, therefore, essential for the Company that the execution plans are formulated on realistic basis after conducting adequate survey and assessing the requirements of the schemes/projects.

The GOA sanctioned (March 2006) an amount of ₹ 8.18 crore (including horizontal landing) for construction of Ground and First floor at 304 PoPs including the same located in district headquarters (DHQ) and sub-division headquarters (SDHQ). Later, an amount of ₹ 3.16 crore was additionally sanctioned (March 2010) for augmentation works at these PoPs. Till date, (August 2013) the Company had incurred ₹ 9.62 crore (93 *per cent*) against total receipt of ₹ 10.35 crore.

Scrutiny of records revealed that the Company proposed to upgrade 50 PoPs at DHQ and SDHQ to double storied buildings citing the reasons that the locations of the selected PoPs were in unsuitable areas and also considering the future requirements of space. A proposal was submitted (August 2006) to the GOA for additional cost of ₹ 5.10 crore against which the GOA accorded (March 2010) sanction for ₹ 4.65 crore. The upgradation work of the selected PoP buildings was completed (June 2013) at an expenditure of ₹ 3.93 crore. Due to change in the scope of earlier selected PoPs and also in sanctioning of additional expenditure out of GOA's budget, considerable delays occurred which ultimately affected the completion of the project. These delays could have been avoided by the Company through proper survey and realistic assessment of the requirements of the buildings planned for PoPs at planning stage itself.

Time over run

2.7.1.4 It was observed that the implementation of the project was delayed at various stages of planning and execution of works. The broad reasons for these delays were as under:

- The Company did not fix up time schedule for completion of various activities of the project *viz.* preparation of Request for Proposal (RFP), selection of sites for PoPs, civil works for site preparation, installation and commission of PoPs, provision of Bandwidth (BW) connectivity *etc*. The absence of time schedule led to delay in completion of various activities and resulted in non-completion of project within the scheduled time.

- The Company did not abide by the specifications prescribed by GOI in preparation of RFP like criteria for evaluation of bidder in respect of technical and commercial (60:40) eligibility, specification for router/switch *etc*. The above deviations from the criteria prescribed for preparation of RFP resulted in issuance of corrigendum (March 2007) to the originally notified RFP (December 2006). This led to delay of 24 months in Tender notification (March 2007) for appointment of Network Operator after sanction (March 2005) of the project by GOI.

- Scrutiny of records also revealed that the bids for the appointment of Network Operator were received by 23 March 2007. Thus, owing to the delay in bid evaluation, however, the Company could appoint the Network Operator only in December 2007 *viz*. one year after floating (December 2006) of RFP and two years nine months after sanction of the project (March 2005), which also added to the delay in execution of project.

- To implement the project, the Company was to obtain possession of 304 PoP sites from District Authorities and create necessary infrastructure. This work should have been completed at planning stage before appointment of Network Operator. However, due to lack of proper coordination/ persuasion with District Authorities and non-fulfilment of mandatory infrastructure requirements like obtaining Power supply, *etc*., the Company could obtain sites and complete (December 2007) the infrastructure works at 146 PoP sites only. Subsequently, construction of another 124 PoPs was also completed upto August 2013.

- The Company could complete (August 2013) the construction of 270 out of 304 PoPs only (89 *per cent*) even after more than five years of the targeted date (July 2008). The remaining 34 PoPs were pending for completion (August 2013). It was observed that an amount aggregating ₹ 0.52 crore was incurred on these 34 PoPs during 2008-09 and no significant progress of work was noticed on these PoPs during last four years.

  The Company replied (September 2013) that delay in completion was mainly due to local disturbance. The reply was not tenable as the Company never pursued the matter with local authorities for early completion of works.

- As per the scheme conditions, the Company was required to appoint Third Party Auditor (TPA) for ensuring the effective and satisfactory performance of the Network Operator. As such, the TPA was needed to be appointed immediately on selection of Network Operator. It was, however, observed that the TPA was appointed by the Company only in July 2011 *i.e.* after 42 months since the appointment (December 2007) of the Network Operator.

Thus, as against the target date of commissioning all 304 PoPs by July 2008, the Company could commission only 270 POPs till August 2013.

Undue benefit to Network Operator

2.7.1.5 Tulip Telecom Limited, New Delhi (TTL) was appointed (December 2007) as the Network Operator for design, supply of equipment, installation, operation and maintenance of ASWAN for a period of five years on 'Build, Own, Operate and Transfer' (BOOT) basis. Audit scrutiny revealed the following irregularities:

(a) Quarterly Guaranteed Revenue (QGR) payments

As per the agreement, TTL was to be paid the supply and services charges on quarterly basis as per the uptime (network availability) at the end of each quarter for all the locations on the basis of certificate provided by the Third Party Auditor (TPA). The Apex Committee was constituted (June 2009) by GOA for allocation of resources among various sub projects and also to monitor the overall implementation of programme in the State. In this context, it may be stated that the Company issued several addenda to the agreement to benefit TTL without approval from the Apex Committee. Further, scrutiny of the record relating to payment of QGR bills revealed the following:

- TTL submitted five QGR bills amounting to ₹ 8.94 crore in respect of 163 PoPs for the period from 15 March 2010 to 14 June 2011. It was observed that in absence of TPA, who was appointed in July 2011 only, the Final Acceptance Test (FAT) could not be issued by TPA on these QGR bills of TTL. The Company, however, made the payments (November 2011) against these QGR claims of TTL on *adhoc* basis without supporting verification reports[5] on network availability.

  Subsequently, the Company regularised (21 May 2012) the said *adhoc* payments in respect of 163 PoPs by way of issuing an addendum to the agreement which was made effective retrospectively from 15 March 2010.

[5] Required to be submitted by TPA as per RFP and agreement with TTL

The Company replied (September 2013) that initial payment was made to TTL based on Partial Acceptance Test (PAT) certification issued by the Company as TPA was not appointed.

The reply confirmed the fact that the Company made payments without detailed scrutiny by an independent agency as it had failed to appoint TPA immediately after signing agreement with TTL.

- The TPA was appointed by the Company in July 2011. After appointment, the TPA verified two QGR bills of TTL (₹ 3.65 crore) pertaining to period from 15 June 2011 to 14 December 2011 in respect of 163 PoPs. It was observed that the TPA, after verification of the bills, did not endorse the same for payment on the grounds that the said bills were not actual QGRs but the bills for part periods pertaining to supply of materials and services. The Company, however, released (6 July 2012) the payment ignoring the observations made by the TPA.

It was observed that the said payments were regularised by the Company by way of issuing (20 July 2012) another addendum to the agreement with retrospective effect from 15 March 2010 despite adverse remarks of TPA.

The Company replied (September 2013) that the part bills of TTL as mentioned by the TPA pertained to the items that were actually supplied.

The reply is not tenable as the payments were released without verifying the quality of service and ignoring the remarks of TPA contrary to the provisions of the Service Level Agreement (SLA).

