

## **Chapter IV**

# **Compliance Audit Paragraphs**



## Chapter IV

### Compliance Audit Paragraphs

Important Audit findings emerging from test check of transactions of the State Government companies and Statutory Corporations are included in this Chapter.

#### Government Companies

##### Maharashtra State Electricity Distribution Company Limited

#### 4.1 Management of Distribution losses

##### Introduction

**4.1.1** Maharashtra State Electricity Distribution Company Limited (the Company) draws energy from the Transmission Companies at the distribution periphery and distributes it to the consumers. Distribution loss is the difference between the energy drawn by the Distribution utility at distribution periphery and the energy billed to the consumers. In the regulatory regime, the norms for distribution losses are decided by Maharashtra Electricity Regulatory Commission (MERC) and the excess/shortage compared to the norms is to be shared by the Company and the consumers in the *ratio* of 2:1. The distribution losses of the Company for the period 2010-11 to 2013-14 were 17.28, 16.03, 14.67 and 14 *per cent* and was second lowest in comparison with other six<sup>1</sup> neighbouring State Utilities except for 2010-11.

##### Scope of Audit

**4.1.2** We scrutinised the adequacy of distribution losses recorded by the Company for the period 2010-11 to 2014-15 and selected three circles out of 44 O&M Circles which manage the Distribution Network of the Company.

##### Norms for distribution losses

**4.1.3** As per the regulatory requirements, the Company proposes percentage of distribution losses for the ensuing year in their business plan. The MERC approves the percentage of the normative loss for that year after scrutiny of technical forms by the Company. The achievement as against norms of distribution losses for the years 2010-11 to 2014-15 is as follows:

Year	Norms of distribution losses (in per cent)	Achievement (in per cent)
2010-11	17.20	17.28
2011-12	16.27	16.03
2012-13	15.77	14.67
2013-14	15.03	14.00
2014-15	14.53	14.17

(Source of data: Annual accounts of the Company)

<sup>1</sup> Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat, Madhya Pradesh and Rajasthan

The distribution losses of Company were within the norms approved by MERC since 2011-12. As a result, additional units of 1,298.46 Million Units (MUs) amounting to ₹ 671.55 crore were available for sale and as per the orders of MERC, one third of revenue amounting to ₹ 223.85 crore was passed on to the consumers during 2011-12 to 2012-13 and the remaining additional revenue was retained by the Company.

For the year 2013-14, sharing of corresponding additional revenue based on the audited accounts was not approved (₹ 199.40 crore being one third of the additional revenue of ₹ 598.20 crore from sale of additional 1,023 MUs) due to non achievement of metering of agricultural consumers.

#### **Manual system followed by the Company in computation of Distribution losses**

**4.1.4** The Company developed Energy Accounting Module under Part A of Restructured Accelerated Power Development and Reform Programme (R-APDRP) which had been operational from January 2013. The module, *inter-alia*, provided for Division-wise energy audit to compute distribution losses. The Company, however, did not start utilising the module for computation of Division-wise distribution losses so far. Instead, the monthly energy input was mapped to 142 Divisions of the Company manually through Excel work sheets to arrive at the Division-wise and month wise energy drawn at the distribution periphery. This was compared with the Division-wise monthly units billed to consumers to arrive at Division-wise monthly distribution losses.

The Company stated (February 2016) that module is under trial/testing mode and if found suitable, the same would be used for determination of division-wise losses.

#### **Monitoring of Micro Targets**

#### **Monitoring of targets of field offices to achieve the norms**

**4.1.5** The Company fixed yearly targets for Low Tension (LT) loss for its Divisions. The targets of Zones and Circles were derived by summing up targets set for Divisions under them based on the actual figures of the previous years. The aggregate of inputs, sale, LT loss and Distribution loss for all divisions in the previous years and target fixed for the year 2014-15 were as follows:

Parameter	(In MUs)				
	2010-11	2011-12	2012-13	2013-14	2014-15 (Target)
Input	86,170	95,433	97,846	99,575	1,06,359
LT Input	54,105	62,197	62,756	64,335	68,381
LT Non Agriculture sale	23,792	26,327	28,711	29,942	33,923
Agriculture sale	15,765	20,933	20,070	20,832	21,367
LT loss ( <i>per cent</i> )	26.89	24.01	22.27	21.08	19.15
Distribution loss of Company (HT&LT) ( <i>per cent</i> )	17.28	16.03	14.67	14.00	12.69

(Source: Information provided by the Company)

We observed that percentage of LT loss was on higher side considering the overall distribution loss in the Company over the period of five years. However, the LT losses were compensated by EHT/High Tension (HT) losses being very less. The distribution loss was a critical area, thus the Company may monitor the monthly/quarterly targets<sup>2</sup> for distribution loss and monitor Division-wise to keep the distribution loss within norms.

