

CHAPTER-III

Public Sector Undertakings and Government Commercial and Trading Activities

3.1 Overview of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2015, in Goa there were 16 State Government Companies including two Statutory Corporations. Of these, no company was listed on the stock exchange(s). During the year 2014-15, no PSUs were incorporated or closed down. This Chapter also covers observations on two departmentally managed Government commercial and trading activities *i.e.* Goa Electricity Department and River Navigation Department.

The details of the State PSUs in Goa as on 31 March 2015 are given in **Table 3.1.1** below.

Table 3.1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government Companies ²	13	1	14
Statutory Corporations	1	1	2
Total	14	2	16

The working PSUs registered a turnover of ₹ 714.08 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 1.36 *per cent* of Gross State Domestic Product (GSDP) for 2014-15. The working PSUs earned aggregate profit of ₹ 6.73 crore as per their latest finalised accounts as of September 2015. They had employed 3,241 employees at the end of March 2015. As on 31 March 2015, there were two non-working PSUs existing for more than two years and having investment of ₹ 5.59 crore.

Accountability Framework

3.1.2 The process of audit of Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013. According to Section 2 (45) of the Act, Government company means any company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more

¹ Non-working PSUs are those which have ceased their operations

² Government PSUs includes other Companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013

State Governments, and includes a company which is a subsidiary company of such a Government company.

Further, as per sub-section 7 of section 143 of the Act, the C&AG may, in case of any company covered under sub-section (5) or sub-section (7) of Section 139, if considers necessary by an order, cause test audit to be conducted of the accounts of such company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the C&AG. An audit of the financial statements of a company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

3.1.3 The financial statements of Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by statutory auditors, who are appointed by C&AG as per the provisions of Section 139 (5) or (7) of the Act which shall submit a copy of the audit report to the C&AG which, among other things including financial statements of the company under Section 143(5) of the Act. These financial statements are subject to supplementary audit to be conducted by C&AG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

Audit of statutory corporations, is governed by their respective legislations. C&AG is the sole auditor for the two statutory corporations *viz.*, Goa Industrial Development Corporation and Goa Information Technology Development Corporation.

Role of Government and Legislature

3.1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of government investment in the PSUs. For this, the annual reports together with the statutory auditors' reports and comments of the C&AG, in respect of State Government companies and separate audit reports in case of statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The audit reports of C&AG are submitted to the Government under Section 19A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Goa

3.1.5 The Government of Goa has huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

3.1.6 As per latest finalised accounts (30 September 2015), the investment (capital and long-term loans) in 16 PSUs was ₹ 675.72 crore as per details given in *Table 3.1.2* below.

Table 3.1.2: Total investment in PSUs

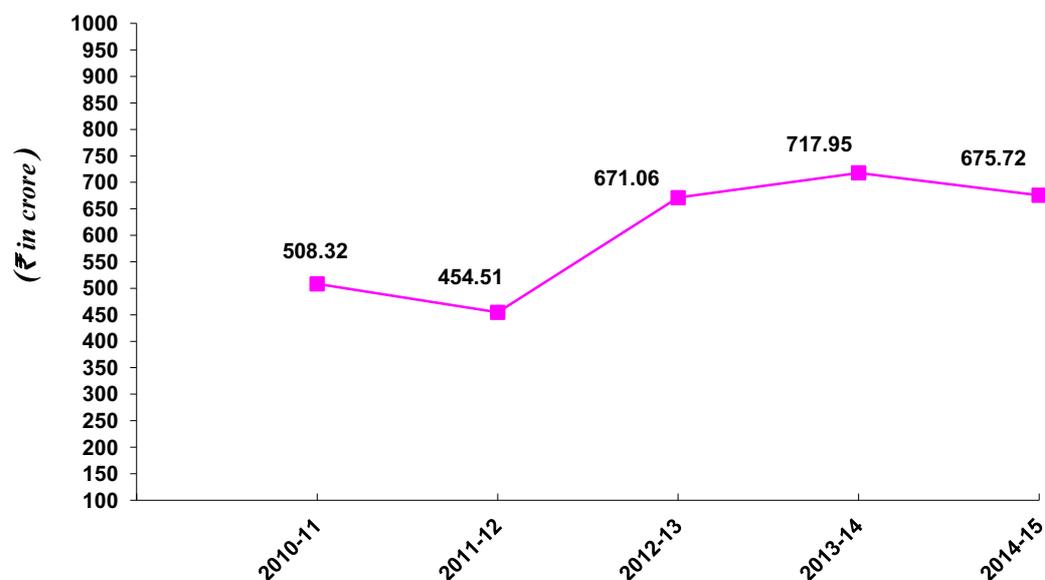
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	295.20	329.45	624.65	45.48	0	45.48	670.13
Non-working PSUs	5.59	0	5.59	0	0	0	5.59
Total	300.79	329.45	630.24	45.48	0	45.48	675.72

(Source: Information furnished by the PSUs)

As on 31 March 2015, of the total investment in State PSUs, 99.17 per cent was in working PSUs and the remaining 0.83 per cent in non-working PSUs. This total investment consisted of 51.24 per cent towards capital and 48.76 per cent in long-term loans. The investment has grown by 32.93 per cent from ₹ 508.32 crore in 2010-11 to ₹ 675.72 crore in 2014-15 as shown in the graph below.

Chart 3.1.1: Total investment in PSUs

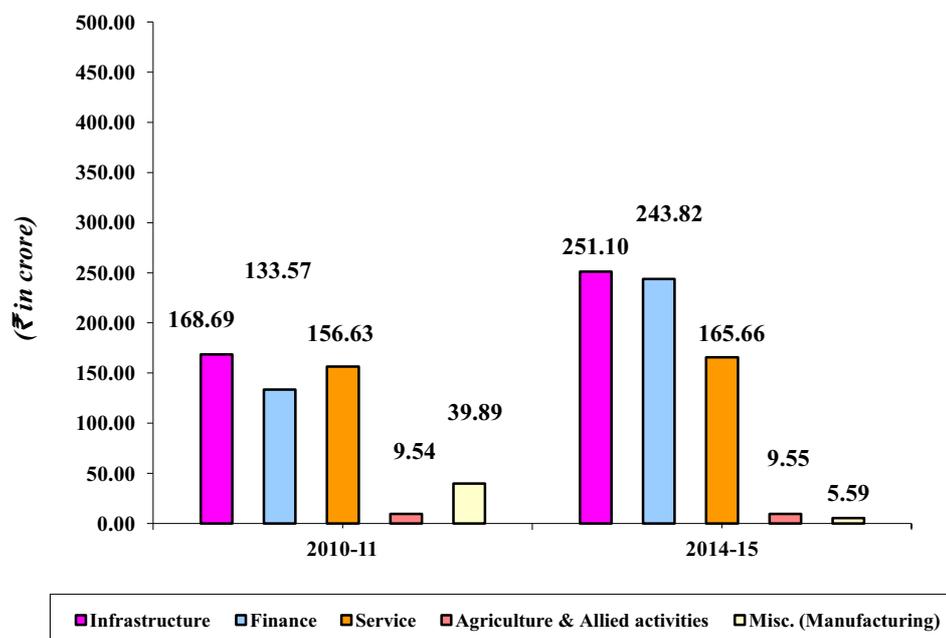


3.1.7 The sector wise summary of investments in the State PSUs as on 31 March 2015 is given in **Table 3.1.3** below:

Table 3.1.3: Sector-wise investment in PSUs

Name of Sector	Government companies		Statutory corporations		Total	Investment (₹ in crore)
	Working	Non-Working	Working	Non-Working		
Infrastructure	3	-	1	1	5	251.10
Finance	4	-	-	-	4	243.82
Service	3	-	-	-	3	165.66
Agriculture and Allied activities	3	-	-	-	3	9.55
Misc. (Manufacturing)	-	1	-	-	1	5.59
Total	13	1	1	1	16	675.72

The investment in the above sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the chart.

Chart 3.1.2: Sector wise investment (capital and long term loans) in PSUs

The thrust of PSU investment was mainly in infrastructure and finance sectors. The infrastructure sector increased from 33.19 *per cent* to 37.16 *per cent* and in finance sector from 26.28 *per cent* to 36.08 *per cent* of total investment during 2010-11 to 2014-15.

Special support and returns during the year

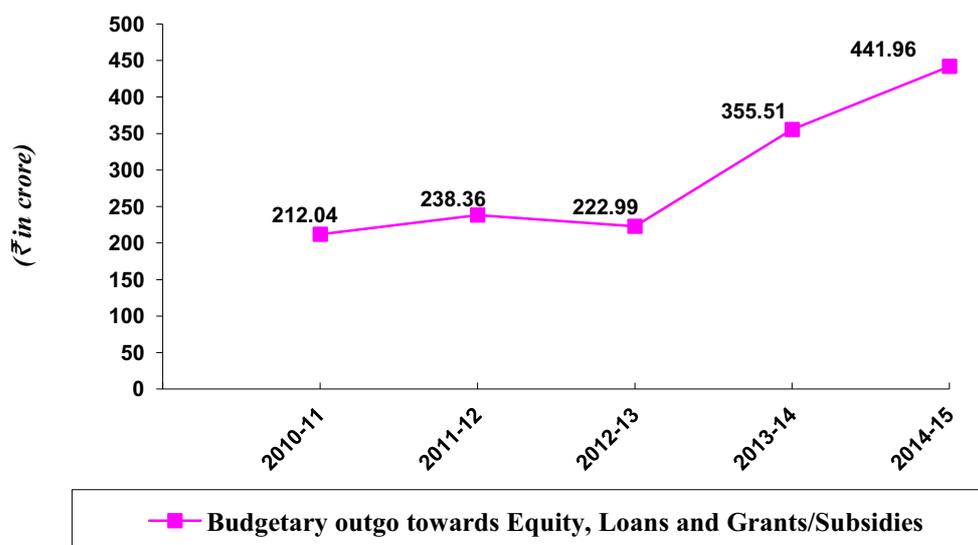
3.1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of State PSUs are given below for three years ended 2014-15.

Table 3.1.4: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	4	40.16	0	0	1	0.50
2.	Loans given from budget	1	4.39	1	2.58	1	1.68
3.	Grants/Subsidy from budget	9	178.44	11	352.93	8	439.78
4.	Total Outgo (1+2+3)	10	222.99	11	355.51	10	441.96
5.	Waiver of loans and interest	0	0	0	0	1	0.01
6.	Guarantees issued	1	45	1	25	1	25
7.	Guarantee Commitment	3	80.72	3	85.43	3	131.95

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in a graph below:

Chart 3.1.3: Budgetary outgo towards Equity, Loans and Grants/ Subsidies



Even though the outgo was almost same upto 2012-13, it has increased by 59.43 per cent in 2013-14 and 24.32 per cent in 2014-15.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantee subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.25 per cent to one per cent as decided by the State Government depending upon the loanees. The guarantee/commitment increased 57.63 per cent from ₹ 83.71 crore in 2010-11 to ₹ 131.95 crore during 2014-15.

Reconciliation with Finance Accounts

3.1.9 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the finance accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is stated below.

Table 3.1.5: Equity, guarantees outstanding as per finance accounts³ vis-a-vis records of PSUs

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts (2014-15)	Amount as per records of PSUs	Difference
Equity	321.14	346.27	25.13
Guarantees	147.64	131.95	15.69

Audit observed that the differences occurred in respect of 14 PSUs and some of the differences were pending reconciliation since 2001-02. The Government and the PSUs should take concrete steps to reconcile the

³ As per finance accounts, company wise loans were not separately provided, hence loans were not worked out

differences in a time-bound manner. The matter was reported to the PSUs during the audit of annual accounts but the figures are yet to be reconciled.

Arrears in finalisation of accounts of PSUs

3.1.10 The financial statements of companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with the provisions of Section 96 (1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by PSUs in finalisation of accounts as of 30 September 2015.

Table 3.1.6: Position relating to finalisation of accounts of PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of PSUs/other companies	17	17	17	16	16
2.	Number of accounts finalised during the year	11	13	13	20	15
3.	Number of accounts in arrears	36	40	44	40	41
4.	Number of Working PSUs with arrears in accounts	13	14	15	12	14
5.	Extent of arrears (number of years)	1 to 9 years	1 to 10 years	1 to 10 years	1 to 10 years	1 to 11 years

It could be seen that State PSUs had arrears of accounts which had increased to 41 during 2014-15. Among the above one non-working PSU namely Goa Information Technology Development Corporation (GITDC) has not submitted accounts since its inception (2006-07).

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within stipulated period.

3.1.11 The Government of Goa had invested ₹ 511.59 crore in 15 PSUs (equity: ₹ 5.19 crore in three PSUs, loans: ₹ 8.65 crore in one PSU, grants ₹ 374.86 crore in 10 PSUs and subsidy ₹ 122.89 crore in four PSUs) during the years for which accounts have not been finalised as detailed in *Appendix 3.1*.

3.1.12 In addition to above, one non-working PSU GTIDC had not submitted its accounts since its inception (2006-07) and as such 9 accounts of this company were pending. The data regarding investment made by Government in this PSU was not made available to Audit.

In addition to quarterly intimation to the concerned Department/Ministry, the Deputy Accountant General/Accountant General took up the matter with the State Government/Departments/Ministry for liquidating the arrears of accounts every 6 months. However, no improvement has been noticed in submission of accounts for audit. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments

and expenditure incurred have been properly accounted for and the purpose for which the amount invested was achieved or not. Thus, Government's investment in such PSUs remained outside the scrutiny of State Legislature.