(b) Extension of interest free Mobilisation Advance

The contract for installation, operation and maintenance of the ASWAN entered (December 2007) with TTL was on BOOT basis and therefore, the contract did not provide for any advance payment to TTL. With a view to provide interest free mobilisation advance to the extent of 10 *per cent* of the contract value (₹ 57.72 crore), however the Company issued (29 March 2008) an addendum to the contract to this effect without approval of the Apex Committee. Accordingly, the Company extended (29 March 2008) interest free mobilisation advance of

By releasing interest free mobilisation advance of ₹ 5.77 crore, the Company extended undue interest benefit of ₹ 1.64 crore for the period from March 2008 to April 2011 to the contractor

₹ 5.77 crore to the contractor. The mobilisation advance could be recovered in April 2011. Thus, the Company suffered an interest loss of ₹ 1.64 crore[6] against the mobilisation advance, which tantamount to undue benefit to the contractor.

The Company replied (September 2013) that mobilisation advance was paid on submission of 100 *per cent* Bank Guarantee and the advance was to be recovered from 1st year's bill.

The reply is not convincing as the Company without obtaining approval of the Apex Committee extended mobilisation advance and the same could be recovered only after three years from the date of payment.

(c) No action against Poor Performance

As per the Service Level Agreement (SLA), in case the equipment[7] uptime remains below 80 *per cent* of the requirement, TPA shall not recommend for payment of QGR bills of the Network Operator. During the period from 15 September 2010 to 14 December 2011, the equipment uptime at BHQ PoPs ranged between Nil and 81.89 *per cent* against the targeted range of 90 to 99 *per cent*. It was observed that the TPA neither verified nor recommended the said QGR bills (₹ 6.44 crore) for payment relating to BHQ PoPs. The Company, however, ignoring the above facts released (July 2012) the QGR payments, which was irregular resulting in undue benefit to the Network Operator (TTL).

Further, as per the terms of the SLA entered into with TTL, the Network Operator (TTL) was responsible for supply and installation of new/repaired equipment in the event of failure of any equipment in the PoPs so as to ensure uninterrupted operation of the system. It was noticed that 166 out of 264 PoPs were not operational owing to non-working/non-availability of modems since April 2012. The Network Operator (TTL), however, could repair and provide (July 2013) the modems to 60 PoPs out of said 166 PoPs only leaving the remaining 106 PoPs non-operational for more than one year. As such in the absence of modems, the internet facilities expected from operation of the PoPs could not be achieved. The poor performance of the TTL was discussed (16 October 2012) in Assam Network Implementation & Advisory Committee (ANIAC), which suggested that the State e-Governance Mission Team (SeMT) should look into the termination and exit clause of the Agreement and take appropriate action against TTL latest by 30 November 2012. It was, however, observed that despite clear directions of ANIAC, no action was taken by the SeMT/Company against the Network Operator till date (September 2013).

[6] Considering interest at the rate of 6 *per cent* per annum for the period from March 2008 to April 2011.
[7] Equipment includes Routers, Switch, DG set, modems, *etc*.

The Company replied (September 2013) that as proper bandwidth and power could not be offered to TTL, full payment was recommended. It was further stated that since performance of the operator did not improve, termination of the operator has been proposed and calculation for recovery of dues from TTL would be done before termination of the contract.

The reply is not tenable as the SeMT/Company failed to comply with the directions of ANIAC within the deadline fixed despite poor performance of TTL.

Irregular booking of expenditure

2.7.1.6 As per the scheme conditions of ASWAN project, the administrative expenditure for implementation of the scheme should be restricted to one *per cent* of the total project cost of ₹ 72.50 crore. It was, however, observed that the Company incurred excess administrative expenditure to the tune of ₹ 2.16 crore, which was inadmissible.

Similarly, the Company accounted for an amount of ₹ 2.55 crore under the project as expenditure for Bandwidth procurement (2007-12) as against actual expenditure of ₹ 0.13 crore. Thus, an amount aggregating ₹ 4.58 crore was irregularly booked under the scheme without the knowledge of the scheme funding agency.

The Company replied (September 2013) that the Bandwidth was used for ASWAN.

The reply is not tenable as the documents available with Audit indicate that the Bandwidth was procured and used for Company's own broadband internet business and not for ASWAN project. Further, the Company did not offer any comment with regard to excess accounting of administrative charges.

State Data Centre

2.7.2 State Data Centre (SDC) project expected to act as a mediator and convergence point between open unsecured public domain and sensitive Government environment. SDC was proposed to provide functions like central repository of the State, disaster recovery, on-line delivery of various services (G2G, G2C and G2B)[8], portal for citizen information services, intranet portal *etc*. with better and secured management of resources at a minimised overall cost. Assam SDC would be equipped to host/co-locate systems such as Web

[8] G2G- Government to Government, G2C- Government to Citizens, G2B- Government to Business

Servers, Application Servers, Database Servers, Storage Area Network and Network Attached Storage, *etc*.

In spite of completion schedule being June 2009, the Company could utilise ₹ 9.81 crore against the amount of ₹ 24.44 crore received till March 2013

Assam State Data Centre was sanctioned (March 2008) at a cost of ₹ 49.04 crore with stipulation to complete the same by June 2009. It was observed that as against the scheme fund of ₹ 24.44 crore received (February 2009 to December 2011), the Company could utilise an amount of ₹ 9.81 crore only (40 *per cent*) till March 2013.

- As per the DPR approved by GOI (20 March 2008), GOA earmarked the site for housing the SDC in the Assam Secretariat Complex. According to the approved DPR, the process of preparation of RFP for "Design, Site preparation, Supply, Installation, Commissioning, Maintenance and Operations of the Assam State Data Centre" should start within 7 weeks after the approval of DPR by the GOI and the same should be finalised by the Consultant within 11 weeks of approval of DPR. Accordingly, the preparation of RFP should have commenced by the 2nd week of May 2008 and finalised by the end of June 2008.

  The examination of records relating to SDC revealed the deficiencies as detailed below:

  - The actual location of the site was identified (September 2008) by GOA only after six months of approval of the DPR. Further, the site for execution of the project works was handed over (June 2010) by GOA to PWD after 21 months of its identification (September 2008) with stipulation to complete the works within two years of handing over the site. Due to delay on the part of the Government in handing over the site, the construction of building entrusted to PWD was delayed.
  - After handing over the site to PWD, the Company took another two years in preparing (June 2012) the RFP for floating the tenders. The RFP was finally approved (September 2012) by GOI and tender was floated in October 2012.
  - It was, however, observed that even after 13 months of floating the tenders, same were pending for finalisation (November 2013). Thus, significant delays at various stages of project implementation on account of reasons avoidable on part of the Company/GOA had correspondingly delayed the implementation of the scheme.

- The Company engaged (May 2008) Price Waterhouse Coopers as Consultant for project development, bid process management, supervision and overall implementation of the SDC at a fee of ₹ 0.40 crore. It was observed that although the contract period was fixed for one year (*i.e.* upto April 2009), no schedule for event wise deliverables was drawn up. The tenure of the consultant was extended (by paying additional compensation of ₹ 0.01 crore per month during the extended period - with effect from May 2012) up to May 2013 or till completion of Final Acceptance Test and 'Go live' of the SDC Project whichever is later. Thus, the delay at various levels culminated into liability for payment of additional consultation charges of ₹ 0.16 crore till September 2013.

  The Company replied (September 2013) that the timelines as mentioned in DPR could not be adhered to as the GOA considering the technological sensitivity of the project, decided (July 2008) to construct a separate new SDC building after appointment of consultant. It was further stated that the work of preparation of RFP was deliberately kept in abeyance to synchronise with the progress of construction of new SDC building.