The Company stated (February 2016) that since the billing and collection was spread over more than one month it was not practical to fix monthly targets and further stated that with better data collection Company would fix quarterly targets.

The analysis of slab wise percentage of distribution losses and the number of Divisions for the period 2010-11 to 2014-15 was as follows:

Number of Divisions with distribution losses	2010-11	2011-12	2012-13	2013-14	2014-15
> 50%	1	-	-	-	-
40 to 50%	4	4	1	1	1
30 to 40%	20	7	6	3	6
20 to 30%	37	33	32	29	22
< 20%	80	98	103	109	113
<b>Total</b>	<b>142</b>	<b>142</b>	<b>142</b>	<b>142</b>	<b>142</b>

We observed that the distribution loss showed a reducing trend as the number of divisions with losses more than 30 *per cent* reduced from 25 in 2010-11 to only seven<sup>3</sup> in 2014-15. The Company may continue to reduce losses further by analysing reasons for higher losses in these seven divisions.

### Energy audit system

**4.1.6** Energy Audit is the key to a systematic approach for decision making in energy management. Energy audit at the Distribution Transformer Centres (DTC) level is the finest tool available for micro monitoring the distribution losses and implementing action plan for its reduction. As per MERC orders (June 2008), the energy consumption of all the category of consumers including agricultural consumers was required to be 100 *per cent* metered. In case of any difficulty in 100 *per cent* metering at individual level, then the same was required to be done at DTC level and at feeder level. The Company accordingly issued (July 2008) Commercial Circular, wherein Company should strive to ensure 100 *per cent* metering of all consumption, including agricultural consumption. The field offices were to ensure that necessary DTC metering and feeder metering arrangements were completed by July 2008. It was also instructed (December 2010) that reading of DTC meter and reading of meters at premises of consumers should be recorded simultaneously for comparison. For DTC loss level above 15 *per cent* responsibility for corrective action was prescribed on officials at various levels according to the range of loss.

<sup>2</sup> Agricultural consumers are billed quarterly, which is maximum billing cycle

<sup>3</sup> Jalana-II, Thane-III, Nandurbar, Shahada, Udgir, Nanded (U) and Malegaon (U)

The DTC level energy audit was done by measuring the energy in units at DTC and at the consumer meters for each calendar month. The difference between these two was recorded as the DTC level distribution losses for that month. The position of DTCs, their metering and DTC level energy accounting as at the end of March 2015 revealed the following:

- Out of 4,59,122 DTCs (March 2015), only 2,32,730 DTCs were metered (50.70 *per cent*) which indicated unsatisfactory progress in DTC level energy audit.
- Out of 2,32,730 metered DTCs, Energy Audit Reports (EAR) were generated only in 30,617 DTCs in March 2015. In respect of the balance 2,02,113 DTCs the energy audit reports were not generated. This had the impact on the monitoring of energy losses in absence of the EAR besides rendering the expenditure incurred on these meters unfruitful.

The Company stated (February 2016) that it was decided in January 2014 not to install meters in DTCs in projects other than R-APDRP since the DTC energy accounting was not helpful. However, now it has been decided to reintroduce the DTC metering in phased manner.

It was further observed that Company did not fix the targets for feeder wise and DTC wise losses. The Company stated that as the load shedding was implemented on feeders depending on grading of feeders based on their Distribution and Collection Loss (DCL),<sup>4</sup> feeder wise and DTC wise targets of loss were not fixed. Since the feeders and DTC form significant part of the distribution system under the Divisions and therefore, targets may be fixed so as to monitor the same.