Placement of Separate Audit Report

3.1.13 The position depicted below shows the status of placement of Separate Audit Reports (SARs) issued by the C&AG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table 3.1.7: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1	Goa Industrial Development Corporation	2008-09	2009-10	08.11.2011
			2010-11	10.01.2013
			2011-12	10.04.2014
			2012-13	01.05.2015
2	Goa Information Technology Development Corporation (GITDC)	First accounts awaited		

Impact of non-finalisation of accounts

3.1.14 As pointed out above, the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is therefore recommended that the administrative department should strictly monitor and issue necessary directions to liquidate the arrears in finalisation of accounts. The Government may also look into the constraints in preparing the accounts of the company and take necessary steps to liquidate the arrears in accounts.

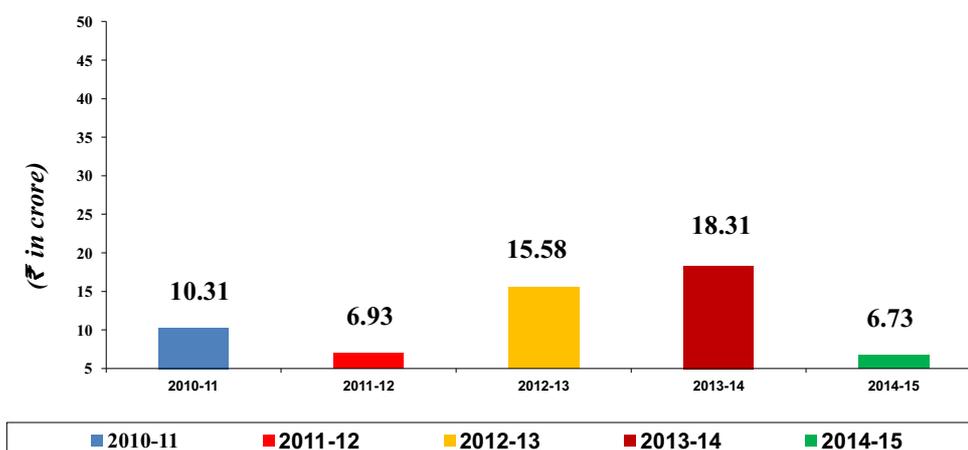
Performance of PSUs as per their finalised accounts

3.1.15 The financial position and working results of working Government companies and Statutory Corporations are detailed in *Appendix 3.2*. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for a period of five years ending 2014-15.

Table 3.1.8: Details of working PSUs turnover vis-a vis State GDP

Particulars	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover ⁴	413.72	456.48	569.35	652.18	714.08
State GDP	33605	43255	42407	48897	52673
Percentage of Turnover to State GDP	1.23	1.06	1.34	1.33	1.36

3.1.16 Overall profits earned by State working PSUs during 2010-11 to 2014-15 are given below in a bar chart.

Chart 3.1.4

Overall profits earned during the year by working PSUs

During the year 2014-15, out of 14 working PSUs, eight PSUs earned profit of ₹ 35.72 crore, six PSUs incurred loss of ₹ 28.99 crore, one non working Company (GAAL) incurred loss of ₹ 0.78 crore and one non-working PSU (GITDC) has not submitted their accounts since inception. The major contributors to profit was from EDC (₹ 25.11 crore). The heavy losses were incurred by KTCL (₹ 24.05 crore).

3.1.17 Some other key parameters of PSUs are given below.

Table 3.1.9: Key Parameters of State PSUs

Particulars	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (Per cent)	7.25	6.68	8.94	9.21	7.49
Debt	212.48	139.27	314.07	367.15	329.45
Turnover ⁵	413.72	456.48	569.35	652.18	714.08
Debt/Turnover Ratio	0.51:1	0.31:1	0.55:1	0.56:1	0.46:1
Interest Payments	31.30	27.49	29.13	38.16	34.75
Accumulated Profits (losses)	(36.00)	(46.15)	(46.22)	(47.24)	(37.99)

As per latest finalised accounts, during the last five years, the turnover of PSUs recorded compounded annual growth of 11.57 per cent. However, the

⁴ Turnover of working PSUs as per the latest finalised accounts as of 30 September of respective years

⁵ Turnover of working PSUs as per the latest finalised accounts as of 30 September

compounded annual growth of debt was 9.47 per cent which was slower than the turnover. It can be seen that debtor/turnover ratio has decreased from the previous year, indicating decreased borrowing compared to turnover by PSUs.

Winding up of non-working PSUs

3.1.18 There were two non-working PSUs (One Company and one Statutory Corporation) as on 31 March 2015. Of these, the holding PSU of the company (GAAL) had commenced liquidation process. The status of liquidation process of non-working Corporation was not made available.

The numbers of non-working PSUs at the end of each year during past five years are given below.

Table 3.1.10: Non working PSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	0	0	0	1	1
No. of non-working corporations	1	1	1	1	1
Total	1	1	1	2	2

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered either to be closed down or revived. During 2014-15, one non-working PSU incurred an expenditure of ₹ 1.88 crore towards cost of material consumed, employee benefits expenses, finance cost and other expenses. This expenditure was financed by sale of products; job works receipt, sale of scraps and short term borrowing from the holding company.

3.1.19 During the year 2014-15, no companies/corporations were finally wound up. In respect of GAAL the holding Company (EDC) had advertised for sale of assets of GAAL but winding up was not taken up.

Accounts Comments

3.1.20 Fifteen PSUs forwarded 15 audited accounts to Accountant General during the year 2014-15. Of these, eight accounts of six companies were selected for supplementary audit. The audit reports of statutory auditors appointed by C&AG and the supplementary audit of C&AG indicate that the quality of maintenance of accounts needs to be improved substantially.

The details of aggregate money value of comments of statutory auditors and C&AG are given below.

Table 3.1.11: Impact of audit comments on working Companies

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	12.21	4	1.38	1	0.61
2.	Increase in loss	2	1.95	3	18.53	2	5.74
3.	Non-disclosure of material facts	5	2.50	2	0.64	2	0
4.	Errors of classification	2	0.13	0	0	0	0

(₹ in crore)

During the year, the statutory auditors had given unqualified certificates for seven accounts, qualified certificates for four accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for one accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for two accounts. The compliance of companies with the Accounting Standards remained poor as there were nine instances of non-compliance in five accounts during the year.

Response of Government to Audit

3.1.21 For the Report of the C&AG for the year ended 31 March 2015, a performance audit and three audit paragraphs involving ₹ 134.57 crore were issued to the Additional Chief Secretaries/Principal Secretaries of the respective departments with request to furnish replies within six weeks. However, replies were awaited from the State Government (January 2016).

Follow up action on Audit Report

3.1.22 The Report of the C&AG of India represents the culmination of the process of audit scrutiny. It is therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Goa issues instructions every year to all administrative departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the C&AG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the COPU.

However, out of 61 paragraphs, 8 performance audits, the explanatory notes to five performance audits and 29 paragraphs incorporated in the Audit Reports for the period from 2004-05 to 2013-14 have not been received as detailed in the table below:

Table 3.1.12: Explanatory notes not received (as on 30 September 2015)

Year of the Audit Report (Commercial/ PSU)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2004-05	12 July 2006	2	2	1	0
2005-06	30 July 2007	1	7	1	2
2006-07	19 August 2008	1	8	0	4
2007-08	24 March 2009	1	10	0	7
2008-09	25 March 2010	1	8	1	3
2009-10	17 March 2011	1	5	1	1
2010-11	20 March 2012	0	8	0	2
2011-12	10 October 2013	0	5	0	3
2012-13	23 July 2014	1	5	1	4
2013-14	14 August 2015	0	3	0	3
Total		8	61	5	29

Discussion of Audit Reports by COPU

3.1.23 The status as on 30 September 2015 of Performance Audits (PAs) and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under.

Table 3.1.13: PAs/paragraphs appeared in Audit Reports vis-a-vis discussed as on 30 September 2015

Period of Audit Report	Number of PAs/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2004-05	2	2	0	0
2005-06	1	7	0	2
2006-07	1	8	0	0
2007-08	1	10	0	0
2008-09	1	8	0	0
2009-10	1	5	0	5
2010-11	0	8	0	0
2011-12	0	5	0	0
2012-13	1	5	0	0
2013-14	0	3	0	0
Total	8	61	0	7

Compliance to Reports of COPU

3.1.24 Action Taken Notes (ATNs) to four paragraphs pertaining to a Report of the COPU presented to the State Legislature on 04 February 2011, had not been received (September 2015) as indicated below:

Table 3.1.14: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total number of recommendations in COPU Report	No. of recommendations where ATNs not received
2003-04	1	4	4

This Report of COPU contained recommendations in respect of paragraphs pertaining to three departments/PSUs, which appeared in the Report of the

C&AG of India for the year 2003-2004.

The Government may ensure sending of replies to draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule and recovery of losses/outstanding advances/ overpayments within the prescribed period.

Disinvestment, Restructuring and Privatisation of PSUs

3.1.25 No disinvestment or privatisation of PSUs had taken place during 2014-15.

Reforms in power sector

3.1.26 The power sector in the state is managed by the electricity department of Goa. The Union Government had set up (May 2008) a “Joint Electricity Regulatory Commission for the state of Goa and Union Territories”, under the Electricity Act 2003. Presently, the commission is in the process of framing various regulations as mandated in Electricity Act, 2003 to facilitate its functioning.

A Memorandum of Understanding (MoU) was signed in October 2001 between the Ministry of Power and the State Government as a joint commitment for implementation of reforms in power sector with identified milestones. The progress achieved so far in respect of important milestones was satisfactory except the State Government was yet to corporatise Electricity Department which was due on 31 March 2002.

Coverage of this Audit Report

3.1.27 This chapter contains a Performance Audit on GIDC and three paragraphs involving financial effect of ₹ 134.57 crore.

DEPARTMENT OF INDUSTRIES

3.2 PERFORMANCE AUDIT OF ESTATE MANAGEMENT OF GOA INDUSTRIAL DEVELOPMENT CORPORATION

Executive Summary

The Goa Industrial Development Corporation was established in February, 1966 under the provisions of Goa, Daman and Diu Industrial Development Act, 1965 with the objective of securing and assisting rapid and orderly establishment of industries in Industrial Areas and Industrial Estates (IEs) in Goa. The main activity of the Corporation is development of industrial estates and includes acquisition and development of land, maintenance of trunk infrastructure and allotment of plots to industries. A performance audit of estate management by the Corporation covering the period 2010-15 was conducted. The significant audit findings are stated below:

- The Corporation did not prepare annual plans for development and allotment activities detailing the physical and financial targets to be achieved. There was neither a database on industrial units

existing nor inventory details of plots to facilitate macro analysis and proper planning for optimal estate management.

(Paragraph 3.2.6.1)

- Inconsistencies in scrutiny of applications for plot allotments.

(Paragraphs 3.2.6.2)

- There were cases of under recovery of infrastructure development cost amounting to ₹ 3.12 crore from the allottees of Tuem Industrial Estate.

(Paragraph 3.2.6.5(ii))

- The Corporation did not convert land use and develop infrastructure for the allotted plots in Sanguem Industrial Estate (4.99 lakh m²) and Amona-Navelim (2.11 lakh m²) resulting in non-utilisation of plots by the allottees for 9 to 11 years.

(Paragraph 3.2.6.5(iii))

- The Corporation did not act against defaulting allottees identified by the Task Force Committee in 2011, for non-utilisation of plots. This resulted in 3.53 lakh m² land remaining unutilised besides non-levy of penalty of ₹ 20.36 crore.

(Paragraph 3.2.6.6)

- There was under-charging of transfer fee by ₹ 6.99 crore and the Corporation failed to examine the ownership structure of transferors resulting in loss of ₹ 1.83 crore.

(Paragraph 3.2.6.7(i) and (iv))

- The Corporation failed to revise the plot rates periodically resulting in loss of revenue of ₹ 75.28 lakh.

(Paragraph 3.2.6.7)

- The Corporation had incurred a loss of ₹ 5.25 crore due to under billing of water charges to the industrial units in 15 estates. The water arrears from industrial units was ₹ 11.34 crore at the end of 2014-15.

(Paragraph 3.2.6.8)

- Corporate governance suffered due to poor participation by state representatives in the Board and its sub-committees.

(Paragraph 3.2.6.10)

3.2.1 Introduction

The Goa Industrial Development Corporation (Corporation) was established in February, 1966 under the provisions of Goa, Daman and Diu Industrial Development Act, 1965 with the objective of securing and assisting rapid and orderly establishment of industries in Industrial Areas and Industrial Estates (IEs) of Goa. The main activities of the Corporation are acquiring land for industrial purposes, providing basic infrastructure facilities like roads, power, water, drainage *etc.* and allotting plots to entrepreneurs for setting up industries. The Corporation has so far established 22 IEs⁶ in Goa, Daman and Diu.

⁶ Corlim, Margao, Sancoale, Daman, Mapusa, Tivim, Bicholim, Kakoda, Honda, Bethora, Canacona, Kundaim, Diu, Tuem, Verna, Cuncolim, Pilerne, Madcaim, Pissurlem, Colvale, Shiroda and Sanguem

The Corporation has two crore square metre (m²) of land acquired through purchase and lease, of which 4.82 lakh m² plot area was acquired during the period 2010-15. The land acquired for establishing IEs has been developed into 3,459 plots of which 3,312 have been allotted.