  The reply is not tenable as GOA's decision to construct new SDC building after appointment of the consultants itself is indicative of deficiency in planning, which ultimately delayed overall implementation of the time bound project of GOI.

State Portal and State Service Delivery Gateway

2.7.3 State Portal and State Service Delivery Gateway (SP & SSDG) envisages making available various Governments to Citizens (G2C) services by facilitating download/submission of applications for these services electronically with the help of Electronic Forms hosted on the State Portal (SP). These forms would be routed by State Services Delivery Gateway (SSDG). The facilities were expected to provide citizens the provision for checking the status of the pending application. This would ensure efficiency, availability, transparency and reliability of such services at affordable costs to realise the basic needs of the common man. SP & SSDG project was sanctioned by Government of India in June 2009. The Company was appointed (January 2009) as the nodal agency for implementation of the project in the State of Assam. Under the project, a total of 32 G2C services relating to three departments were identified (December 2010). The project was scheduled to be completed by August 2012 at an estimated cost of ₹ 7.96 crore. The Company received (2010-11) an amount aggregating ₹ 4.97 crore for implementation of the scheme. The Company could, however, actually utilise ₹ 2.47 crore only (50 *per cent*) till March 2013. In this connection, the following observations are made:

- The Company could not formalise (till June 2013) arrangements with the concerned Departments to ensure availability of necessary inputs/forms/data for implementation of the project. As a result, although the State Portal went live on 30 March 2013, the services for which the State Portal was developed were yet to be made available (September 2013) to the citizens defeating the basic objective of the scheme.

- It was observed that the 11 services of District administration proposed in State Portal project were also, *inter alia,* covered under the 'e-District project' funded by the GOI under the NeGP. This might result in overlapping of services to be offered and also wastage of resources.

  The Company replied (September 2013) that the e-District services are integrated to the SSDG as per guidelines of Department of Electronics and Information Technology (DeitY), GOI.

  The reply is not tenable as SSDG project also prescribed development of forms for the same services which were identified/ developed in 'e-District project' resulting in duplication of work.

- The project envisaged that Agriculture Department would offer 16 G2C services. After more than 15 months of selection (December 2010) of the Department for coverage under the scheme, it was realised (April 2012) that the proposed services under Agriculture Department were not Citizen centric. Hence, it was decided (April 2012) to replace the Agriculture Department with some other suitable department for coverage under the scheme. The above decision was indicative of the lackadaisical approach adopted by the GOA/Company in planning of the project. This also contributed towards delay in overall implementation of the project in the State.

  The Company replied (September 2013) that after detailed discussions with the Departments it was noticed that the services selected were not citizen centric and hence it was decided to go for services of other departments.

  The reply is indicative of the defective planning as the DPR prepared by the GOA/Company for the project was not based on inputs to make it citizen centric.

- DPR of the scheme (Gap Infrastructure component) allocated an amount of ₹ 0.73 crore for purchase of 183 Nos. of Computers, printers and UPS[9] equipments. The Company submitted (26 February 2013) 'Utilisation of Certificate' for ₹ 0.29 crore (upto September 2012) confirming that the scheme funds were spent on the intended purpose.

  Audit scrutiny, however, revealed that though the Company reported to have utilised the funds for the specified purpose, the funds were actually diverted for procurement and laying of OFC cables in different parts of Assam. The unauthorised diversion of scheme funds to other works had correspondingly caused delays in delivery of services as envisaged under the project.

  The Company replied (September 2013) OFC cables were laid to speed up delivery of services under e-District project as no fund was received from GOI for horizontal connectivity which was essential to progress all NeGP projects.

  The reply is not tenable as the works relating to providing the horizontal connectivity was to be done under ASWAN and there was no provision under SSDG for taking up these works.

State Government Projects/Schemes

Assam Online Portal and Secretarial Less Paper Office Project

2.7.4 The NeGP aims to significantly transform and improve the way the Government provides services to the citizens. It is envisaged to move from a Government centric to citizen centric paradigm in service provisioning, start treating citizens as Government customers and empower them to demand convenient, cost effective and transparent services from the Government.

In order to achieve the above objective, the GOA sanctioned (February 2009) Assam Online Portal and Secretarial Less Paper Office project. The project envisages providing necessary IT hardware for deployment in the Secretariat for day-to-day office work as well as for hosting of e-applications. The Company was selected as the implementing agency for the project. No time schedule was, however, fixed for completion of the project. As against the scheme funds aggregating ₹ 34.40 crore received by the Company, ₹ 20.20 crore (59 *per cent*) were utilised (March 2013). The project was, however, still pending for

[9] Uninterrupted Power Supply

completion (September 2013). In this connection, following observations are made:

- Computerisation of Assam Secretariat included installation of large quantity of computers and accessories along with creation of Local Area Network (LAN) in all nine blocks of Assam Secretariat. The work (at a cost of ₹ 14.68 crore)[10] of supply and installation of computer equipments and Gigabit networks was allotted (June 2010) to WIPRO. Accordingly, WIPRO supplied the equipment during June 2010 and October 2010.

  After receiving the equipment, however, the Company realised (November 2010) that in order to utilise the newly procured equipment, additional power supply was essential. The Company took up (November 2010) the matter with the GOA for provision of the additional power supply in the Secretariat. It was, however, observed that the necessary works for provision of additional power supply were yet to be taken up (June 2013).

  Thus, due to deficient planning of the Company in implementation of the project, the equipment procured (June-October 2010) at a cost of ₹ 14.68 crore remained unutilised for more than 33 months (June 2013).

  It was further observed that all the equipment procured for installation in the Secretariat carried one to three years warranty from the manufacturer. The delayed/non installation of equipment deprived the Company of availing free warranty for the said periods besides the risk of equipment becoming obsolete.

  The Company replied (September 2013) that after taking up the matter, PWD Department had started provisioning for the required power. It was further stated that equipments are required to be kept under warranty continuously as critical parts may not be available subsequently.

  The reply of the Company not only indicates deficiency in planning but also shows that the Company did not rigorously pursue with GOA for commissioning of the project in time. The fact remains that the Company could not avail itself the warranty due to delay in implementation of the project and subsequent extension of warranty would involve additional expenditure.

[10] Computers and accessories : ₹ 10.88 crore + LAN : ₹ 3.80 crore

Anundoram Borooah Award Scheme

2.7.5 Government of Assam (GOA) introduced Anundoram Borooah Award Scheme (ARBAS) in 2005 to enhance the knowledge of Information Technology (IT) among the student community. As per the scheme, a Personal Computer (PC) along with UPS or a Laptop or a sum equivalent to the cost of PC/Laptop would be provided to students who secure 60 *per cent* marks in 10th standard examination conducted by State Educational Boards/Councils under GOA. The Company was nominated for implementing the scheme. As per the scheme provisions, the Company was responsible for collecting the list of the beneficiaries from the respective Boards/Councils for selection of the eligible students. This exercise was to be done every year for implementation of the scheme in the State. The Company was also required to submit the utilisation reports on yearly basis to the concerned Department regarding completion of the project. The Company was entitled for an agency charges at the rate of five *per cent* of the total project cost for providing its services in implementation of the scheme. During the period of review (2008-12), the Company received ₹ 241.28 crore for implementing the five annual schemes (*viz.* ARBAS 2008 to ARBAS 2012).