### **Implementation issues for arresting losses**

**4.1.7** The Company has devised mainly the following strategies for reduction of distribution losses:

- **Infrastructure Plan**-The Company prepared (July 2006) comprehensive infrastructure plan aimed at reducing AT&C losses, provide reliable and quality energy supply, meeting the load growth upgrading the existing deteriorated system and providing administrative support with latest technology. Under this scheme, 599 new sub-stations, 377 augmentation of power transformers, 498 additional power transformers, 67,418 distribution transformers, 8,449 DTC Augmentation, 43,458 km. HT lines and 12,115 km. LT lines had completed in 120 Divisions which were taken up during September 2008 to March 2013. However, there was no commitment to reduce distribution losses by prescribed percentage Division-wise after implementation of the scheme. The Phase II of Infrastructure Plan was in progress.
- GoI launched (December 2008) R-APDRP with the aim of restoring commercial viability of the distribution sector by putting in place

---

<sup>4</sup> DCL is the combination of distribution loss and collection efficiency worked out in line with MERC orders

appropriate mechanism so as to substantially reduce the AT&C losses by establishing reliable and automated sustainable systems for collection of base line data, adoption of IT in the areas of energy accounting, customer care and strengthening of Distribution network of State Power Utilities.

The scheme covered 128 towns in Maharashtra where population was more than 30,000 as per 2001 census. As per the guidelines specific loss reductions targets were set to avail the benefits under the scheme. The scheme was under implementation as of March 2015.

### **Agricultural Consumers**

#### ***Unmetered agricultural consumers and non-assessment of their consumption***

**4.1.8** MERC observed (June 2014) that the Company required to significantly increase its efforts for metering all the unmetered Agricultural Consumers (AgC) and stated that till receipt of report on correct specific consumption for unmetered AgC, the sales and distribution losses approved would be provisional.

The status of metering of AgC of Company during the period under review is as follows:

Quarter ending	Agricultural consumers		
	Total No. (in lakh)	No. of unmetered (in lakh)	Percentage of unmetered
March 2010	28.01	14.08	50.25
March 2015	38.07	16.01	42.05

It could be seen that 42 *per cent* of the AgC are unmetered and there was no appreciable progress in installation of meters mainly due to the slow pace of purchase of meters.

The index of unmetered agricultural consumption was determined based on consumption recorded by metered AgC who had normal progressive status of meter reading, *i.e.* excluding meters with zero or negative consumption. For the metered consumer, the maximum consumption was capped at 224 kWh/HP per month based on a maximum of 10 hours of supply per day and 300 days of operation per annum as approved by MERC.

With regards to roadmap of metering of 16 lakh unmetered AgC, the Company submitted (January 2014) the following target for metering of unmetered AgC:

Phase	No. of Ag separated feeders	Date of completion of metering
1st Phase	100	31 December 2014
	100	31 March 2015
2nd Phase	300	31 December 2015

MERC observed (June 2014) that in a period of two years the Company had proposed to cover only 500 separated Ag feeders out of total 6,980 feeders. Under this plan Company would take a very long time to complete the

metering and directed to re-organise its plan for implementation in a shorter time. The Commission directed (June 2015) Company to complete the metering within a period of three years (*i.e.* by end of 2017-18).

The assessment of AgC without metering was against the provisions of Electricity Act, 2003. In the absence of metering, AgC were billed on the basis of load as per the extant orders of MERC and the units consumed by them could not be considered for billing. Further, the unit consumption assessed based on the index method stated above might not be the actual consumption of AgC resulting in distorted figures of distribution losses.

We compared the consumption assessed based on index method for consumers who were unmetered in a quarter ending December 2013 but were metered in December 2014 quarter and whose connected load in HP did not change over the same period (5,652 Nos.) Out of the above 5,652 consumers, 3,649 consumers (65 *per cent*) recorded higher consumption in December 2014 as compared to in December 2013 though the connected load remained the same. The overall metered consumption of these 5,652 consumers in December 2014 was 9.07 Million Units (MUs) as against 7.38 MUs in December 2013, the increase being by 1.69 MUs (22.90 *per cent*). This indicated that the actual energy consumed when metered was more than the assessed consumption of the same consumers, when they were unmetered.

The Company stated (February 2016) that the consumption could vary depending upon various factors.