3.2.2 Organisation

The management of the Corporation is vested in a Board of Directors (Board) consisting of 12 members. The Managing Director (MD) is the Chief Executive and also Ex-Officio Secretary to the Corporation. He is assisted by respective divisional heads of the Corporation. A Land Acquisition Officer (LAO) has been deputed by the State Government for acquisition of land for the Corporation. The Corporation has a sanctioned staff strength of 322 against which the men-in-position (March 2015) were 199.

3.2.3 Scope and Audit Objectives

The performance audit was conducted with a view to ascertain as to whether the Corporation had;

- formulated plans for development of IEs in line with industrial policies of the State/Centre;
- allotted plots to industries after due appraisal and created requisite infrastructure in an economic and efficient manner;
- monitored the land utilisation for authorised usage within prescribed time frame; and
- established effective internal controls.

The performance audit covered transactions during the five years ending 31 March 2015 to evaluate the effectiveness of estate management by the Corporation. Land acquisition, plot allotment, plot transfer, infrastructure development, plot utilisation and revision of plot rates and lease rent were reviewed.

3.2.4 Audit Criteria

The audit criteria adopted for assessing the achievement of audit objectives were derived from the following;

- The GIDC Act, 1965 and Regulations notified by the State Government (Transfer and Sub-lease regulations, Allotment Regulations *etc.*) and other specific directives;
- Industrial policy of the State Government and directives issued;
- Resolutions of the Board and approved budgets and accounts;
- Laid down procedures of the Corporation for allotment and transfer of land; and
- Terms and conditions contained in lease agreement and Rules framed for fixation of lease premium, lease rent, levy of penalty, recovery *etc.*

3.2.5 Audit Methodology

The audit objectives and scope of performance audit were communicated to the Principal Secretary and other representatives of the State Government/Corporation in the entry conference held on 18 May 2015. The records kept in the GIDC, Panaji and administrative offices at seven⁷ IEs were test checked. The plot allotment and transfer process was examined by selecting a sample of four⁸ out of 22 IEs where maximum number of transactions had taken place during the review period. The preliminary replies of the Corporation had been incorporated at appropriate places in this Report. The recommendations emanating from the audit were discussed in an exit conference held (January 2016) with Secretary, Industries. The replies of the Corporation and Government to the draft Performance Audit Report are awaited (January 2016).

3.2.6 Audit Findings

3.2.6.1 Planning

The Industrial Policy 2003 of Goa provided for an overall approach towards economic growth of the State through accelerated industrial development with high quality infrastructure to enable optimum utilisation of the State's resources. The identified thrust areas for focussed attention include pharmaceuticals, drugs and bio-tech industries, food processing and agro based industries, IT & IT enabled services, tourism and entertainment industry.

We observed that:

(i) The Corporation did not prepare annual plans for development and allotment activities detailing the physical and financial targets to be achieved by various functional divisions and the operational/financial need forecast for land development, creation and upgradation of infrastructure/utilities and maintenance activities.

(ii) Neither the Corporation nor the Department of Industries, Trade and Commerce maintains a database of various kinds of industrial units existing in the State, industry-wise plots allotted, employment created in the IEs and viability of the industries *etc.*, to review the gaps in accordance with the thrust areas identified in the Industrial Policy 2003 and to plan for the allotment of plots in accordance with the State's industrial policy. Though, an allottee was required to mention the employment potential in his application, no systematic review and compilation of actual employment statistics was done.

(iii) Undeveloped land and developed plots form the core inventory of the Corporation. An updated inventory database containing primary details like plots under allotment, plots allotted but not utilised, plots partially utilised, plots without approach roads, plots under transfer, plots mortgaged with banks, categorisation on the basis of nature of plot area (hilly, rocky,

⁷ Verna, Bicholim, Canacona, Betoda, Kundaim, Madcai and Corlim

⁸ Kundaim, Verna, Pissurlem and Kakoda for plot allotments and Verna, Pilerne, Cuncolim and Madkaim for examining transfer cases

marshy *etc.*) and categorisation on the basis of land use (agricultural, orchard, industrial, forestry *etc.*) was not maintained by the Corporation. Maintenance of basic inventory details would have facilitated macro analysis and proper planning for optimal estate management and to set criterion for allotment of plots and development of IEs at par with the Industrial policy 2003.

3.2.6.2 Allotment of Plots

The Corporation framed (September 2012) Allotment Regulations 2012 (Regulations) for plot allotment. The Regulations were further revised in August 2014. Till the introduction of the Regulations, allotment of plots was made to interested parties after approval of the Board. The Corporation allotted 4.36 lakh m² land in 11 IEs to 163 units during 2010-15.

(i) Inconsistencies in evaluation of applications for plot allotments

The Regulations 2012 required that the applications received be verified by a Scrutiny Committee constituted by the Managing Director so as to ensure their completeness in all respects. The Scrutiny Committee was required to submit all the applications to the Screening Committee (SC) with a check-list indicating the shortcomings in the applications. Incomplete applications were to be considered only, if complete applications were not sufficient to fill the vacancies of plots. These incomplete applications could be considered only after submission of all necessary documents and payment of fees as required, after extending the time of receipt of applications through an advertisement following the procedures similar to inviting fresh applications.

3.2.6.3 Allotments made in 2012

In September 2012 the Corporation advertised for allotment of plots in three IEs of Tuem (43 plots), Pissurlem (18 plots) and Kakoda (9 plots). We examined the procedure followed for allotment and the observations are discussed below:

(i) The SC decided to categorise the applications into six groups *viz.*, applications complete in all respect; applications with minor non-conformity; applications with major non-conformity; old pending applications; applications for purpose other than manufacturing and applications for setting up liquor industry.

As per the criterion framed by the SC for applications with minor non-conformity, letters were required to be sent to individual applicants stating their respective non-conformities and giving a time period of 10 days for submission of the balance documents/information. The applications were required to be scrutinised afresh after ten days and the complying applicants were to be called for personal interview for evaluating the project feasibility and the justification for the area applied. In case of major non-conformity, the applications were recommended for rejection after deducting the processing fee. We observed that 37 out of 66 persons whose applications were classified as having minor non-conformities were called for interviews and even allotted plots without getting the applicants to submit the requisite documents.

(ii) The SC had not predetermined major or minor non-conformity leading to inconsistencies in evaluating applications. In its absence, it was observed that in respect of 25 applicants non-submission of aadhar card, PAN card, entrepreneur memorandum, proof of financial strength, technical education, birth certificate *etc.*, were treated as minor non conformities and plots were allotted in Tuem, Pissurlem and Kakoda IEs. Eighteen other applications were rejected due to non-submission of these documents, treating them as a major non-conformity. Thus, there was a lack of consistency in evaluating applications.

(iii) Applicants were selected even when they had made short payment of processing fee and security deposit, while at the same time some of the applicants were rejected on the same grounds as illustrated in the **Table 3.2.1** below:

Table 3.2.1: Applicants selected in spite of short payment of processing fee and security deposit

Sl. No.	Industrial Estate	Applicants selected for allotment of plot	Applicants rejected showing major non-conformity
1	Pissurlem	<ul style="list-style-type: none"> M/s Desai Concrete Casting (short payment of Processing fee and security deposit: ₹ 57,000) M/s Om Ventures (short payment of security deposit: ₹ 4,000) M/s Mauli Industries (short payment of security deposit: ₹ 18,000) 	<ul style="list-style-type: none"> M/s VIC Industries (short payment of security deposit: ₹ 7,000) M/s Naik Udyog (short payment of security deposit: ₹ 10,000)
2	Kakoda	<ul style="list-style-type: none"> M/s Shiv Shakti Industries (short payment of Processing fee and security deposit: ₹ 28,000) M/s Ansuya Traders (short payment of Processing fee and security deposit: ₹ 43,000) 	<ul style="list-style-type: none"> M/s Goa Packaging (short payment of security deposit: ₹ 10,000)

(iv) As per rule 8 (vii) of Regulations, the applicant was required to enclose proof of financial strength/support certified by a Chartered Accountant (CA) or Bank/financial institution. We observed that allotments were made to M/s Desai Concrete Casting, M/s Goa Engineering Works and M/s. Omni Impex Pvt. Ltd. who had not submitted any proof of financial strength.

We also observed that in 66 test checked cases, the CA certificates on financial strength, where submitted, did not clearly list out documents/records examined to give assurance about the soundness of the financial strength of the applicant. The Corporation also did not insist for attaching any collateral document (applicant's asset valuation, bank statement *etc.*) along with the application to review the financial capability of the applicant. We noticed that the applicants were submitting letters from banks stating that the bank had agreed to consider their proposal favourably. Such letters from banks submitted by applicants do not reflect financial strength of the applicants especially when the applicants mortgage the plot allotted, to avail loans from banks for their projects.

(v) As per clause 8 (vi) of Regulations, the SC was required to scrutinise applications and detailed project report (DPR) furnished by the applicants. DPRs submitted by applicants who were allotted plots in Tuem, Pissurlem and Kakoda IEs were examined and noticed as under:

- The scrutiny committee did not disclose the non-submission of DPR with the application form by M/s. Omni Impex. The SC also recommended the plot allotment without calling for and evaluating the DPR as per the procedure laid down in Regulations.
- 20 applicants were allotted plots though they had not provided information on source of finance, employment generation, projected production capacity, financing cost, projected operating cost, working capital, projected sales turnover and market demand, return on investment, implementation schedule, fixed assets and capital expenditure, assumption for production and profitability *etc.*, in their DPRs.
- None of the DPRs were evaluated by any competent agencies *e.g.* CAs/financial institution.
- The SC had not kept on record its evaluation remarks relating to any of the DPRs assessed by them.

Such inconsistent evaluation of applications could lead to allotment of plots to the ineligible parties. It was also observed that out of the 25 allotments made in 2012, 12 parties had not submitted their construction plans (January 2016). The Corporation, assured to examine on case to case basis.

3.2.6.4 Allotments of 2014

The Corporation advertised (June 2014) for allotment of seven plots at Kundaim, nine plots at Pissurlem, four plots at Cuncolim and one shed and one plot at Honda IE on the basis of Allotment Regulation, 2014 (Regulations 2014). It further advertised (27 June 2014) for allotment of eight plots at Shiroda IE.

A three member scrutiny committee scrutinised the applications and categorised them into complete and incomplete applications. As per Regulations 2014, the committee was required to reject applications that were not accompanied with a project report, proof of financial strength, prescribed security deposit and processing fee. Applicants with incomplete details were required to be granted additional seven working days for submitting the remaining details after which the scrutiny committee was to submit all complete applications along with a checklist and documents to the Screening Committee (SC). The SC was required to screen the completed applications with an objective to establish the genuineness of the applicant, the viability of the project and assess employment and revenue generation to the State. For this purpose, SC was required to form a set of guidelines and take assistance of any expert in the field.

- We observed that in some cases, the applications for plot allotment at Pissurlem were categorised as ‘complete applications’ though the concerned applicants had not furnished the required documents stipulated in the Regulations 2014.
- No correspondence with the applicants to remove the non-conformities was noticed.

Criteria namely priority ranking⁹ (110 marks), genuineness/credentials (20 marks), viability and category of project (20 marks), employment and revenue generation (30 marks) and investment potential (20 marks) were fixed for the evaluation of the applications. However, there were no parameters, fixed for assessing ‘genuineness and credentials’. We observed that the Corporation assigned varying marks to the same applicants at different locations as indicated in **Table 3.2.2** below:

Table 3.2.2: Marks assigned for Genuineness and Credential of the applicant

Applicants	Industrial Estates	Marks assigned for genuineness/credentials	Industrial Estates	Marks assigned for genuineness/credentials
Talak Developers Pvt. Ltd. (TDPL)	Shiroda	14	Pissurlem	11
Yashashri Polyplast	Shiroda	18	Kundaim	14
Glazetek System	Shiroda	10	Cuncolim	18
Talak Construction	Shiroda	17	Cuncolim	10

We also observed inconsistencies in assignment of marks for employment generation and investment potential. A few of these cases are presented in **Table 3.2.3 and 3.2.4** below:

Table 3.2.3: Marks assigned for employment generation

Sl. No.	Applicant Name	Persons to be employed (in number)	Marks assigned
1	Talak Developers Pvt. Ltd.	24	3.33
2	Esmeralda Metals	16	4.72
3	Kovelenco Industries	16	6.00
4	Krishna aqua	6	1.80
5	Ganesh Engineering	6	2.25
6	Akruti Enterprises	8	3.00
7	Vic Industries	9	2.66

Table 3.2.4: Marks assigned for investment potential

Sl. No.	Applicant Name	Investment Potential (₹ in lakh)	Marks assigned
1	Kovelenco Industries	41.72	10.43
2	Ganesh Engineering	55.25	13.81
3	Krishna Aqua	62.50	12.50
4	Nityay Water	68.00	17.00
5	SMR Engg. Works	75.50	6.99
6	Paras Metal Industries	85.00	7.87
7	Prabhakar R. Sadekar	150.00	14.00

As could be seen from above the marks assigned had no relation to number of people employed or investment committed. The Corporation assured that it would instruct the Scrutiny Committee and Screening Committee to examine the audit findings in detail. From the facts borne out in the preceding paragraphs the arbitrariness in allotment of plots based on the marks assigned to applications was evident.