Printing of excess booklets and certificates than requirement

The Company printed excess quantity of certificates and manuals at an additional cost of ₹ 0.17 crore.

The Students were issued a Certificate and a set of Users' Manual along with Computers. Scrutiny of records revealed that the Company printed excess quantity of Certificates[11] (4,020) and Manuals[12] (12,438) at an additional cost of ₹ 0.17 crore than required.

It was observed that out of excess quantity of Certificates and Manuals so printed, 3,000 Manuals were issued for NeGP project and some of the booklets were also issued to officers for personal use.

The Company replied (September 2013) that the additional Manuals had to be printed for distribution to guests attending the Distribution Ceremony and additional Certificates had to be printed for making corrections during Distribution Ceremony.

[11] Excess ranged from 1.75 *per cent* to 5.98 *per cent*
[12] Excess ranged from 9.40 *per cent* to 35.21 *per cent*

The reply is not tenable as the number of students securing 60 *per cent* was identifiable and does not justify printing of large number of Manuals/Certificates in excess of requirements causing the additional expenditure on this account.

Rajiv Gandhi Computer Literacy Programme (RGCLP)

2.7.6 The GOA decided to impart computer education in all Government schools through Rajiv Gandhi Computer Literacy Programme (RGCLP) project. GOA entrusted (July 2003) the project to the Company for implementation through contractors on Build, Operate and Transfer (BOT) basis. The contractors were responsible for providing resources like faculty, computing resources, site preparation, internet connectivity *etc.* in all allotted schools for a period of five years in a phased manner. The scheme was launched in April 2004 and covered 1607 schools upto January 2013 in five phases (five year each) in allotted schools. The Company received ₹ 337.80 crore for implementation of the scheme and spent ₹ 329.57 crore (98 *per cent)* by March 2013. Audit scrutiny revealed the following irregularities in implementation of scheme under five phases:

(a) Payment for work not executed/partially executed

- NIIT Limited (NIIT) was entrusted with the implementation of the scheme in 140 Schools under Phase I (December 2003) and in 200 Schools under Phase IV (February 2006) at a contract value of ₹ 25.13 crore and ₹ 25 crore respectively. As per the terms of the contract, the programme was to commence within 45 days of handing over of the school. Further, in case of any delay in handing over of the school for whatsoever reasons, the commencement date of the programme would also be treated to have extended correspondingly.

  Scrutiny of records revealed that NIIT commenced education delivery at 42 schools (Phase I: 14 and Phase IV: 28) with delays ranging from 15 to 421 days against the scheduled dates (*viz.* 1st April 2004 and 15th January 2007 respectively). Accordingly, as per the contract terms, the project completion period for these schools was to be extended for the corresponding delayed periods. It was, however, observed that the Company did not insist upon NIIT for extending the 'education delivery period' corresponding to the delays occurred in commencing the education delivery.

Release of full payment without extending the period of education delivery for the corresponding delayed periods resulted in excess payment of ₹ 0.26 crore to the contractor.

On the contrary, full payments for the contract period of five years were released by the Company without deducting any amount from the bills of NIIT for 'non- delivery of education'. Further, the Company also did not consider this aspect for appropriate adjustment in the contract value against renewal of the contract of NIIT for subsequent periods. This resulted in excess payment of ₹ 0.26 crore for the period during which the students did not receive any computer education.

The Company admitted the facts and stated (September 2013) that a notice has been issued (August 2013) to NIIT for deduction of ₹ 0.26 crore.

- On completion of education delivery by the contractors under the initial Phases, the same was renewed in respect of 630 schools. Under the renewal scheme, the contractor, in addition to providing the computer education service, was also responsible to upgrade/replace/maintain the existing hardware & software within 45 days of completion of original phases. Under the renewal scheme, NIIT was entrusted with the scheme works in respect of total 570 schools under Phase I, II and III (*viz*. Phase I: 140 schools, Phase II: 200 schools and Phase III: 230 schools) at the rate of ₹ 0.10 crore per school (including ₹ 1.62 lakh per school for up-gradation).

  It was observed that there were delays ranging from 36 to 121 days in up gradation/replacement of existing infrastructure by NIIT. Since these were renewal phases of the contract with NIIT for providing the services in the same schools, there was no impediment which hampered upgradation of infrastructure in the selected schools. Thus, NIIT should have been held responsible for delays in upgradation work. It was, however, noticed that the Company released the entire payments to NIIT (including cost of upgradation) completely ignoring the lapse on its part in timely and effectively executing the assigned project works. This tantamount to extending of undue benefit to the tune of ₹ 0.20 crore by not deducting the proportionate cost of upgradation for delayed period besides depriving the students of availing the intended benefits of the scheme.

  The Company replied (September 2013) that the delivery of educational services could not be stopped and it takes minimum 45 days to install the new system.

  The reply is not tenable as the delays pointed out by Audit have been worked out after allowing said 45 days for upgradation.

(b) Unauthorised waiver of Liquidated damages

Under Phase I of the scheme, CMC limited (CMC) was awarded (February 2004) the contract for implementation of the project in 60 schools at total contract value of ₹ 11.30 crore. As per the agreement, CMC was required to complete the supply, installation and commissioning of computers within 45 days from the date of site readiness. The site readiness was intimated to CMC in June 2004. As the supplies were not received from CMC till September 2004, the Company preferred a liquidated damages (LD) claim for ₹ 0.34 crore as per the terms of the contract. On the request of CMC, however, the matter was referred (December 2004) to GOA for decision.

It was observed that pending decision of GOA in the matter, the Company released (15 November 2011) the remaining payments aggregating ₹ 0.71 crore (including the Earnest Money Deposit of ₹ 0.50 crore released on November 2011) to CMC without holding back the LD amount, which was contrary to the agreement terms.

The Company replied (September 2013) that the LD was released as the verbal directions of the Hon'ble Minister, P&D Department, GOA.

The reply is not tenable as the amount was released without written approval from GOA, which was against the principles of propriety and prudence.

(c) Payment of irregular Advance

The Company awarded (February 2006) the work of implementation of the scheme in 300 schools under Phase IV to NIIT Limited (NIIT) based on open bidding. A writ petition was, however, filed by one of the bidders (Educomp Solutions Limited) alleging irregularities in bid evaluation criteria. As a result, the contract was quashed (May 2006) by the Hon'ble Guwahati High Court.

It was observed that despite the contract being quashed by the Hon'ble High Court, the Company extended (June 2006) interest free Mobilisation Advance (MA) of ₹ 6.56 crore to NIIT in respect of 300 schools against the quashed contract. The said MA was funded through pre-matured withdrawal of an existing fixed deposit and availing Bank overdraft. On an appeal filed by the Company, Hon'ble Supreme Court directed (November 2006) the Company to allocate only 200 schools to NIIT as against 300 schools allocated by the Company initially. It was observed that in the light of the decision of the Hon'ble High Court, the Company should not have extended MA to NIIT till the matter was finally decided by the Apex Court. Thus, the irregular advance made by the Company for the period from June 2006 to September 2007 resulted in loss of interest of ₹ 0.23 crore[13] to the Company.

The Company replied (September 2013) that the interest penalty was re-calculated as ₹ 0.14 crore from the date of Supreme Court verdict and a notice has been issued (September 2013) to NIIT for recovery of the amount.