#### ***Inefficiency in collection of dues from agricultural consumers***

**4.1.9** The collection efficiency of the Company over the years was as follows:

<b>Year</b>	<b>Aggregate Collection efficiency (<i>per cent</i>)</b>
2011-12	97.58
2012-13	95.31
2013-14	95.63
2014-15	94.71

Out of 94,805 MUs sold by the Company during 2014-15, sale to LT-AgC was 25,695 MUs which was 27.10 *per cent* of the total sale. The collection efficiency was only 34.12 and 38.22 *per cent* for metered and unmetered LT-AgC respectively against the Company's aggregate collection efficiency of 94.71 *per cent* for the year 2014-15. The low level of collection efficiency in LT-AgC is main reason for decreasing collection efficiency of the Company.

The Company accepted (February 2016) that the revenue recovery under the agricultural sector had always been a challenging task and even the implementation of DCL based load shedding might not be possible. It was further stated that the Company is making all efforts to improve the collection efficiency. The reply be viewed in light of the fact that MERC in line with the Regulations had disallowed ₹ 506 crore out of the interest on working capital incurred by Company from 2011-12 to 2013-14.

***High incidence of faulty meters resulting in short assessment of metered agricultural supply and higher distribution losses***

**4.1.10** The position of category wise faulty meters and their percentage to the total meters as on 31 March 2015 is as follows:

Category	Faulty Meters	Total Meters	Percentage
LT-BPL Domestic	47,648	3,42,750	13.90
LT-Domestic	6,42,417	1,65,12,935	3.89
LT-Commercial	28,268	16,11,998	1.75
LT-Agriculture (Metered)	1,94,873	22,09,599	8.82
Others including LT-Industrial	9,796	6,26,362	1.56
<b>Grand Total</b>	<b>9,23,002</b>	<b>2,13,03,644</b>	<b>4.33</b>

We observed that the faulty meters in AgC were comparatively higher in number and in percentage terms as compared to other categories. As per MERC orders, the metered AgC were billed based on load in HP and unit consumed whereas the unmetered consumers were billed based on load alone. We observed that the average billed number of units per HP of the metered AgC as a whole (including faulty meters) was on lower side as compared to normal metered AgC as a whole in all the quarters from April 2012 to March 2015.

Due to high incidence of faulty meters, the consumption was not properly recorded even for metered AgC and was accounted under distribution losses. The under billed units in respect of faulty meters worked out at the rate of per HP consumption of normal meters for the period April 2012 to March 2015 was 3,271 MUs. Therefore the Company should take adequate steps to reduce the incidence of faulty meters under agricultural category.

**Appointment of Distribution Franchisees (DF)**

***Absence of suitable clause in DF Agreement for commitment of reduction of Distribution losses***

**4.1.11** In view of the high distribution losses in Bhiwandi Circle, the Company handed over the distribution of electricity within the Bhiwandi Circle to Torrent Power Limited (TPL) with effect from 26 January 2007 for a period of ten years. The distribution losses level for Bhiwandi Distribution Franchisee (DF) Area and for the Company as a whole were as follows:

Year	<i>(in per cent)</i>	
	Bhiwandi DF area	Company
2010-11	17.95	17.28
2011-12	17.30	16.03
2012-13	17.53	14.67
2013-14	20.53	14.00
2014-15	21.64	14.17

The distribution losses in Bhiwandi Circle initially reduced from the level of 41.85 *per cent* in 2006-07 to 17.30 *per cent* in 2011-12. Thereafter, it registered increasing trend of distribution loss from 17.30 *per cent* in 2011-12 to 21.64 *per cent* in 2014-15.

In this regard we observed that;

- As per the Request for Proposal (RFP) issued (March 2006), the rate quoted by the bidders should factor a minimum reduction of distribution losses by five *per cent* in the first three years; three *per cent* in the next four years and one *per cent* every year thereafter till expiry of the Agreement as compared to the distribution losses of 44.50 *per cent* in the base year 2005-06. The loss reduction targets, however, were not incorporated in the DF Agreement with suitable penal provisions.
- As per the Agreement with DF, the DF had to submit an Infrastructure Roll Out Plan (IROP) to the Company before effective date (26 January 2007) mentioning the tentative investments to be carried out in the franchise area so as to reduce distribution losses and improve the quality of supply. However, the DF has not submitted the IROP to the Company till date (December 2015) and neither did the Company ask for the same. The Company has also not undertaken any study for the reasons for increase in loss.

The Company stated (February 2016) that since they were getting revenue based on input, there was no loss even if there was under performance on reduction of distribution losses. The reply was not convincing since the increasing distribution losses needed an action plan for reduction either from the DF or the Company.