⁹ To cater to the needs of local people, existing industrial units in need of expansion/ diversification and villagers whose land was acquired for development of industrial estate

3.2.6.5 Creation and maintenance of facilities in IEs

(i) Loss due to non-recovery of infrastructure development cost

The Corporation advertised (September 2012) for allotment of 43 plots with area between 1,000 m² and 3,000 m² at Tuem IE (Phase II) and allotted 41 plots (March 2015) at ₹ 1,000 per m² at tentative rates.

We observed that the cost of infrastructure development and various other costs were not considered while fixing the plot rate. The Corporation issued offer of allotment to 41 applicants without stipulating its terms for subsequent recovery of the infrastructure development cost. Even before the advertisement of the plot allotment, its field manager¹⁰ had submitted the cost of plot ₹ 1,305 per m² in order to recover the infrastructure development cost including land conversion cost and other related expenditure. Thus, due to fixation of lower lease premium rate, the differential amount of the plot rate worked out to ₹ 359.45 per m² culminated in a loss of ₹ 3.12 crore approximately.

Besides, the Corporation had advertised for allotment of plots even before receipt of NOC from the Town and Country Planning Department and Forest Department for conversion of land from agricultural to non-agricultural for Tuem IE Phase II. Repeated revision in plans delayed the plot allotment by three years and it also did not provide necessary infrastructure facilities like road construction, laying of water supply pipelines, street lighting, etc., before going for plot allotment to the industrial units. The Corporation awarded (February 2015) the work of road construction at a cost of ₹ 3.24 crore. The other works were still in the stage of cost estimation and have not been approved by the Board.

Thus, the Corporation weakened its own position to recover the differential plot rates on account of its own failure, by unduly delaying the issue of allotment orders and non-creation of infrastructure facilities even till date.

(ii) Non-creation of approach roads leading to non-utilisation of plots

As per clause 19 of the terms and conditions for allotment of plots, the building construction plans should be submitted to the Corporation for approval within three months from the date of issue of allotment order. Construction of the building should be started within six months and production should be started within two years from the date of allotment of plot. Failure to comply with this condition, the allotment was liable for cancellation and any loss occurred to the Corporation had to be recovered from the allottee.

During April 2010 to 2012, 79 allotments were made in Verna, Kundaim, Pissurlem and Kakoda IEs. Our scrutiny of 65 of these allotments showed that though 23 allottees had not submitted construction plans, the Corporation issued show cause notices to only two of them. In another 39

¹⁰ Field Manager is in-charge of the Industrial Estate and looks after the preparation of preliminary/detailed estimates of various infrastructure projects to be taken within the IE, drafting of notice inviting tender and other notices for payment of water bills, lease rent etc., supervision of building, road works etc. scrutiny of drawing/plans submitted by entrepreneurs etc.

cases where the plans were submitted and approved by the Corporation, construction activities had not been completed in 23 cases.

We further observed that that the Corporation had allotted plots without creating proper approach road and land development to make it suitable for taking up factory construction work by the allottees. In eight plot allotments made in 2010-12 in Verna IE and one at Kundaim IE, the allottees¹¹ did not start any construction due to lack of approach road to their allotted plots.

The Corporation accepted (November 2015) the facts.

(iii) Allotment of plots without development or land conversion led to idling of land acquired in Sanguem (4.99 lakh m²) and Amona-Navelim (2.11 lakh m²)

The Corporation acquired (December 2001) 4,98,850 m² of land in Sanguem for the purpose of setting up an IE. The Corporation decided (March 2004) to allot plots (total area of saleable plots 4,00,850 m²) at ₹ 63 per m² without any infrastructure development or land conversion to applicants. Accordingly, six plots measuring 1,84,120 m² were allotted to applicants during the period 2004-08. Balance plots measuring 2,16,730 m² were not allotted till date (January 2016). The utilisation status of the six allottees are indicated in **Table 3.2.5** below:

Table 3.2.5: Details of plot utilisation status in Sanguem Industrial Estate

Name	Plot No.	Allotment date	Area in m ²	Utilisation	Percentage of Utilisation	Remarks
M/s Srithik Ispat Pvt. Ltd.	P-3	13.04.2004	90000	1867.62	2.08	Production commenced; Very low utilisation
M/s Mahadev Agencies	P-5	13.06.2007	5005	38.31	0.77	Very low utilisation
M/s Madhu K Naik	U-3	29.07.2008	718	-	-	Vacant
M/s Samapriya Holistic Healing	2A	04.05.2006	25297	-	-	Repossessed on December 2014
M/s Asia Pacific Breweries	4A	04.04.2008	38000	-	-	Surrendered on February 2014
Dinesh K N Desai	U-1	07.04.2008	25100	-	-	Show Cause Notice issued December 2014

Similarly, the Corporation also acquired (June 2004) 2,10,653 m² of land in Amona-Navelim (Bicholim Taluka) for the purpose of setting up an IE. The Corporation allotted plots (2005 and 2006) at ₹ 50¹² per m² to three parties (total area of saleable plots 1,74,753 m²) without any infrastructure development or conversion. The allottees were required to ensure conversion

¹¹ M/s Tycon Medical Devices Pvt. Ltd., M/s GEF Logistics, M/s Arjun Travels, M/s G.P. Enterprises, M/s Punjab & Sind Dairy Products, M/s Priority Automobiles, M/s Ferns Infrastructure, M/s Lokmat Media and M/s Nakoda Flour Mills Pvt. Ltd.

¹² the prevalent rate in Bicholim IE was ₹ 100 per m² till February 2006 and ₹ 225 per m² thereafter

and infrastructure development at their own cost. The utilisation status of the three allottees is mentioned below:

Table 3.2.6: Details of plots utilisation status in Amona-Navelim

Name	Plot No.	Allotment date	Area in m ²	Utilisation in m ²	Percentage of Utilisation	Remarks
M/s Mohit Ispat Ltd.	P-1	17.10.2005	50000	5427.37	10.85	Very low utilisation
M/s West Coast Ingots Pvt. Ltd.	P-2	03.11.2005	40000	-	-	Unutilised
M/s Marmagoa Sponge Pvt. Ltd.	P-3, 4	23.05.2006	84753	-	-	Unutilised; cancellation initiated in June 2013

We observed in both cases that allotment of plots to entrepreneurs without development and conversion was the prime reason for industrial inactivity. The allotments were made despite the directions (March 2002) of State Government not to allot land before conversion from agricultural to industrial use. Thus, the land acquired in 2001 (Sanguem IE) and 2004 (Amona-Navelim) did not result in any meaningful industrial development, employment generation, commercial activity *etc.*, defeating the very purpose of allotment to industrial units.

3.2.6.6 Non-utilisation of Plots

(i) Inaction against defaulting plot allottees identified by the Task Force Committee

The Task Force Committee (TFC) constituted (August 2010) by the Government to identify under-utilised and un-utilised plots in various IEs highlighted (November 2011) 244 un-utilised plots belonging to 146 allottees involving 6.37 lakh m² (allotted between 1989 and 2009). The TFC recommended time bound action on the highlighted cases through a 'Screening and Review Committee' (SRC). The Government notified (October 2011) a 10-member SRC for reviewing these cases. The SRC supervised issue of show cause notices (January 2012) to the defaulting allottees and considered their replies. The SRC was, however, dissolved (July 2012) before it could make any final recommendations on defaulting allottees.

Subsequently, a sub-Committee¹⁴ of the Board was formed (March 2013) to review the cases pointed out by TFC. The sub-Committee recommended (April 2013) withdrawal of the show cause notices to enable the allottees to commence construction in 30 *per cent* plot-area (within 6 months of withdrawal of notice) and commence production within 2 years. The plots were to be repossessed in case of continuing default by the allottees after the stipulated period. With regard to the excess area remaining unutilised in respect of plots measuring over 2,000 m², these were recommended to be taken back after expiry of six months period.

¹⁴ Comprising of Managing Director as Chairman, President - GCCCI, President - GSIA and other two independent Directors

We observed that the decision of the Corporation to withdraw (on case-to-case basis) the show cause notices issued under supervision of SRC on defaulting allottees after 15 months of notice period lacked any justification considering that all the defaulting allottees had kept their land unutilised from four to 24 years (with most plots lying vacant for seven years and above) as against stipulated period of two years. The Corporation did not levy penalty of 30 *per cent* of the plot premium as per the Regulations, 2012. The non-levy of penalty totalling ₹ 20.36 crore in 126 cases (excluding repossessed plots) was an undue favour to the defaulting allottees.

The present status of action on the defaulters *vis-a-vis* the recommendations of the sub-committee (April 2013) which was accepted by the Board is indicated in the table below:

Table 3.2.7: Status of action on defaulting allottees

Sl. No.	Recommendation of sub-committee	Present status	Implication
1.	Show cause notice to be withdrawn immediately subject to submitting an undertaking to construct at least 30 <i>per cent</i> of the plot area and commence construction within six months and production within a period of two years, failing which plot allotment to be cancelled.	<ul style="list-style-type: none"> 69 allottees with 2.05 lakh m² area had not achieved the minimum utilisation of 30 <i>per cent</i> of the plot area. The plots remained unutilised due to no construction or construction abandoned by 31 more allottees (1.48 lakh m²). No action of plot cancellation initiated till date. 	Failure to repossess 31 plots of 1.48 lakh m ² remaining unutilised has deprived the Corporation of land worth ₹ 23.93 crore which were idle for a period of 05-25 years. (Allotments from 1989 to 2009).
2.	Plots measuring 2,000 m ² and above wherein excess area remains unutilised be taken back.		This would have enabled partial repossession of 28 plots from defaulting allottees holding plots of area 1.68 lakh m ² . The value could not be worked out as the excess area was not available in the records.
3.	In case the defaulting allottees do not surrender then steps to be taken to repossess the plots.	As on March 2015, the Corporation had repossessed plots of only 16 allottees and no action against 100 defaulters.	As in serial No. 1 above
4.	No transfer to be allowed at least for a period of five years initially.	9 allottees (whose name appeared in the TFC report) with area measuring 0.18 lakh m ² were allowed to transfer the plots. Four more allottees with plot area of 0.08 lakh m ² had applied to the Corporation for transfer and were under consideration.	By permitting transfers, the Corporation had sent a wrong message to the defaulting allottees to transfer plots to third parties and escape any action for violation of allotment conditions and non-utilisation of plots. Thus, while the defaulting allottees made a gain by transferring the plots at market rate, at the same time evades all penalties encouraging unaccountability for non-utilisation of plots.

The sub-committee met only twice since its formation, had not taken any initiative to review the progress made by the allottees as per the assurances given by them and the show cause notices were withdrawn without (a) payment of all outstanding dues, (b) payment of penalty for non-utilisation in the past period and (c) legally enforceable undertaking from allottees to smoothen the process of repossession by the Corporation.

The Corporation assured (September 2015) to examine on a case to case basis.

(ii) Inability of the Corporation to act against defaulting plot allottees due to mortgage of plots to banks/financial institutions

The Corporation permits the allottees to mortgage the plots to Banks/Financial Institutions (Bank) for the purpose of availing loan after the execution of lease deed. This practice was formally ratified by making a provision in the Transfer and Sub-lease Regulations, 2013. As per the laid down procedure, the Corporation issues a No-Objection Certificate (NOC) to the bank for creating first charge on the plot in favour of the concerned bank. The bank in turn extend loan to the allottees against the mortgage of the leasehold rights of plot. In case of default in repaying the loan, the plot is attached by the bank and auctioned at market rates to recover the loan. The transfer of leasehold rights through auction (from defaulting allottee to a new allottee) is ratified by the Corporation through levy of prescribed transfer fees (15 *per cent* of plot premium) as per clause 7(e) of the said Regulations. Prior to the Transfer Regulation, 2013 the Corporation charged 20 *per cent* of the plot premium as its transfer fee. Our scrutiny revealed that;

- The condition numbers 11¹⁵ and 12¹⁶ of the allotment order enabled the Corporation to cancel the allotment in case of default. However, by allowing creation of first charge of plot leasehold rights in favour of bank, the Corporation had lost its right to repossess the plot in case of violation by the allottee/allottees.
- To illustrate with a case, M/s Erica Life Sciences Pvt. Ltd., an allottee (2006) of 37,240 m² of plot at Verna IE did not utilise the plot. The Corporation had not even served a show cause notice to the allottee since the bank had informed (2012) the Corporation of its decision to attach the plot. There was no progress in the past three years on auction/repossession of the plot. However, the Corporation was left with no option except waiting for plot getting auctioned by the bank.
- Similarly, M/s Shesh Power an allottee (2003) of 500 m² of plot at Canacona IE did not utilise the plot till 2011, which was pointed out by the TFC. The Corporation could not attach/repossess the plot from the allottee for violations of the allotment order. The plot was eventually auctioned by the bank in 2014.

As per Transfer Regulation, 2013 an allottee has to pay transfer fee of 10 to 60 *per cent* of prevailing plot rates based on the extent of utilisation of the plots, the transfer fee is restricted to only 15 *per cent* of the plot rate if the plot is mortgaged to the bank. Under these conditions, the allottee is encouraged to mortgage the plot since he has to pay only 15 *per cent* fee whatever is the nature of his default annulling the provisions of the Regulation/Allotment order on utilisation of plots.