The reply is not tenable as the interest loss should have been worked out from the date of payment of advance after verdict of Guwahati High Court and not from the date of the decision by the Apex court as worked out by the Company. Further, continuous efforts should be undertaken to recover the amount from NIIT.

(d) Incorrect assessment of number of courseware

As per the agreements entered into for implementation of the scheme under Phase I to III, the contractors were to provide courseware up to 800 students per school per year while under Phase IV & V, contractors were to cover upto 600 students per school per year. In case the number of students covered by the contractors exceeds the prescribed number of students (*viz*. 800/600 students), the cost of additional courseware was to be borne by the Company. It was, however, noticed that no system was devised by the Company for compiling the required data for ascertaining the actual number of students covered by the contractors under each school. The Company also failed to provide appropriate clause in the contract agreement for proportionate deduction in the contract value in case the number of students falls below the specified number. From the data on actual number of students enrolled each year in the State as compiled by the contractors, it was revealed that out of 2240 schools covered in the scheme, the numbers of students was less than 800/600 in 2120 schools while the number of students was more than the specified limit in the remaining 120 schools.

It was observed that though the Company incurred extra liabilities towards cost of additional courseware provided, no amount was deducted against the schools having number of students below the prescribed number. Thus, due to failure of the Company to include an enabling clause in the agreement for proportionate adjustment of contractors dues based on the actual coverage, an amount of

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No. of schools	Amount of advance	Date of release	Date of adjustment/ SC order	Days	Rate of Interest	Interest Loss
200	₹ 4.42 crore	30 June 2006	20 November 2006	152	5 *per cent*	₹ 9.20 lakh
100	₹ 2.14 crore	30 June 2006	28 September 2007	455	5 *per cent*	₹ 13.33 lakh
					Total	**₹ 22.53 lakh**

₹ 17.85 crore was paid towards the cost of courseware which was not actually delivered.

The Company replied (September 2013) that as there was no scope in the agreement for proportionate downward adjustment of the cost in the event of number of students falling below the specified number, no damages could be imposed.

The reply confirms the need for inclusion of an appropriate clause in the agreements for adjustment of dues payable to the contractors based on the actual delivery of the courseware to students.

Audit objective: Whether the Company achieved economy and efficiency in 'Other activities relating to imparting of computer training, providing internet services, printing of smart cards for Transport Department, *etc.*

(*Para 2.8*)

Management of Other Activities

2.8 Apart from acting as the nodal agency for implementation of Central/State sponsored schemes in the State, the Company had also undertaken several other activities during the period of five years covered under the Report. These activities included creating and managing the District Computer Centres (DCCs) for imparting the computer training to the eligible students in the State, providing the Broad Band Internet Services to registered consumers in the State, executing the printing jobs for the Transport Department of GOA, *etc.* Audit scrutiny of the activities of the Company revealed the following:

(a) Management of District Computer Centres

Under the 11th Finance Commission Award to the Government of Assam, the Company carried out a turnkey project at a total cost of ₹ 7.58 crore for creating and managing '50 Personal Computer/Server Computer laboratory' in each of the 23 districts of Assam with effect from 2004-05. These District Computer Centres (DCCs) were run and managed by the Company through a network of Franchisee/Authorised agents for imparting computer training to students at nominal rates. The DCCs were also used to conduct district level training programmes for the Government departments and holding of computer based examination and tests. Out of 23 DCCs located in 23 districts of the State, 21 DCCs were handed over to Franchisees in consultation with the Deputy Commissioner of the respective district and remaining 2 DCCs were run by the Company departmentally. Scrutiny of records relating to the DCCs revealed the following:

- ***Lack of effective monitoring on the operations of the Franchisee***

  The Cachar DCC was handed over (16 November 2006) to franchisee (M/s DIGICOM Computer Centre) for running and managing the DCC for a period of two years. It was, however, observed that essential facilities like LAN and Generator were pending for installation in the Cachar DCC at the time of its handing over to the franchisee. It was further noticed that the franchisee had not organised any training programme in the DCC for Students and Teachers so far (September 2013) even after expiry of almost seven years of its taking over the charge from the Company. It was noticed that despite the above deficiencies in the performance of the franchisee in running and managing the Cachar DCC, the franchisee was allowed to run the DCC even after expiry of the agreement in November 2008 without formally renewing the agreement.

  The Company replied (September 2013) that the work of installation of LAN and Generator was outsourced and the same could be completed only after handing over the DCC to the franchisee. It was also added that the Company would initiate steps for employing a new franchisee in consultation with the District Commissioner. The fact, however, remained that the Company is taking the steps for replacement of the franchisee after almost five years of expiry of the agreement despite noticing serious shortcomings in their performance.

- ***Lack of control over the assets/infrastructure created in DCCs***

  One of the objectives of running the DCCs was to impart computer training to the deserving students at nominal rates. For the purpose, the DCCs were setup with required infrastructure including the Computers, related equipment and other assets. Hence, the said infrastructure/equipment installed in each DCC need to be utilised solely for the intended purposes so as to achieve the intended objectives of formation of the DCCs. Scrutiny of records, however, revealed that 26 computers along with Computer tables and chairs belonging to DCC, Cachar were taken away by the District Administration between May 2007 and December 2009. Another 5 computers belonging to DCC, Karimganj were taken away by the District

Administration in August 2010. It was further observed that the computers/equipment so diverted by the District Administration were not returned back (September 2013) to the respective DCC defeating the purpose of procurement of said computers/equipment. The Company, however, neither initiated any steps for bringing back the computers nor informed the higher authorities about the diversion of the computers/equipment.

The Company replied (September 2013) that though DCCs are run by the Company through franchisees, the responsibility of smooth functioning of DCCs lies with the District DCC Committee which is headed by the concerned Deputy Commissioner of the District. As such, the District Administration is the best judge to decide the effective use of computer equipments and on this assumption the Company did not decide otherwise.

The reply is not tenable in view of the fact that the Computers and other equipment were procured for imparting computer training to students at nominal rates. Hence, the use of Computer equipment for other purposes defeated the purpose of setting up the DCCs. The Company, being the Nodal Agency for implementing and overseeing the Project, was responsible for protecting and maintaining the assets of all DCCs. The Company, however, failed to take appropriate steps to effectively fulfil this responsibility.

- ***Management Information System (MIS) in DCCs***

The Company appointed franchisees to run the DCCs in consultation with the District Administration. There was, however, no Management Information System (MIS) in place to monitor the functioning of the DCCs. As per the appointment letter and the agreement signed with the franchisees, the franchisees were required to submit monthly Status/Progress Reports on the activities of the DCCs. It was, however, noticed that the franchisees were not regularly submitting the said Status/Progress Reports to the Company. As a result, the Company could not monitor properly the operations of the DCCs. Further, as per the appointment letter and the agreement signed with the franchisees, the franchisees were required to pay 20 *per cent* of the 'earnings' as royalty to the Company. Scrutiny of records, however, revealed that out of 21 DCCs handed over to franchisees, only 6 DCCs were paying royalty on the gross revenue against the fees collected from the students. The remaining DCCs were either paying 20 *per cent* royalty on 'net earnings' after netting off their operational expenditure or were not paying the royalty at all. Hence, it can be seen that neither the regular MIS required to monitor the performance of DCCs was maintained by the Company nor it had clarity about the method of calculation of the royalty receivable from the DCCs.