### Conclusions

- **The Distribution losses which were 17.28 *per cent* in 2010-11, came down to 14.17 *per cent* in 2014-15 and were within the norms approved by the State Regulatory Commission (MERC).**
- **The Company did not use the available software to compute Division wise Distribution losses which could have avoided manual interventions for working out the losses.**
- **The Company should systematically monitor monthly/quarterly losses of the Divisions.**
- **The Company's monitoring of distribution losses was inadequate in absence of fixation of micro targets at Feeder and DTC level for Energy Audit.**
- **High incidence of unmetered connections/faulty meters of agricultural consumers resulted in under billing and consequential distribution losses.**
- **Collection inefficiency of dues from agriculture consumers resulted in pressure on the Company's working capital and the interest on these borrowings was partially disallowed by MERC while fixing the tariff.**
- **Increase in distribution losses in Bhiwandi DF Area have neither been addressed by the Franchisee nor by the Company.**

The matter was reported to the Government (October 2015); their replies were awaited (January 2016).

#### 4.2 *Undue favour to HT consumers*

**The Company allowed excess Prompt Payment Discount of ₹ 26.18 crore to high tension consumers.**

Maharashtra Electricity Regulatory Commission (MERC) (Electricity Supply Code & Other Conditions of Supply) Regulations, 2005, stipulated that the Distribution Licensees shall issue energy bills to HT consumers on monthly basis and due date for the payment of a bill shall not be less than 15 days from the bill date. MERC orders (August 2012) specified that a consumer could avail Prompt Payment Discount (PPD) of one *per cent* on the monthly bill (excluding taxes and duties), if the energy bills were paid within a period of seven days from the date of issue of bill or within five days from the date of receipt of bill, whichever was later. Accordingly the PPD was to be allowed on the amount of bill payable by the consumer excluding taxes and duties. The amount of bill payable by the consumer is the aggregate of demand charges, energy charges, fuel adjustment charges and time of day charges after adjusting for power factor incentive or penalty, as the case may be.

We observed that the Company allowed PPD to the consumers without adjusting the Power Factor incentive or penalty and as a result the PPD of one *per cent* was calculated on a higher amount which was against the stipulation contained in the MERC orders. An analysis of 2,43,690 bills aggregating to ₹ 38,101.63 crore issued to 15,513 HT consumers during the period September 2012 to February 2015 revealed that the PPD was worked out on the gross amount of the bill without adjusting Power factor incentive/penalty resulted in allowing excess PPD of ₹ 26.18 crore to the consumers.

The matter was reported to the Government/Management (June 2015); their replies were awaited (January 2016).

#### **Lokshahir Annabhau Sathe Development Corporation Limited**

#### 4.3 *Purchase of flat at higher rates*

**The Company purchased flat without ascertaining the reasonability of rates and incurred excess expenditure of ₹ 1.02 crore.**

Lokshahir Annabhau Sathe Development Corporation Limited (Company) decided (June 2013) to purchase a flat to provide accommodation to its officials visiting Mumbai for official work near to its Head Office premises in Mumbai. Accordingly, a flat admeasuring 809 square feet (carpet area) alongwith car parking area was purchased at Borivali (East), Mumbai from a private party for a total consideration of ₹ 1.86 crore and the sale deed was executed (November 2013).

We observed (November 2014) that the Company purchased the flat without ascertaining the reasonability of rates by way of calling rates/quotations of similar properties in the vicinity from more than one builder/seller. Further, it was noticed that according to the Department of Registration and Stamps, the prevailing value of the flat at the time of purchase was ₹ 84.28 lakh only.

Thus, the Company purchased the flat without adopting transparent purchase procedures and ascertaining the reasonability of rates. This resulted in excess expenditure of ₹ 1.02 crore being the difference between the consideration paid by the Company and the value determined by the Department of Registration and Stamps. The original sale deed of the property and occupancy/possession certificates were not in possession of the Company and utilisation of flat for the purpose it was purchased could not be ascertained.

The Company stated (October 2015) that the Board had approved and authorised the Managing Director to purchase the flat for accommodating its officials. It further stated that the Company did not have the original papers as well as keys of the flat.