¹⁵ The allottee shall start construction of the building within six months and commence production within two years from date of allotment

¹⁶ No construction shall be allowed till the plans are approved by the Corporation

Even in case of those IEs where the Corporation does not have ownership rights, the Corporation continued to issue NOC in favour of bank for creation of first charge on lease hold assets. In Kundaim IE, land was obtained (1982) on 30 year lease by the Corporation from the Government of Goa. Consequently, the plots of two allottees namely M/s Nandan Pharma (700m²) and M/s Royal Inks (1,190m²) were auctioned by the bank in 2014 which was accepted by the Corporation through a transfer order even though the Corporation did not have any ownership rights on the plots.

In view of the fact that several allottees have mortgaged the plots allotted to banks/financial institutions for availing loan, the implication of the above observations seriously affects the control of the Corporation over the plots and the defaulting allottees and accordingly remedial measures required to be taken to safeguard the interest of the Corporation.

(iii) Loss to the Corporation due to non-cancellation of the plot

As per the procedure in vogue in 2009-10 for allotment of plot, an applicant was required to submit documents *viz.*, financing the project, manpower requirement, project report, memorandum and articles of association of the company along with incorporation certificate and its shareholding pattern, list of Directors, Board resolution to acquire the plot, PAN card, NOC from Environmental Pollution Cell and Goa State Pollution Control Board *etc.*, for considering the admissibility. Earmarking letter was issued to the applicant after verification of eligibility of the applicant, based on the application and submission of necessary documents and giving a three months extension for submission of any remaining documents. After complying with all basic conditions the matter had to be placed before the Board for a decision on allotment of plot. After the Board's approval, allotment was to be made after payment of either the entire amount of lease premium or 20 *per cent* of the premium amount along with one year annual lease rent within 15 days.

M/s Tonia Estate and Resort Pvt. Ltd. was allotted (April 2011) a total area of 21,716 m² at Kundaim IE for setting up warehousing and logistic services after receiving payment of ₹ 21.72 lakh towards first instalment of lease premium and ₹ 1.59 lakh towards lease rent for the first year. The Corporation subsequently cancelled (October 2014) the plot allotment since the party did not take possession. The Corporation refunded the first instalment of lease premium amounting to ₹ 21.72 lakh to allottee.

We observed that the Corporation had allotted the plot (April 2011) without evaluating the capability of the applicant to commence the proposed industrial activity and also without submitting the basic documents. The applicant did not take possession of the plot even after series of reminders (September 2011, July 2012 and August 2012) and finally communicated (September 2013) his disinterest to take possession of allotment. The allotment was cancelled (October 2014) by the Corporation and it did not levy any fine as per the allotment order for failing to take possession of the plot and execute the lease deed.

The inaction of the Corporation had blocked the prospects of allotment of plot to another applicant from 2011 to 2014 that would have generated ₹ 59.59 lakh revenue. Instead, the Corporation refunded first instalment of the premium amount ₹ 21.72 lakh paid by the allottee at the time of earmarking of the plot. The Corporation has, however, assured to take care in future.

3.2.6.7 Transfer of Plots

The leasehold rights of the plot allottees/lessees were transferable to third parties subject to payment of prescribed transfer fee and approval of the Corporation. During the review period, there were 210 cases of plot transfer involving an area of 5.78 lakh m². The transfer of plots by allottees/lessees to third parties is governed by Transfer Regulations of 2013 (retrospectively applicable from June 2012) and Transfer Regulations of 2014. The transfer of plots prior to notification of Regulations was governed by Board decisions. The regulations required the Corporation to examine the transfer application so as to determine the eligibility to transfer the plot, applicable transfer fee, penalty for unauthorised transfer and approve the transfer through a tripartite lease deed. Our scrutiny of 40 transfer cases involving total area of 1.45 lakh m² from four IEs revealed the following.

(i) Under-charging of transfer fee

Schedule III of the Regulations prescribed transfer fee between 10 to 60 *per cent* of prevailing plot rates based upon the extent of utilisation of plots¹⁷. The transfer fee applicable was to be determined after evaluation of the utilisation of the plot. We observed in 14 cases that at the time of transfer the allottee had not even constructed the minimum utilisation of 30 *per cent* of plot area prescribed and hence could not be classified as having achieved substantial construction. This attracted a transfer fee at the rate of 60 *per cent* of plot rate. However, the transfers were made with a fee ranging from 10-40 *per cent* of plot rates resulting in loss of revenue of ₹ 6.99 crore.

(ii) Non-levy of penalty for unauthorised transfer of plots

Regulation 7(d) prescribed a penalty of 10 *per cent* per annum on the value of prevailing plot area where the allottee transfers or hands over the possession without prior permission of the Corporation. Unauthorised transfer can be detected from the documents furnished by allottee and transferee (*e.g.*, ownership details, share transfer agreement, possession handover agreement *etc.*). We observed that in four unauthorised transfer of plots, the penalty of ₹ 62.72 lakh was not levied.

(iii) Absence of mechanism to detect unauthorised transfer of plots

The allottees may transfer plots through sale of shares/change of ownership. In order to detect the unauthorised transfer of plots it was necessary to periodically call for the ownership structure of the allottee. There was no

¹⁷ 10 *per cent*, 20 *per cent* and 30 *per cent* for allottees who carried out commercial production for over 10 years, 5-10 years, less than 5 years respectively; 40 *per cent* transfer fee for allottees who had completed substantial construction in the plot; 60 *per cent* for allottees who had completed partial construction but not substantial construction

such mechanism in place to detect unauthorised transfer of plots. We observed a case where an allottee¹⁸ had changed the partnership deed to incorporate new partners in place of previous partners. This remained unnoticed till they applied to acquire adjoining plot and submitted their revised partnership deed (which was different from their original ownership structure at the time of allotment). The Corporation however, did not levy transfer fee and penalty of ₹ 15.75 lakh.

(iv) Failure to examine the ownership structure of transferors

The Corporation, while processing the plot transfer application, was required to examine the present share holding of the transferor in order to ascertain any unauthorised transfer of plot in the past. This was not done in five transfer cases with plot area of 62,870 m². In case of a transferor¹⁹ the shareholding of the transferor had changed substantially from date of allotment (April 1994) to date of transfer (May 2015). This unauthorised transfer, without permission of the Corporation, attracted the levy of additional transfer fee of ₹ 1.57 crore²⁰ and a penalty of at least ₹ 0.26 crore.

The Corporation accepted the facts and agreed to take corrective action. However, the information in respect of other four cases were not submitted.

(v) Non-revision of Plot Rates

The Corporation allotted plots on lease for a lumpsum premium based on the prevailing plot rate per m² and a fixed percentage on the premium as annual lease rent. Revenue from transfer fee was also based on the prevalent lease premium of the plots. In order to protect the revenue interests of the corporation and to recover the cost escalation on administration and maintenance of IEs, periodic revision of plot premium rates was essential.

Prior to Regulations 2012, there was no policy on periodic revision of plot premium. Rates were revised on ad-hoc basis with the approval of Board. The last major plot premium revision was made on February 2006. Clause 6 of Regulations 2012, prescribed market-based revision of plot premium and lease rent every year in March. Accordingly, the first rate revision was effected in November 2012. However, there was no follow-up on rate revision.

Till 2013, annual lease rent ranged between 0.5 to two²¹ *per cent* of total premium irrespective of the quantum of area allotted. In 2013, the annual lease rent was revised to two *per cent* of the prevailing premium rate per m² for new allotments and in respect of old leases, it was decided to increase the lease rent to 3.33 *per cent* per annum from the date of allotment.

¹⁸ M/s Churi Electromech of Madkaim IE

¹⁹ M/s Inter Gold India Pvt. Ltd.

²⁰ Working based on Transfer Regulation 2013 (plot area 17,450 m² x prevalent rate ₹ 1500/m² x 60 *per cent* transfer fees)

²¹ Two *per cent* of total premium up to 10,000 m² plot area and one *per cent* thereafter in case of IEs where infrastructure was provided. Where the land had been allotted directly after acquisition without providing infrastructure, annual lease rent at 0.5 *per cent* on the premium amount

Our scrutiny of the rules, procedures followed and decision taken by the Corporation with regard to revision of plot rates and annual lease rent revealed the following.

- In 2012, the plot premium rates ranging from ₹ 150 to ₹ 1,500 per m² was revised to ₹ 600 to ₹ 3,000 per m² after categorising various IEs. The regulations prescribed rate revision was based on prevailing market rates. The Corporation, however, did not conduct any analysis of the actual costs (maintenance and administrative cost, infrastructure development cost *etc.*) incurred and prevailing market rates before revising the rates. As a result, the adequacy of revision of rates could not be verified in audit.
- The Corporation under the Regulation 2012 fixed the validity of the revised premium rates for two years (*i.e.* from November 2012 up to December 2014) instead of one year without considering the direct impact on revenue of the Corporation. The Board did not deliberate on the issue between March 2013 and April 2015.

Notably, every rate revision applied only to the new allotments and hence delays in revision benefitted the new allottees who had been allotted plots at the pre-revised rate resulting in loss to the Corporation. This is demonstrated from the data presented in the **Table 3.2.8** below:

Table 3.2.8: Plot rate revision after the allotments

Date of advertisement	Date of offer of allotment	Date of allotment order	Date when revision due as per regulation	Date of actual revision
05 June 2014 (22 plots having total area of 28,501 m ² in four IEs)	March 2015	June 2015	December 2013 and December 2014	Not revised yet (January 2016)
27 June 2014 (8 plots having total area of 10,207 m ² in Shiroda IE)				

The State Government had leased out 24 lakh m² land for setting up of Kundaim IE for an initial period of 30 years up to March 2012 on nominal rent of ₹ one per annum which was further renewed (March 2013) for a subsequent period of 30 years on payment of ₹ 2.23 crore per annum (₹ nine per m²) as lease rent. The Board decided (July 2013) to pay the amount.

The Board subsequently requested (February 2014) the Government to reconsider charging rent of ₹ 2.23 crore per annum since it had already under-recovered the development/maintenance cost incurred by it to the tune of ₹ 6.04 crore during the past 30 year period. Thus, it was evident that Corporation did not work out the rate to cover the maintenance cost incurred by it or charging maintenance cost separately to the industrial units and take necessary measures to recover the cost from the industrial units.

During review period, 13 instances of enhancement in land acquisition rates were granted by court/appellate authority. The total outgo of the Corporation

on account of enhancement of land rate was ₹ 12.23 crore. This formed part of the land acquisition cost and should ideally be transferred to the allottees proportionately by way of suitable terms and conditions in the lease deed. However, it was observed that the Corporation did not apportion this land acquisition cost to the allottees. The Corporation had also not considered this aspect at the time of fixing the validity of the revised rates in November 2012 for two years.

Thus, the decisions of the Board were detrimental to the financial interests of the Corporation and State Government.

The Corporation assured (July 2015) to place the observations before the Board for consideration and take suitable decisions in the matter.

3.2.6.8 Poor Recovery Mechanism

(i) Under-recovery of water charges from IEs

The Corporation purchases water from the Public Works Department and supplies it to the Industrial units. The industrial units are required to specify their water requirement for manufacturing/processing and domestic use at the time of making application for plot allotment. The requirement as well as availability of water is examined and decision is taken by the SC before earmarking the plot.

Our scrutiny of the system of billing and recovery of water charges from the industrial units revealed that the Corporation had not formulated policies and procedures to take care of issues like handling water leakages, faulty meters, monitoring and cost recovery relating to water supply through alternative sources, replacement of faulty water meters installed in the industrial units and levying fine for tampering water meters, etc.

The State Public Works Department (PWD) bills the Corporation on monthly basis for supplying water to the IEs and in turn the Corporation bills the individual industrial units based on reading of the water meter installed at each of these units. We analysed that the Corporation had incurred a loss of ₹ 5.25 crore due to under-billing of water charges to the industrial units in the 15²² estates as detailed in *Table 3.2.9*.

Table 3.2.9: Comparison of billing by Corporation to IEs vis-a-vis PWD billing

Year	Units billed by PWD (in cubic metre)	Bill amount of PWD (₹ in crore)	Units billed to Industrial Units (in cubic metre)	Amount billed to Industrial Units (₹ in crore)	Difference in Units	Difference in Amount (₹ in crore)
2010-11	1410080	3.10	1103217	2.52	306863	0.57
2011-12	1647609	4.04	1225440	3.11	422169	0.93
2012-13	1756048	4.39	1136830	3.20	619218	1.20
2013-14	1713593	5.05	1253031	3.72	460562	1.33
2014-15	1657518	4.95	1245107	3.72	412411	1.22
Total	8184848	21.53	5963625	16.27	2221223	5.25

²² Only those IEs which consume PWD water supply were considered

We also observed that the percentage of short-billing in Sancoale, Pilerne and Margao IEs were abnormally high to the extent of 43 *per cent*, 55 *per cent* and 39 *per cent* respectively. The losses had increased over the years. This indicated that the Corporation had no control/remedial measure over the water losses till date.

The Corporation also did not recover from the industrial units the cost totalling ₹ 8.63 crore incurred for operating the pump house and the water tankers used to supply water to the industrial units during 2010-15.

The Corporation did not place a system for recovering the water charges, as there were arrears of ₹ 11.34 crore up to 2014-15 from the industrial units.

(ii) Lease rent recovery

The Corporation revised (July 2013) the annual lease rent to two *per cent* of the prevailing lease premium rate per m² for new allotments. In respect of old leases, it was decided to increase the lease rent by 10 *per cent* every three years from the date of allotment. Till 2013, annual lease rent was fixed at two *per cent* of total premium up to 10,000 m² plot area, one *per cent* for the next 40,000 m² and 0.5 *per cent* thereafter in IEs where infrastructure was provided. Where the land had been allotted directly after acquisition without providing infrastructure, annual lease rent at one *per cent* on the premium amount, irrespective of the quantum of area allotted, was being charged. The Corporation earns its revenue through lease rent collection that helps it to meet its recurring operating and administrative expenses at its IEs.