The Company replied (September 2013) that the franchisees paid royalty as per their understanding of 'earnings' and some paid royalty on gross fee collection and others on net earnings.

The reply confirms the ambiguity in contract terms regarding payment of royalty by the DCCs. The Company, therefore, needs to suitably bring out the method of working out the royalty to be paid by the DCCs. Further, the Company needs to take appropriate steps for ensuring timely and regular submission of MIS from all DCCs so as to have effective monitoring on their activities and timely action on the deficiencies, if any, noticed in the functioning of DCCs.

(b) Broad Band Internet Services

During the period from 2008-09 to 2011-12, the Company incurred an expenditure of ₹ 3.74 crore against the earnings of ₹ 2.78 crore.

The Company provides broad band internet service 'MAGIC SURF' with 16 tariff plans/packages with effect from 2006-07. As of September 2013, there were total 4170 registered consumer connections under different packages including 35 direct consumers and 502 'free of cost' consumer connections relating to Government offices/officials. The Company engaged 25 franchisees for providing the said broad band internet services in different locations of the State. The franchisees were responsible for all the activities involved in providing the services like provision of internet connection, billing and collection of subscriptions and line maintenance, *etc*. The Company also maintains two branch offices for billing and collection of revenue. During the period from 2008-09 to 2011-12[14], the Company incurred an expenditure[15] of ₹ 3.74 crore against the earnings of ₹ 2.78 crore. Scrutiny of records revealed the following irregularities:-

- The Company appointed the franchisees without entering into any formal agreement with them stipulating the appropriate terms and conditions of service. As such, the Company was not collecting any security deposit to safeguard its financial and other interests against default, if any, by the franchisees in providing the quality services and payment of dues in time. After being pointed out by Audit, the Company started executing formal agreements with the franchisees from August 2013 onwards.
- A test check of Revenue collection records relating to 12 out of 25 franchisees revealed that an amount of ₹ 1.52 crore relating to the year 2008-09 to 2012-13 remained unrealised.

[14] Accounts for 2012-13 not compiled by the Company
[15] Excluding pay and allowances (Regular and Contractual)

In reply, the Company accepted the observations and stated (September 2013) that with effect from 1 August 2013, all franchisees were requested to deposit full collection against invoices along with their claims. The reply was, however, silent about recovery of the outstanding dues of earlier period pointed out by Audit.

- The Company had been following a uniform structure of commission and adjustments for payment of remuneration to the franchisees in respect of the services provided to the Government/Direct consumers as well as other private consumers of the Company. In addition to allowing the 'commission' ranging from 33 to 50 *per cent* of the package value, franchisees were also allowed 'adjustments' against providing 'line maintenance services' and 'billing and collection of subscription charges' to the above mentioned three categories of consumers. In this connection, it was observed that the works relating to 'billing and collection of subscription charges' in respect of Government and direct consumers was being done by the Company departmentally without any role of the franchisee. Therefore, uniform rate of commission was not justified. This resulted in extension of undue benefit to the franchisees. In one instance, it was observed that the Company had paid an amount of ₹ 0.44 crore as 'commission and adjustments' to a franchisee (M/s Harsha Technology), during the period November 2007 to March 2013 against the revenue of ₹ 0.12 crore only.

  In reply, the Company while accepting the facts stated (September 2013) that the adjustment allowed has been discontinued with effect from 1 August 2013. It was further stated that the billing and actual adjustment will be done after completion of the internal audit.

- According to the provisions of Section 194H of the Income Tax Act, 1961, the Company was responsible for deduction of tax at source (TDS) from the franchisees against the said commission and deposit the same with the tax authorities. It was, however, observed that the Company failed to collect the TDS of ₹ 0.29 crore (at the rate of 10 *per cent*) against commission amounting to ₹ 2.85 crore for the period 2007-08 to 2012-13.

  On being pointed out by Audit, the Company appointed (May 2013) a Chartered Accountant for assessment of tax matters.

- The Company provides free internet service to 131 State Government Officers under the package name ISC. The Company made payment of ₹ 0.13 crore as commission/adjustment to the franchisees against these consumers. It was, however, observed that the Company had not obtained the approval from Board of Directors for providing free connections to this category of consumers.

The Company replied (September 2013) that it received fund support from GOA for these consumers.

The reply is not tenable as the fund received from GOA was for implementation of the project only. The GOA, however, did not make any fund allocation to meet the recurring expenditure against providing this regular free service.

- The consumers availing the broad band internet services of the Company were being billed through the monthly invoices. The monthly invoices were generated by the online monitoring system of the Company. Scrutiny of records relating to the invoices/bills generated *vis-a-vis* invoices/bills actually issued to the consumers for the years from 2008-09 to 2011-12, however, revealed significant discrepancies in the number of invoices generated by system (considering the serial number of invoice as basis) and the invoices served on consumers as per the following details:

Table 2.1

(Invoices/ bills in No.)

Year	Invoices/ bills Generated	Invoices/ bills issued to consumers	Unbilled Invoices
2008-09	17,659	14,641	3,018
2009-10	17,576	15,634	1,942
2010-11	15,928	15,335	593
2011-12	13,107	12,976	131
Total	**64,270**	**58,586**	**5,684**

The Company replied (September 2013) that after 2010-11 system software was stable and appears to be in order. In 2010-11, 593 unbilled invoices appear to be due to wrong billing like double renewal by call centre operator and cancelled later on. The reply, however did not address the significant anomalies pointed out for the years 2008-09 and 2009-10.

The reply is also not tenable as there was no system in existence to verify the number of invoices and difference between invoices generated and issued needs to be reconciled.

- The Company did not maintain any integrated database system for monitoring different transactions relating to "Magic Surf" business. For instance, the Registers for collection of Monthly bills were maintained manually whereas the consumer-wise monthly billing was done through the Computer system. Further, the Company did not maintain records relating to procurement, utilisation of bandwidth, details of terminated franchisee/customers and outstanding dues there against.

(c) Executing the printing jobs for the Transport Department of GOA Inventory and accounting of Smart cards

Under the Transport Computerisation Project (District Transport Office), the Company was awarded (August 2005) the work of 'printing and delivery of Smart Card based Driving Licence and Registration Card (DL-RC)' for five years on Build, Own, Operate and Transfer (BOOT) model to be implemented in 23 districts. Accordingly, after computerisation of the back end process, the printing and delivery of the Smart Card based DL-RC commenced (March 2008) in Kamrup District. It was observed that the Company procures the Smart cards and distributes the same to various district centers. The Company, however, did not devise any system for tracking and accounting of the Smart cards used, cards rejected in the process of printing or cards spoiled due to mistakes of operators, *etc*. Thus, the possibilities of misuse of the Smart Cards could not be ruled out.

The Company replied (September 2013) that cards cannot be printed without going through the cash verification process. Efforts, however, would be made to maintain records of rejected cards.

The reply is not tenable as the guidelines for issuing the licenses required the Company to destroy the rejected cards and hence, the Company should have maintained all necessary records for the same.

Audit objective: Whether the management of financial resources was efficient, effective and in compliance with the relevant statutory requirements.