The age-wise dues position in respect of 22 IEs revealed that ₹ 11.82 crore was outstanding from industrial units, of which ₹ 5.84 crore was due for more than three years. This indicated weak debt recovery mechanism. Our scrutiny of 199 invoices in 10 invoice books (each consisting of 1,000 invoices) showed that invoices were raised for a combined periods of two to 14 years. It was also observed that the Estate Division was not recording the lease rent amount on due date but were entering only when paid by the allottees. This incomplete recording of details did not provide the actual outstanding amount from any allottee.

As stated earlier, the steady flow of revenue towards lease rent was necessary to meet the infrastructure maintenance and administrative cost borne by the Corporation at the IEs. Analysis of lease rent receipts *vis-a-vis* the expenditure incurred during the five year period indicated that the expenditure had exceeded the revenue earned as detailed in **Table 3.2.10**.

Table 3.2.10: Details indicating expenditure *vis-à-vis* revenue

		(₹ in lakh)				
		2010-11	2011-12	2012-13	2013-14	2014-15 (provisional)
Administrative cost incurred	(A)	360.92	416.73	445.48	463.65	505.67
Repairs to Building, street light	(B)	118.58	73.12	71.72	73.25	77.27
Road maintenance	(C)	901.43	1273.07	--	222.47	1507.71
Total Cost	(D)	1380.93	1762.92	517.20	759.37	2090.65
Source of revenue						
Lease rent	(E)	498.29	379.46	335.51	581.66	N.A.
Building rent	(F)	27.08	26.20	30.98	30.99	31.31

Total revenue (E)+(F)	(G)	525.37	405.66	366.49	612.65	--
Amount spent from Corporation's own fund	(D) - (G)	855.56	1357.26	150.71	146.72	
Impact						
Fixed Deposits & Cash-in-hand		14001.66	12703.20	12870.19	13917.96	15548.02
Interest		1034.55	1555.31	1796.18	1198.40	1693.27
Accumulated Surplus		5605.62	5189.51	5119.35	5543.82	N.A.

(N.A–Not available)

Note : In 2012-13 and 2013-14, the expenditure was comparatively lower due to Board directions to put on hold all civil maintenance works contracts.

This indicated that the maintenance and administrative cost at the IEs were being met from the accumulated surplus and lease owners are unduly benefitted by the subsidisation.

3.2.6.9 Management Reporting

The field offices at each of the 22 IEs were required to submit monthly progress reports covering information relating to production activity carried on by the industrial units, whether functioning, closed or under construction, employees hired, water consumption, illegal construction if any and action taken, *etc.* We observed that field offices of many of the IEs skipped the submission for more than a year. The reports were not being submitted to the executive by the concerned Estate division for review and corrective action. Besides, the field offices were expected to collect the details from the industrial units whereas the field offices had been circulating the prescribed format to the industrial units for submission by them. This completely defeated the purpose of monitoring the progress.

There was absence of regular generation and submission of Management Information System (MIS) reports depriving the executive of timely information on key performance indicators such as status of plot allotment cases, plot transfer cases, compliances by allottees, position of revenue arrears and progress of action against defaulting allottees *etc.*

Budgets were prepared without any inputs from the functional divisions in the Corporation. The figures were not only unrealistic but were not subjected to scrutiny. (*e.g.*, the actual revenue collection was 56 *per cent* of the budgeted revenue in 2010-11 and 2011-12). Budgetary controls like obtaining financial clearance before taking up any infrastructure project was not followed.

Internal Audit was required to examine and evaluate the level of compliance to the Corporation's rules and procedures and provide reasonable assurance to the Corporation on the adequacy or otherwise of the existing internal controls. The Corporation outsourced its internal audit task to a private Chartered Accountants firm. We observed that the internal audit reports had no observations/assurance on the core functions of the Corporation. The Corporation also did not follow the practice of submitting the internal audit reports to the top management for review and directions.

3.2.6.10 Corporate Governance

The Corporation is a body corporate with perpetual succession and consist of 12 Directors comprising Secretary (Industries), Secretary (Finance), Chief Electrical Engineer (CEE), Director of Industries, President of Goa Chamber of Commerce and Industries, President of Small Scale Industries Association, Architect/Environment Expert, an expert in Industry/Commerce, three experts in field of Biotech/Pharma/Agriculture and Managing Director. One of the above Directors is nominated as Chairman of the Corporation. The responsibility of good governance vests with the Board, and it has the primary duty of ensuring that principles of Corporate Governance expected by the stake holders are scrupulously and voluntarily complied with and the stake holders' interests are safeguarded. For this purpose, active participation of nominated Government officers in the Board to present the perspective of the State is essential.

The Government ensures its role and responsibility in achieving the objectives of the Corporation through the official Directors representing the Government on the Board. The Government directors, however, did not attend most of the meetings and were granted leave of absence. Their continued absence indicated lack of active participation of Government. The absence of official Directors was 85 *per cent* in respect of Finance Secretary (22 out of 26 meetings), 81 *per cent* in respect of CEE (21 out of 26 meetings), 38 *per cent* with regard to Industries Secretary (10 out of 26 meetings) and 15 *per cent* in respect of Director of Industries (four out of 26 meetings). Moreover, none of these official Directors nominated any officer as their representative to attend the Board meetings as prescribed in the Government notification of June 2009.

The composition of the sub-committees formed to advise the Board on matters related to plot allottees were not balanced to represent official and non-official Directors as illustrated below:

Table 3.2.11: Composition of sub-committees

Committee	Members	Ratio of official/non-official Directors
Sub-committee for action against defaulting allottees of TFC report	Managing Director, Chairman, GCCI President, GSIA and two Directors	1:4
Committee for framing the policy on open space, towers, kiosk <i>etc.</i>	Three Directors	No official director
Committee for studying the Regulations and amendments thereof	Four Directors	No official director

The practice of pursuance of action on decisions taken in the Board meetings had been discontinued since 2012 without any reasons on record.

The management noted the observations and assured to place before the Board for deliberation.

3.2.6.11 Other issues of significance

(i) Inaction of the management in weeding out the vulnerability due to employees' interests in the Corporation's plots

We observed that 17 employees of the Corporation had acquired the plots in various IEs (totaling 56,550 m²) in their names or in the name of their family members. The matter was deliberated in Board's meeting (June 2012 and August 2012) and decided not to initiate disciplinary action against those employees who surrendered the plots on or before August 2012. The services of one employee was terminated (November 2013) and another employee was under suspension. However, in respect of remaining 15 employees, the Corporation had not taken any action despite these employees had allotment in their name or in relatives' name.

We further observed that:

- Prior to the year 2001, the delegation of powers to allot plots of any size vested with the Board. Between 2001 and 2012, the Chairman was delegated the powers to allot plots of area 10,000 m² and below. It was noticed that 42 out of 46 plots were allotted to these employees during the period 2001-12.
- Two of the 17 employees who had obtained the plots in their or relatives' names were working in Estate Division since 1997 and were directly involved in the allotment process. These employees were still working in the Estate Division although the management was fully aware of the above facts.
- The Corporation had not incorporated suitable provisions in its Regulation to mandate the disclosure of relationship if any, of an applicant for plots with the employees.
- A sub-committee was constituted (November 2012) to examine and submit a report on the issue and the report was submitted (April 2014) recommending cancellation of plot allotments and invocation of disciplinary action against the employees. However, till date (January 2016), no action has been contemplated by the Corporation.

(ii) Clause 9(e)(i) of the Allotment Regulations, 2012 prescribed a penalty²³ if the allottee failed to execute the lease deed with the Corporation within a period of 30 days of allotment order. We observed that the Corporation had not levied penalty of ₹ 33.25 lakh on 24 allottees though there were delays ranging from 20 to 706 days in execution of lease deed of plots. The Corporation had not taken any steps for cancellation of allotment in case of three²⁴ allottees who had not executed lease deed till date since February 2013. Moreover, the Corporation suffered a loss of ₹ 7.92 lakh on account of failure to deposit cheques relating to 35 applicants towards processing fee.

²³ ₹ 20/m² per month for a maximum period of 180 days and thereafter was liable for cancellation of allotment with 10 per cent of the land cost and forfeiture of application money

²⁴ M/s Desai Concrete Casting, M/s Om Venture and M/s Goa Engineering Works (Pissurlem IE)

(iii) Open spaces in the Industrial Estate

As per clause 12.4 of the Goa Land Development and Building Construction Regulation, 2010 when a plot is to be sub-divided for development, certain areas shall be set apart as usable open space area in the proportion of 15 *per cent* of the land. Further such open space provided in any sub-division of land shall not be further sub-divided under these regulations.

Scrutiny of data on open spaces in the 22 IEs revealed that Corporation did not follow the above rules and regulation at the time of sub-division of plots. Eleven out of 22 IEs have less than 15 *per cent* of the total area for open space. The Corporation had also not obtained the approval of the Town and Country Planning Department which was the controlling authority for such matters.

3.2.7 Conclusion and Recommendations

- The performance audit had revealed absence of systematic planning, sound internal control mechanism and robust management reporting which led to idling of vacant industrial plots, low revenue generation and non recovery of costs incurred by the Corporation on behalf of the industrial units.

Company should maintain a comprehensive up-to-date database of plots inventory to enable macro analysis and planning; discourage allottees holding land without any/partial development and fix lease and other charges to ensure full recovery of operation and maintenance expenses of the industrial estates.

- While rules for allotment of plots have been framed and evaluation criteria defined the actual application of criteria for evaluating applications has been inconsistent.

Company should take measures to ensure consistency in evaluation of applications for processing plot allotments.

- Several allottees have mortgaged the plots allotted to banks/financial institutions which dilute the control of the Corporation over the plots.

Immediate remedial measures are required to be taken to safeguard the interest of the Corporation.

- The Corporate governance suffered on account of non-participation of Government nominees to the Board.

Company should ensure improved participation by Government nominees in the top management.

FINANCE DEPARTMENT

3.3 Execution of works by Goa State Infrastructure Development Corporation for Government Departments

3.3.1 Introduction

The Goa State Infrastructure Development Corporation (GSIDC) was incorporated (2001) under the Companies Act, 1956 as a ‘Special Purpose Vehicle’ to execute infrastructure development works for departments of Government of Goa. All the expenditure on projects undertaken for projects is reimbursed to GSIDC by the Government. In addition, GSIDC charges ‘development fees’ to meet its administrative expenses. The GSIDC also undertakes deposit works entrusted to them by various Government Departments.

GSIDC is under the administrative control of the Finance department. The Board of Directors of GSIDC consists of a Chairman, Vice-Chairman, Managing Director and three Directors²⁵. The Managing Director (MD) is the head of the organisation and is assisted by various divisional heads.

The GSIDC executes work based on proposals received from client departments after obtaining approval of the Board and the Government. The works are executed through consultants who prepare the estimates along with the detailed project report (DPR). A Memorandum of Understanding (MoU) is processed with the client department. The estimates are scrutinised and approved by the Estimate Scrutiny Committee²⁶ (ESC) and then the work is tendered and contractor appointed through tendering.

3.3.2 Scope and methodology

The process adopted by GSIDC for execution of works to ensure timeliness, quality and procedures adopted for assignment of work were examined through test check of records pertaining to the period 2010-15. Our audit observations were communicated (June-August 2015) to the GSIDC and their preliminary response (October 2015) have been considered and suitably incorporated.

3.3.3 Audit findings

During the period 2010-15, GSIDC completed 101 works. Of these, 27 *per cent* (27 works) were completed on time and the remaining 73 *per cent* (74 works) were completed with delays ranging from one to 66 months²⁷. Of the ongoing 118 works 49 *per cent* (57 works) had already exceeded the stipulated date of completion, by three to 45 months (June 2015).

²⁵ Finance Secretary, Secretary PWD and an Independent Director

²⁶ Chief General Manager and eight members of GSIDC

²⁷ 43 projects delayed by 1 to 12 months, 10 projects delayed by 13 to 24 months, 8 projects delayed by 24 to 36 months, 13 projects delayed over 36 months

We observed that the delays were mainly due to lack of funds, delay in land acquisition, delays in providing needed approvals and statutory clearances and foreclosure of work. We observed that there were cases where work execution was taken up without acceptance of the relevant client department leading to assets lying idle and in cases putting the burden of maintenance on GSIDC.

Our observations on four²⁸ considerably delayed projects are discussed in the following paragraphs.

3.3.3.1 Development of Infrastructure for Panaji Minor Ports

As a part of the upgradation of Ports, it was proposed to reconstruct the jetties at Panaji, Britona and Old Goa. This was to be carried out for the Captain of Ports²⁹ (CoP) by GSIDC. The initial estimate prepared and approved (2004) was for ₹ 6.53 crore which was revised to ₹ 15.30 crore (2007). The work, however, did not progress well because the CoP did not provide funds timely to GSIDC; construction plans were not cleared timely by the CoP and GSIDC; delay in obtaining necessary clearances from the Goa State Pollution Control Board (GSPCB), Goa Coastal Zone Management Authority (GCZMA) and the Archeological Survey of India (ASI).