(*Para 2.9*)

Financial Management

2.9 As per Sections 166, 210 and 619 of the Companies Act, 1956, the accounts of the Company for every financial year are required to be finalised within six months from the end of the relevant financial year It was, however, noticed that the Company could finalise its accounts only upto 2009-10 and the accounts for subsequent three years from 2010-11 to 2012-13 were in arrears (September 2013) in violation of the provisions of the Companies Act, 1956.

The financial position of the Company for five years [16] from the year 2007-08 to 2011-12 has been summarised in ***Annexure 8.***

It may be seen the Annexure that the net profits of the Company during five years from 2007-08 to 2011-12 ranged between ₹ 0.60 crore (2010-11) and ₹ 1.60 crore (2009-10). The 'Interest Income' during the said period ranged from ₹ 2.49 crore (2009-10) to ₹ 4.38 crore (2011-12), which was generated mainly against the fixed deposits maintained out of Scheme/Project funds. Thus, it may be seen that ignoring the contribution of 'Interest Income', the Company would have incurred 'operational losses' during all the five years under reference. Further, the high value of current assets as depicted in the Balance Sheets throughout the period was also attributable to these Scheme funds lying under fixed deposits. Following irregularities were, however, noticed in management of funds by the Company:

(a) Retention of Scheme Funds

The Company, being the Nodal Agency for implementing the IT Policy of the GOA, was provided with a huge amount of funds from time to time for implementation of various schemes. The Company was, however, slow in surrendering the unutilised scheme funds to the funding agencies on completion of the scheme. During test check of five projects[17] completed during 2008 to 2012, it was observed that the Company had retained the unutilised surplus funds to the tune of ₹ 1.15 crore. Similarly, the Company had a surplus of ₹ 1.90 crore, generated during implementation of ARBAS scheme in 2007-08. Both these funds were retained by the Company without intimating the fact to the scheme funding agencies/GOA. The practice of unauthorised delay in surrendering of unutilised funds against completed projects was irregular.

The Company replied (September 2013) that the difference of fund receipts and payments had been worked out by Audit without considering the commission receivable by the Company.

The reply is not tenable as the amount of surplus scheme funds to be refunded was calculated by Audit after taking into consideration the commission receivable by the Company as per the Expenditure Statement submitted to the Government.

[16] Figures for 2010-11 and 2011-12 are provisional while figures for 2012-13 were yet to be compiled by the Company. (September 2013)
[17] Serial No. A5, B3, B6, B7, B8 of ***Annexure 7.***

(b) *Retention of Interest earned on Scheme Funds*

As per terms and conditions governing the Grant-in aid of the central sponsored projects, any interest earned on these funds was to be utilised for the purpose of the Scheme and diversion of the same was not allowed. As such, the interest earned was to be treated as a credit to the Company and the same was adjustable against future instalment of the grant. In this connection, following observations are made:

- The Company earned interest of ₹ 10.43 crore (upto March 2013) on the funds deposited out of the funds received against six centrally funded projects. It was, however, noticed that in violation of the Grant conditions, the fact of the interest earned against grant money and its unauthorised retention by the Company was not reported to the GOI at the time of submitting the Utilization Certificates (UC) for the scheme funds.

  The Company replied (September 2013) that the investments were made out of its own initiative and there was no directive/advice from the GOI/GOA to invest the funds in fixed deposits.

  However, the fact remains that the Company in violation of the condition of the grant did not intimate the interest accrued and utilised the same for its own purpose.

- Similarly, the Company earned interest income of ₹ 0.52 crore (upto March 2013) against unutilised scheme funds[18] relating to ARBAS 2007. It was noticed that the Company did not report this fact to the GOA though the scheme was completed long back in 2007-08. On being pointed out by Audit, the Company reported (June 2013) this fact to GOA after five years of completion of the project.

(c) *Diversion of Scheme Funds*

(i) The Company received ₹ 63.81 crore for implementation of three projects namely 'State Data Centre Project', 'Assam Online Portal Project' and 'State Portal & State Service Delivery Gateway project' against which the Company incurred an expenditure of ₹ 32.48 crore (including refund of ₹ 3.50 crore to Central Government) leaving an unspent balance of ₹ 31.33 crore as on 31 March 2013.

Further, it also earned interest of ₹ 3.97 crore (as on 7 April 2013) on Fixed Deposits made out of these Project Funds. It was, however, observed that an amount of ₹ 29.61 crore was only available in the separate bank accounts

[18] Amounting to ₹ 1.90 crore as discussed in ***Para 2.9(a)***

maintained exclusively for implementation of these projects. The balance amount of ₹ 5.69 crore[19] was not utilised for implementation of the project.

The Company replied (September 2013) that a portion of the interest has been utilised to meet the cost of manpower and facilities devoted for implementation, operations and monitoring of the project for which agency charges/margin has not been provided by the GOI/GOA.

The reply is not tenable as the Company was paid agency charges for implementation of GOI/GOA funded projects. Further, Department of Electronics and Information Technology, GOI (DeitY), being the funding agency for implementation of schemes, instructed the Company to credit the interest accrued/earned out of the scheme funds against the project account. As such unauthorised utilisation of the Interest earned out of the scheme funds for Company's own purpose was not justified.

(ii) The GOI's Guidelines (March 2005) for implementation of Capacity Building project specifically disallowed utilisation of Scheme funds towards capital expense, overhead costs, building or renovation projects *etc*. It was, however, observed that the Company diverted an amount of ₹ 0.38 crore towards capital expenses relating to the construction and electrical works of its Corporate Office building, which was irregular.

The Company replied (September 2013) that it is a matter of internal accounting for proper booking of expenditure.

The reply is not tenable as the capital expenditures were booked under the above scheme as reported in the Utilisation certificate which was against the provisions of guidelines. Further, accountal of these expenditures in its internal records does not validate the diversion of the fund for the purpose other than what was envisaged in the scheme guidelines.

(d) Poor realisation of debts

(i) As per directions issued (October 2001) by GOA, the State Government Departments as well as the State PSUs shall either procure all their IT related goods from the Company or they shall take Company's assistance in the said procurement. During the period under review, the Company executed the works as detailed in the following table:

[19] Interest earned (₹ 3.97 crore) *plus* scheme fund (₹ 1.72 crore).

Table 2.2

(₹ in crore)

Year	Value of Sales/supplies made to Govt./PSUs	Value of Jobs/Services	Outstanding dues at the end of the year
2007-08	4.36	5.22	3.98
2008-09	6.57	6.33	7.59
2009-10	7.77	4.54	7.69
2010-11	3.53	6.87	11.95
2011-12	1.69	6.97	9.48

It may be seen that as on 31 March 2012, the sundry debtors of the Company stood at ₹ 9.48 crore. Scrutiny of records revealed that against the receivables of ₹ 9.48 crore, ₹ 1.09 crore was outstanding for more than five years. It was observed that the Company failed to effectively pursue for recovery of dues with the debtors. It was also seen that the Company did not obtain the Balance confirmation Certificates from the sundry debtors having huge dues pending for recovery for long periods.

The Company replied (September 2013) that the major portion of the debtors relates to institutions under GOA and it takes a long time to realise payments from them. It was further stated that strong exercise would be carried out to recover these debts for which necessary manpower and legal consultants would be engaged.

The reply is not tenable as the Company neither pursued the issue with the concerned Departments for realising the dues nor obtained any balance confirmation from these Departments. Since no effective steps were taken by the Company for recovery of long pending dues, realisation of these debts remained doubtful.

(ii) The Company disbursed (2004-05) ₹ 0.40 crore as loan to 26 beneficiaries under National Backward Classes Finance & Development Corporation (NBCFDC) scheme. It was noticed that as on 31 March 2013 that only 2 out of 26 beneficiaries repaid their entire dues. The total accumulated dues against remaining 24 beneficiaries stood at ₹ 1.00 crore (Principal: ₹ 0.36 crore and interest: ₹ 0.64 crore). It was further noticed that the validity of the documents like LIC policy, Fixed Deposit receipt *etc.*, mortgaged against the loans of these 24 beneficiaries had already expired/lapsed.

The Company replied (September 2013) that the beneficiaries were asked to repay the dues and on failure to make payment, Bakijai[20] case against them will be filed.

[20] Bakijai case is a money suit against defaulter

The reply is not tenable in view of the fact that in absence of adequate and valid mortgages/security the chances of recovery of outstanding dues are remote.

(e) Lack of proper tax administration

Service Tax Rules provide that the service provider shall collect the service tax on all taxable services and remit the same to Service Tax Authorities. It was seen that the Company did not follow proper system for collection and deposit of service tax as well as for filing of tax returns within the due time. The Company failed to appreciate the taxable services in time for which it received the following notices from Service Tax department:

- On December 2010, Commissioner of Central Excise and Service Tax issued demand notice to the Company of ₹ 0.17 crore along with interest of ₹ 9.12 lakh for non-payment of service tax on 5 taxable services relating to the period 2004-09. Accordingly, the Company paid (March 2011) the outstanding tax liability of ₹ 0.26 crore along with interest.
- On October 2011, the Service Tax department had issued another demand notice for payment of service tax for ₹ 2.12 crore for 12 types of service rendered during the period 2006-2011 (covering previous notice also). The Company, however, accepted liability for ₹ 1.10 crore only and paid the amount. In subsequent hearing, Commissioner of Central Excise and Service Tax directed (March 2013) the Company to pay service tax of ₹ 2.12 crore along with an equal amount of penalty (₹ 2.12 crore) and interest after adjusting ₹ 1.10 crore already paid (including interest amounting to ₹ 0.11 crore). As per order, 75 *per cent* of the penalty would be waived if payment was made within 30 days. It was, however, noticed that till date the Company had not paid the amount demanded by the Service Tax Department.

  On being pointed out by Audit, the Company filed (August 2013) an appeal with the Central Excise and Service Tax Appellate Tribunal, Kolkata for the disputed balance amount. The outcome of the appeal was awaited (September 2013).

Audit objective: Whether proper monitoring systems were in place to review ongoing projects as well as other commercial activities and whether prompt corrective measures were taken to overcome the deficiencies identified

(*Para 2.10.1 to 2.10.3*)

Monitoring System

2.10 An effective Monitoring System helps in reviewing the completed/ongoing projects, to take corrective measures, to overcome deficiencies identified and to take prompt and adequate steps to strengthen the system. The deficiencies observed in the monitoring system of the Company are detailed below:

Monitoring committees

2.10.1 An Apex Committee was formed (June 2009) under NeGP with a view to ensure adequate coordination among various departments involved in implementation of projects and also to effectively monitor the progress of execution of the projects so as to ensure timely completion of all the works without compromising with the quality of work. It was, however, observed that only three meetings of the Apex committee were convened since its constitution (June 2009) of which two were held in February and May 2013.

Similarly, various committees namely State Level Committee, Zonal Level Committees, District Level Committees, and School Level Committees were required to be constituted by the GOA for monitoring the implementation of Rajiv Gandhi Computer Literacy Programme (RGCLP). It was, however, observed that these committees were never constituted.

Absence of effective monitoring by the Apex Committee as well as non-constitution of other committees as envisaged in the projects/scheme guidelines resulted in lack of co-ordination, which in turn caused delays in implementation of projects/schemes and failed to accelerate the progress of various projects/ schemes.

Periodical evaluation of the Schemes

2.10.2 As per GOA's Operational guidelines on implementation of RGCLP, the Company should regularly monitor the quality of IT education and should also independently conduct evaluation examinations of students for assessment of performance of the contractor. It was, however, observed that periodical evaluations of the performance of the students were conducted by the contractor without involving the Company. As a result, assessment of delivery of quality IT education to the students was not done by the Company.

Role of Board of Directors in monitoring of the Schemes

2.10.3 As per the provisions of Section 285 of the Companies Act, 1956, it was mandatory for the Board of Directors of the Company to hold its meetings at least once in every three calendar months and at least four such meeting should be held every year. It was, however, observed that during the period 2008-09 to 2012-13, only 11 meetings of Board of Directors of the Company were held against minimum requirement of 20 meetings. It was quite evident that the monitoring and evaluation of different projects could not be discussed adequately at the Board level to review constraints if any, required to be addressed in consultation with different departments/agencies.

The above issues were reported (August 2013) to the Government, their replies had not been received (September 2013).

Conclusion

The Company undertook 18 projects/schemes during 2008-13 and only 11 projects/schemes had fixed time schedule. Of these 11 projects/schemes the Company could complete only 5 schemes within the targeted period. Out of the remaining 6 projects/schemes, 2 were completed with delays of 8 months while other 4 were still pending for completion even after expiry of 7 to 56 months from the scheduled dates. These delays were attributable to various deficiencies in planning, delays in identification/handing over of project site, delays in finalisation of tendering documents, non-fixation of event-wise deliverables for the consultant and post sanction changes in specification and scope of works *etc*. Instances of irregular amendments to the contract terms to the benefit of the contractors were also noticed which was against the principles of propriety.

The management of other activities by the Company was also not satisfactory. In absence of formal agreements with the franchisees/agents, the control of the Company over its activities relating to the Broad Band Internet Services was not effective. Management Information System on the activities of District Computer Centres (DCCs) was not satisfactory as the franchisees running these DCCs were not regular in submitting the monthly

Status/Progress Reports. In execution of printing jobs for the Transport Department, the Company failed to devise an appropriate system for tracking and accounting of the smart cards used, rejected or spoiled thereby leaving scope for misuse of the said cards.

The Company had shown positive working results during five years from 2007-08 to 2011-12. The Company was retaining the scheme funds relating to completed projects and interest income earned there against without the knowledge of the scheme funding agencies. Ignoring the interest income earned against the scheme funds, the Company would have incurred operational losses during the said five years. Financial management system of the Company was also deficient in view of the poor realisation of debts and failure to collect and deposit service tax to tax authorities, causing avoidable payment of penalties.

Lack of proper monitoring by monitoring committees resulted in unsatisfactory progress of the projects/schemes works. The monitoring of the Company at the top management level was also weak due to deficiency in holding minimum number of meetings by its Board of Directors as per the requirements of the Companies Act, 1956.

Recommendations

- The Company needs to undertake proper planning duly synchronising all the preparatory activities relating to the projects so as to avoid subsequent revisions in the scope/specification of the works and complete the work within the targeted period.
- While appointing franchisee/agents the Company should formalise all significant terms in the form of an agreement.
- The Company should follow a transparent and effective system with regard to surrender of surplus fund and as well as collection and deposit of service tax.
- For strengthening monitoring mechanism, the monitoring committees should hold regular meetings and BODs should also meet as per the mandatory requirement of the Companies Act, 1956.