Further, the Environment Impact Assessment (EIA) was to be conducted for Panaji and Old Goa jetties. The Old Goa Jetty required NOC from ASI. The clearance from GCZMA was obtained (March 2007) for Britona Jetty and the work was completed (October 2010) at a cost of ₹ 3.49 crore and handed (January 2011) over to CoP.

(i) The EIA was conducted (March 2008) for Panaji Jetty. Due to delay in receipt of NOC from GCZMA and GSPCB, the work of Panaji and Old Goa jetties could not commence. The clearances were received in June 2008. Meanwhile the consultant expressed his inability to execute work and the GSIDC terminated (October 2008) the contract. The GSIDC also decided (September 2009) to shelve the project till receipt of funds from the CoP. The funds worth ₹ 8.02 crore were received (December 2011) from the CoP and a new consultant was appointed (March 2012).

Tender for Panaji jetty was floated (April 2012) and the work was awarded (October 2012) to a contractor for ₹ 14.22 crore (1.69 *per cent* below the estimated cost). Though the work was scheduled to be completed by August 2013, it was completed in December 2015 and total payment of ₹ 14.29 crore had been made to the contractor and consultants (January 2016).

(ii) In respect of Old Goa jetty, clearance from ASI and CoP were received by March 2013 and the work was awarded (February 2014) to a contractor at a cost of ₹ 17.84 crore (13.82 *per cent* above the estimated cost). The work was scheduled to be completed by May 2015 however, was yet to be

²⁸ Construction of jetties; single lane bridge at Village Dongrim, Azzosim, Construction of 400 bedded hospital at Margao and construction of Kala Bhavan

²⁹ CoP is responsible for ports and inland navigation matters in the State

completed and the payment made to contractor and consultant was ₹ 11.98 crore (January 2016).

Thus, of the three jetties (Panaji, Old Goa and Britona) only two, one at Britona and one at Panaji (December 2015) has been completed and the last is yet to be completed even after ten years of conception.

The GSIDC stated that the reasons for delay were escalation of cost of works due to revision in Goa Schedule of Rates (GSR), additional requirements from the client department and the time taken in obtaining approvals from the various Statutory Authorities.

Though there were delays in approval from the concerned Statutory Authorities, we observed lack of coordination between the consultant, client department and GSIDC regarding their respective roles and responsibilities as another major factor for delay.

3.3.3.2 Idle investment on construction of bridge in Village Panchayat Azzosim

The GSIDC Board approved a proposal for construction of a single lane bridge in village Dongrim, Azzosim in July 2007. The work was awarded (June 2008) for ₹ 9.46 crore to be completed by September 2009. Later the contract was extended till 15 December 2012.

After award of work, the consultant proposed (November 2009) stone column embankment for the approaches in place of sand drains in the original estimate due to low safe bearing capacity of the embankment. The GSIDC appointed (July 2010) a soil specialist and finalised an estimate of ₹ 1.91 crore for stone column embankment.

This work of constructing stone column was awarded (October 2011) separately to another contractor. The stone column work was to be completed by May 2012 but was extended to January 2013.

The first contractor had completed the foundation and super structure of the bridge by March 2011 (72 *per cent* of work). He was asked (April 2012) to continue the balance work (other than awarded to the second contractor). However, the first contractor expressed (April 2012) inability to continue further at the quoted rates of 2008. The proposal for foreclosure of the work was approved and ₹ 6.05 crore was paid (March 2013) to the first contractor.

The second contractor also sought (October 2012) foreclosure after completing 50 *per cent* of the stone column work. This was because the balance work could not be taken up on account of inaccessibility from Carambolim side and also due to pending land acquisition proceedings. Thus after spending ₹ 79.45 lakh this work was also foreclosed.

We observed that the consultant had not carried out proper soil investigation, topographical survey and condition survey before preparing the estimate for the work. Land acquisition was not completed before commencement of the project. Besides, there was hindrance in the acquisition of land due to

obstruction created by the local people and no public hearing was conducted before commencement of the project. As a result, the project could not be completed even after passage of eight years resulting in idle investment of ₹ 7.20 crore.

The GSIDC stated that the consultant prepared the estimate based on soil exploration report carried out by PWD on a nearby location. The work could not be completed as the project was located in weak soil terrain, foundation work for approach road was difficult and inaccessible on either side of the bridge. The project remained incomplete mainly due to technical reasons such as poor soil conditions and other factors which were totally beyond the control of the company.

The reply is not acceptable as it would have been better if the preliminary survey of soil was done at the site proper, land needed estimated properly and acquired in time for the project, to prevent idle investment.

3.3.3.3 Construction of 400 bed hospital at Margao

The GSIDC decided (June 2006) to construct a 400 bedded hospital at Margao. The Government approved (November 2006) the project and the GSIDC appointed (January 2007) a consultant who prepared (February 2007) a block estimate of ₹ 64.23 crore. Further, for using the hospital for medical tourism on Built Operate Transfer (BOT) basis a fresh estimate of ₹ 145.80 crore was prepared (July 2008) by increasing the bed capacity to 800. The work of Phase I was awarded (October 2008) for ₹ 92.66 crore to be completed by November 2011.

We observed that, the scope was changed three times between 2007 and 2012. Firstly, 100 beds were sought to be added on Public Private Partnership (PPP) model (2008). Subsequently, the PPP model was discarded in March 2011 and thereafter conversion of the hospital partly into a medical college was contemplated. The ongoing work was stopped (June 2012) after 67 per cent completion of the work. The Government, thereafter, revised (January 2014) the project to a 500 bedded hospital cum nursing college. However, the contractor expressed his inability to continue at the rates of 2008 due to periodic interruptions. Hence, the work was foreclosed in 2014 after spending ₹ 68.76 crore.

The GSIDC stated that the number of beds increased from 400 to 800 as per the directives of Director of Health Services (DHS). The plans were accordingly revised by the consultant and approval for the same obtained from the client department. The decision for converting the district hospital partly into medical college was taken by the Government (March 2012). The changes suggested by the DHS/Government from time to time had also delayed the project. However, action had been initiated for completing the project within two years by retendering the balance work with modification.

The facts borne out from the above thus made it clear the project was incomplete (January 2016) after passage of nine years from inception and idling of investment of ₹ 68.76 crore besides loss of interest. In addition, inability of clients to freeze requirements hindered GSIDC compromising its objective of timely completion of infrastructure.

3.3.3.4 Construction of Kala Bhavan at Sancoale

The GSIDC resolved to take up the proposal to construct the Kala Bhavan at Sancoale (July 2007). The approval of the Government was communicated by the Finance Department (October 2010) with the condition that funds should be provided by client department and all codal formalities including signing MoU to be completed by GSIDC before taking up the work. The Director of Art and Culture conveyed (September 2007) the administrative approval by the Government and asked GSIDC to initiate the work with their own funds. The Art and Culture Department also did not sign the MoU as the client department. GSIDC, instead of resolving the matter, took up (November 2008) the construction with own funds even though the Art and Culture department had refused (July 2008) to approve the plans for the building. The awarded cost of the work was ₹ 30.49 crore and was scheduled for completion by April 2010.

Since there was no identified end user, the GSIDC had to search for one. Efforts were made to utilise the project by getting the National School of Drama, New Delhi to start a school of theatrical education on the premises. Finally, after seven years, the Art and Culture Department agreed (November 2014) to take over the project which would function as the South Goa branch of the Kala Academy on completion. This work was incomplete (88 per cent work completed as on January 2016) even after eight years and incurring an expenditure of ₹ 28 crore.

The GSIDC stated that the client department took an adamant stand though administrative approval was conveyed by them. The project as a whole was not foreclosed and though the amount of ₹ 28 crore remained idle, this was a good investment for Government if taken up now.

The reply indicated that the project was undertaken without acceptance from the identified user department and has led to idling of investment ₹ 28 crore and without any benefits till date (January 2016).

3.3.4 Execution of works

3.3.4.1 Avoidable expenditure and delay in completion of Tharmas- Ozari bridge

The proposal to construct the bridge between Tharmas to Ozari in Dhargal constituency was taken up (July 2007) by GSIDC to facilitate overall development of Pernem taluka. A consultant was appointed in September 2007 and the execution of the work was awarded (April 2010) to a contractor for ₹ 18.59 crore. The project was to be executed with its own funds. The work was completed (June 2013) at a total cost of ₹ 20.32 crore.

We observed that the consultant took the help of design data of nearby bridge constructed for pile foundation with a provision in the estimate to carry out detailed soil investigation by the contractor and modify the location and design of pile, if necessary. We also observed that the consultant included items of road work which had already constructed by the PWD while preparing estimate. On execution, the contractor changed the design of the

project from two 20 metre span RCC bridge to a 40 metre steel bridge to avoid pier in the river and did not execute a major part of the road work.

We further observed that the difference between the offers of L1 tenderer and L2 tenderer was only ₹ 1.15 crore, with the L1 tenderer quoting higher than the L2 for items other than road works. The L1 tenderer had quoted ₹ 4.61 crore compared to ₹ 7.46 crore by L2 in respect of road works. During actual execution, the quantities of the items increased due to change of design were those for which the L1 tenderer had quoted much higher rates than the L2 tenderer. If the consultant/GSIDC had excluded the road work, constructed by PWD and estimated the quantity of various items to be executed realistically, the L2 tenderer would have become L1 tenderer with a difference of ₹ 2.70 crore. Thus, incorrect estimation and subsequent change of design resulted in avoidable extra expenditure of ₹ 2.70 crore.

The GSIDC stated that changes were mainly effected during actual execution stage which was not anticipated during estimation/tendering process and exact details regarding execution could not be envisaged prior to award of work. There was saving in road work as PWD had carried out asphaltting of most of connecting road except approach road work of bridge, to which the GSIDC and the consultant were not aware. The decision to change the design to superstructure steel bridge was taken due to difficulty encountered while piling/boring which was not encountered during soil investigation. The GSIDC had no control on the hindrance resulting in delay, though the consultant was fully responsible for detailed site survey and these practical problems were not envisaged during tendering of the work and was totally beyond their control.

The reply was not acceptable in view of the facts that the consultant did not conduct site specific preliminary study, however, adopted design data of a nearby bridge. Thus, the change during execution could not be attributed to factors GSIDC had not anticipated during estimation and tendering. As an agency involved in constructing public works, coordination with other agencies like PWD doing similar works, should have been done. The variation in actual execution was to the extent of 80 *per cent* reduction in road works and 55 *per cent* increase in bridge work leading to cost inversion between L1 and L2 tenderers.

3.3.4.2 Awarding work without competitive bidding

The work of 'Widening of road in Calangute-Baga' was taken up as per the direction (November 2013) of the Collector (North Goa) as an urgent measure by calling short tender notice. The work was awarded (November 2013) to a contractor for ₹ 1.71 crore (3.86 *per cent* above estimate ₹ 1.65 crore).

Meanwhile, another estimate of ₹ 5.84 crore had been prepared (December 2013) for five works³⁰ as part of a package "Improvement of road network in Saligao-Calangute constituency". Of these five works, the GSIDC removed one work (improvement of road from Arpora to Nagoa Junction) costing

³⁰ Arpora Junction to Nagoa Junction costing ₹ 2 crore, Nagoa Junction to St. Alex Church costing ₹ 93 lakh, St. Alex Church to Calangute Police Station costing ₹ 39 lakh, Calangute Police Station to Ambrekar Devastan costing ₹ 2.15 crore and Ambrekar Devastan to PWD water tank costing ₹ 37 lakh

₹ two crore and assigned (December 2013) to the same contractor without tendering by adding to the scope of work of ‘widening of road in Calangute-Baga’, citing urgency of work and peak tourist season during Christmas. Assigning a separate work estimated at ₹ two crore without tendering was inappropriate. The total payments on both the works were ₹ 3.21 crore (August 2015).

The GSIDC stated that the additional work was taken up due to urgency and peak tourist season during Christmas and separate tender would have delayed the award of work.

The plea of GSIDC that work was awarded without tendering on grounds of urgency and avoiding delay was not acceptable. This was because that need for road works did not arise suddenly; the work was a part of a package being processed for last five months. Short tender for Calangute-Baga road took only 15 days and a similar short tender could have been done for this project also in the interest of transparency rather than adding a near 100 *per cent* deviation to the scope of an ongoing work.

3.3.4.3 Appointment of consultants without competitive bidding

The GSIDC executes projects through the empanelled consultants under four categories³¹ according to their specialisation and four classes³² according to the volume of works. As per Rules 171 to 176 of the General Financial Rules (GFR), the consultant should be appointed after inviting requests for proposals among the shortlisted consultants. The consultant by nomination could be resorted to only under special circumstances which should be recorded and approval obtained from competent authority. We observed that during 2010-15 the GSIDC appointed consultants for 40 works³³ estimated at ₹ 195.09 crore without competitive bidding.

The GSIDC stated that works were awarded to these consultants on specific requests (six works), removing the original consultants without extra cost (Three works), on the ground of urgency (one work), at minimum prescribed fee (22 works) and for project management alone (two works).

The fact remains that consultants for almost 20 *per cent* of the total 192 works taken up during 2010-15 were appointed on nomination basis. We are of the opinion that appointments on nomination basis should be minimised and used under exceptional circumstances recording a detailed justification for the nomination.

³¹ Category I for bridges and roads, Category II for building works, Category III for international convention centre, IT parks, Malls, Sports complexes, Bus stands and Category IV for planning, city planning and traffic planning

³² Class A for works costing above ₹ 150 crore, Class B for above ₹ 50 crore up to ₹ 150 crore, Class C for above ₹ 10 crore up to ₹ 50 crore and Class D for up to ₹ 10 crore

³³ M/s Frischmann Prabhu (I) Pvt. Ltd. (five works ₹ 87.76 crore), M/s LKS India Pvt. Ltd. (six works ₹ 9.66 crore), M/s Creative Abode (two works ₹ 3.61 crore), M/s Nitin Arolkar (eight works ₹ 6.22 crore), M/s Prabhugaonkar & Associates (one work ₹ 5.58 crore), M/s Bhaskar Wagle & Associates (five works ₹ 14.66 crore), M/s Madhav Kamat & Associates (two works ₹ 10.77 crore), M/s Datta Kare Associates (eight works ₹ 25.85 crore), M/s Oracle Structural Consultants (two works ₹ 7.33 crore) and M/s Rahul Desphande and Associates (one work ₹ 23.65 crore)

3.3.4.4 Hot-mixing and improvement of internal roads in Velim

The estimates for three road works in Velim constituency were prepared (August 2013) by the PWD. These works were taken up by GSIDC and appointed (February 2014) M/s Datta Kare & Associates as the consultants at a fee of 3.50 *per cent* of the cost of the work. The works were awarded (February 2014) to three contractors. The works were completed (May 2014) at a total cost of ₹ 6.12 crore.

We observed that M/s Datta Kare was not empanelled by the GSIDC for providing consultancy for road works. They were appointed on nomination basis without entering into agreement with them. All the items of work included in the estimate were not executed but completion certificates were issued. The measurement made by the consultant available in soft copy did not include the date of measurement and signature of official who measured the works.

The GSIDC stated that M/s Datta Kare Associates were good consultants, proved his capabilities with GSIDC and the work being small the consultancy was awarded to them. Though there was slight deviation from normal procedure the intention was to complete the work. The regular procedure of appointment of consultant was avoided in order to expedite and execute the work before monsoon. The consultant recorded the measurements and prepared the RA Bill promptly. Certain items considered in the estimate were not executed due to encumbrance at site.

The reply itself indicates that the work was executed in a non-transparent manner.

3.3.4.5 Manual for executing works

The objective of any public contracting is to get the proposed work executed as per bid specifications with a given time schedule and at the most competitive prices. To achieve this objective, it is essential to have well documented and customised policy guidelines in each organisation so that this vital activity is executed in a well coordinated manner with transparency and least time and cost overruns. The absence of a proper work manual constitutes a significant weakness in the system and not only leads to arbitrariness in decision making but also results in lack of quality supervision as bench mark standards are not available.

The GSIDC, though established in 2001 and awarding contracts for the past 15 years, has been unable to adopt a 'Work Manual' of its own.

The GSIDC apprised that preparation of 'Work Manual' was entrusted (November 2006) to the Construction Industry Development Council (CIDC), New Delhi. The manual prepared (May 2008) based on the CPWD manual and approved by the Board (June 2008) was however, still awaiting Government approval (January 2016).

3.3.4.6 Lack of quality control/assurance mechanism through specialised external agency

Extensive testing of the materials used for construction was a pre-requisite for attaining high quality of the work. This should also require specialised tests, physical, chemical, ultrasonic, X-ray and various other type of tests which could not possibly be carried out in an onsite laboratory. As per CPWD manual, the Chief Technical Examiners Organisation (CTEO) conducts inspection of works of CPWD. The PWD also entrusts the duty of inspection of its project to RITES³⁴ being the external agency for quality certification.

We observed that the works carried out by the GSIDC were not subjected to any quality testing by an external agency. No evidence existed in the records that the consultants conducted any specialised tests on the quality of material used for the works.

The GSIDC stated that there was no procedure in place for inspection of works by an external agency. Only in 2005-06, RITES were appointed for quality check for road work carried out by the GSIDC without the help of consultant. To achieve quality, GSIDC was willing to appoint external agency as and when required, however, if external agencies were engaged for all projects it would have to incur avoidable additional expenditure besides slow down the progress of work.

Since there was no inbuilt mechanism for quality checks and the GSIDC fully relied on the consultant without any quality check certificate from external agencies, the reply of the GSIDC was not convincing.

3.3.5 Works executed by GSIDC for which PWD was the concerned State Government Department

The GSIDC since its inception has undertaken 57 works on bridges and roads for which PWD was the concerned State Government department. Of these 57 works the MoUs in respect of only 28 works had been executed so far (January 2016). Since the MoUs in respect of all the works had not been executed, the PWD disowned the responsibility of taking over the infrastructure from GSIDC.

As a result, the GSIDC decided (October 2013) to take up maintenance of all the bridges constructed by GSIDC for a period of five years. The maintenance of 22 bridges was awarded (March 2014) to two contractors at a total cost of ₹ 10.75 crore. The total payments so far made to contractors and consultant were ₹ Four crore (January 2016).

The GSIDC stated that the client departments had been taking over the works in general from GSIDC after completion of the works. In respect of PWD the issue was different as the PWD was not pleased that the works of some bridges and roads were taken up by GSIDC since the PWD had good number of engineers and wide office network all over the State. However, it was up to the Government to allot the works. Maintenance of infrastructure was taken up at the request of the Government and was also covered in their

³⁴ Rail India Technical and Economic Services

Memorandum of Association. The MoU could not be signed due to poor response from PWD. The 28 MoUs were executed by the Secretary, PWD on a single date (16 March 2007).

In view of the factual position stated by GSIDC, we are of the opinion that there was a need to resolve the deadlock between PWD and the Corporation for handing over the completed infrastructure.

3.3.6 Conclusion and Recommendation

The GSIDC has gradually evolved from an organisation constructing a few infrastructure works to an organisation charged with several works both large and small. In addition it is also being charged with maintenance of projects. Delays in completion of works have also crept in and have in many cases become significant. Land acquisition, preliminary site surveys, coordination with user departments and reluctance of the user departments to takeover assets are some of the reasons. The last issue is a major one for works related to PWD. On a number of occasions consultants have been awarded works on nomination basis rather than as an exception. The organisation has not yet put in place a works manual and arrangements for external quality assurance.

Recommendation:

- *Delays in completion of projects need to be arrested to ensure completion of the projects in timely manner.*
- *Deadlock between PWD and the Corporation for handing over of the completed infrastructure should be resolved.*
- *Works manual for decision making and quality supervision based on the available bench mark standards should be implemented.*
- *Appointment of consultants should be done in a fair and transparent manner on competitive basis. In exceptional circumstances, the appointment of consultants on nomination has to be backed by sufficient justification and with the approval of competent authority.*

The matter was reported (November 2015) to Government and their reply is awaited (January 2016).

ELECTRICITY DEPARTMENT

3.4 Extra expenditure on procurement of energy meters by Goa Electricity Department ₹ 4.52 crore

The energy meters were procured by the Goa Electricity Department from the open market without considering the prevailing Director General of Supplies and Disposal rates. This resulted in extra expenditure of ₹ 4.52 crore to the Department.

Goa Electricity Department (GED) invited (November 2011) tenders for supply of 40,000 single phase and 20,000 three phase electronic energy

meters at an estimated cost of ₹ 5.74 crore³⁵ and ₹ 5.76 crore³⁶ respectively. Out of three tenders received, the lowest quoted rates were ₹ 838.50 per single phase meter and ₹ 2,419 per three phase meter. These rates were excluding Value Added Tax (VAT) of 12.5 per cent and final rates arrived at were ₹ 943.31 per single phase meter and ₹ 2,721.38 per three phase meter. Accordingly, the division issued supply orders for 40,000 single phase meters (September 2012) and 20,000 three phase meters (December 2012) at these rates.

We observed that the notified rates of Director General of Supply & Disposal (DGS&D) prevailing at the time of procurement of the electronic meters were ₹ 500.32 per single phase meter and ₹ 957.40 per three phase meter. Even by providing an additional 20 per cent for VAT and transportation, the DGS&D rate would have been ₹ 600.38 per single phase meter and ₹ 1,148.88 per three phase meter which were much lower than the procurement rates. The GED did not consider the prevailing DGS&D rate either while preparing the estimates or evaluating/accepting the tender. The GED procured 39,997 numbers of single phase and 19,997 numbers of three phase electronic energy meters at this higher rate which resulted in extra expenditure of ₹ 4.52 crore³⁷.

The GED stated (February 2014) that the specifications of meters procured included parameters with regard to energy display register, anti-tamper features, meters which were suited to their requirements and the parameters offered by DGS&D were not known to them.

The reply was not convincing as the energy meters in the DGS&D list conforms to the requirements of the Central Electricity Authority. The comparison with the specifications of meters procured and that of DGS&D specification are shown below:

Comparison of features and specifications of single phase meters		Comparison of features and specifications of 3 phase meters	
Procured by GED	DGS&D	Procured by GED	DGS&D
Single phase LT static whole current kWh meters 2 wire AC, class 1, with back lit liquid crystal display of capacity 05-30A	Item model No T-124, AC static watt hour meters (ISI marked) with LCD display, No. of phase SP,1(b) in Amp:5, I(max) as % of 1(b):600, V(ref):204	Three phase LT static whole current kWh meters 3 phase 4 wire 3x240 volts AC, class 1, with back lit liquid crystal display of capacity 10-60A	Item model No T-125, AC static watt hour meters (ISI marked) with LCD display, No. of phase 3P4W, 1(b) in Amp:10, I(max) as % of 1(b):600, V(ref):415 CT:No
Single phase	Single phase	3 phase	3 phase
2 wire	2 wire	4 wire	4 wire
Class 1	Class 1	Class 1	Class 1
LCD	LCD	LCD	LCD
Capacity 05-30A	Capacity 05-30A	Capacity 10-60A	Capacity 10-60A
		Optical port to retrieve data	Optical port to retrieve data

³⁵ At the rate of ₹ 1,434 per meter

³⁶ At the rate of ₹ 2,882 per meter

³⁷ On Single phase meters for 39,997 numbers x (₹ 943.31 - ₹ 600.38) = ₹ 137.16 lakh. On three phase meters for 19,997 numbers x (₹ 2,721.38 - ₹ 1,148.88) = ₹ 314.45 lakh

The GED, however, neither enquired about the specifications of the ISI certified energy meters in the DGS&D rate list nor followed the fundamental principle of efficiency and economy in public procurement envisaged in Rule 137 of the General Financial Rules. Further Section 37.6 of the CPWD Manual also states that the departments should follow the rate contracts of DGS&D to the maximum extent possible.

The matter was referred to Government in June 2015; their reply was awaited (January 2016).

ELECTRICITY DEPARTMENT

3.5 Failure to take timely action to prevent invocation of letter of credit and delay in settlement of overdraft

Failure of the Goa Electricity Department to settle overdraft in bank promptly resulted in avoidable payment of interest of ₹ 26.79 lakh.

The Goa Electricity Department (GED) had entered into an agreement (April 2011) with M/s Ratnagiri Gas and Power Pvt. Ltd. (RGPPL) for supply of power. Conforming to clause 7.1 of the Agreement, the GED opened (July 2013) a revolving letter of credit (LC) for ₹ 3.41 crore in the State Bank of India, Ponda (Bank) as payment security in favour of RGPPL. The LC was payable, if any monthly bills of RGPPL remains unpaid beyond the due date.

The RGPPL had defaulted in supply of power during the months of April to December 2013 due to issues not attributable to the GED. However, RGPPL raised bills for ₹ 7.90 crore claiming Capacity/Fixed charges which the GED refused to pay. On this, the RGPPL began communicating (November 2013 onwards) their intention to encash LC. To prevent encashment of the LC, the GED requested (December 2013) the Bank not to accept any claim against the LC. The Bank informed (15 January 2014) the GED that payment against LC could be stopped only with a court order. The Bank further informed (23 January 2014) GED that a claim has been lodged by the RGPPL for encashment of LC. The Bank again informed (27 January 2014) that they were processing the case for encashment. As the GED could not produce any court order, the Bank encashed the LC and paid (28 January 2014) ₹ 3.41 crore to the RGPPL by allowing an overdraft of equal amount to GED.

We observed that, despite being informed (15 January 2014) by the Bank that a court order was needed to stop the encashment, the GED did not bring this fact to the notice of Government for action. This was evident from fact that the note moved by the Secretary (Power) for action to be taken, consequent to RGPPL communicating its intention to invoke LC, obtaining court order for blocking LC was not mentioned at all. After encashment, the GED approached (24 February 2014) the Hon'ble District Court, North Goa with a request for restraining RGPPL from further encashment of LC and was granted the relief on the same day. Therefore, if the GED had promptly conveyed the relevant information to the Government in the 13 days window

from 15 January 2014 to 27 January 2014, the encashment of the LC could have been stayed by obtaining the necessary court order.

Further, the GED requested (February 2014) the Government for cash assignment to liquidate the overdraft of ₹ 3.41 crore. The matter was held up for examination at Government level and the overdraft was settled only in July 2014 by which time the accumulated interest had mounted to ₹ 26.79 lakh.

Thus, failure in prompt reporting of vital information needed for decision making by GED to Government resulted in avoidable encashment of LC of ₹ 3.41 crore. Further, failure to liquidate the overdraft for five months resulted in avoidable payment of interest of ₹ 26.79 lakh.

The matter was referred to the Government in July 2015; their reply was awaited (January 2016).

Panaji
The 30 May 2016



(ASHUTOSH JOSHI)
Accountant General, Goa

Countersigned



New Delhi
The 02 June 2016

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India