The reply of the Company itself confirms the seriousness of the irregularity in the entire transaction as the Company does not possess the original papers as well as keys of the flat even after two years from the date of purchase. As regards the approval of the Board, it was only for purchase of a flat which should have been implemented by the Company after following the due procedures.

The matter was reported to the Government (May 2015); their replies were awaited (January 2016).

#### **4.4 Loss due to release of advance without security**

**The Company incurred loss of ₹ 20 lakh due to grant of advance to contractor without any security.**

Lokshahir Annabhau Sathe Development Corporation Limited (Company) invited (November 2012) quotations for construction of compound wall on its premises at Andheri in Mumbai. The Company received three quotations (November 2012) and the work was allotted (April 2013) to a contractor (M/s R.C. Bidave) for ₹ 35.40 lakh being the lowest offer. The work order provided for payment of advance equivalent to 60 per cent of the value of work. The contractor had to complete the work within 40 days from date of issue of work order and the balance amount was to be paid after completion of the work. Accordingly, the Company paid (April 2013) ₹ 20 lakh to the contractor. The contractor after receipt of work order/advance neither started the work nor did he respond to the reminders/notices issued (April, June and October 2013) to execute the work.

We observed that the Company neither prepared estimates for the work nor invited open tenders. The dimensions and specifications of construction which determine the cost of work involved were not documented and communicated to the contractor at any stage of the finalisation of contract. As such, the value of work awarded / to be carried out at a cost of ₹ 35.40 lakh was not comparable.

We also observed that while granting advance to the contractor, the Company did not protect its financial interest by obtaining any Security Deposit/Bank Guarantee from the contractor. Thus, the Company had no security available for recovery of advance paid to the contractor. The Company neither made

efforts to trace the whereabouts of the contractor nor initiated any legal action against him. Thus, the advance of ₹ 20 lakh paid by the Company remained unrecovered due to negligence in safeguarding its interest before releasing the advance and inaction in pursuing the recovery/getting the work completed.

The matter was reported to the Government/Management (May 2015); their replies were awaited (January 2016).

### **Mumbai Metro Rail Corporation Limited**

#### **4.5 *Infructuous expenditure on appointment of Independent engineer***

**The Company appointed an Independent Engineer without resolving environmental issues related to the Metro line-II Corridor Project which resulted in infructuous expenditure of ₹ 4.71 crore.**

The Government of Maharashtra (GoM) appointed (November 2006) Mumbai Metropolitan Region Development Authority (MMRDA) as implementing agency for construction of Metro Rail system known as Charkop-Bandra-Mankhurd corridor on Build, Operate and Transfer (BOT) basis. MMRDA selected (August 2009) the consortium of Reliance Infrastructure Limited (RIL), which formed a separate Company-Mumbai Metro Transport Private Limited (MMTPL). MMTPL was the Concessionaire to construct and operate the Metro Rail.

GoM entered (January 2010) into a Concession Agreement (CA) with the Concessionaire (MMTPL), which, *inter-alia*, provided for appointment of a consulting engineering firm for rendering consultancy services as an Independent Engineer (IE). Subsequently, the GoM authorised (October 2010) Mumbai Metro Rail Corporation Limited (MMRCL), a fully owned Company of MMRDA, for implementation of all Metro Rail projects in Mumbai. The metro route of Charkop-Bandra-Mankhurd corridor (32 kms) was to be constructed at a cost of ₹ 7,660 crore.

The GoM entered (April 2011) into Supplementary Agreement with MMTPL for designating MMRCL as project implementing agency. Meanwhile, as per the terms of the CA, MMRCL entered (January 2011) into an agreement with a consortium of three private parties for rendering consultancy services as IE. The scope of the work included review and finalisation of standard gauge rail system, conceptual designs, quality assurance programme, safety and operational plans *etc.* The total consultancy fee was ₹ 20.31 crore out of which five *per cent* was payable as advance against bank guarantee and the balance was to be paid over a period of 60 months. The clause<sup>5</sup> of supplementary CA provided that MMRCL would make the initial payments to the IE which would be subsequently reimbursed to the extent of 50 *per cent* by MMTPL.

We observed that before entering into the Concession Agreement (CA), M/s RIL had addressed (January 2010) to MMRDA that in both Charkop and Mankhurd depot sites, substantial area was falling under the Coastal Regulation Zone and this was not made known to them at the bidding stage. It

<sup>5</sup> Clause 23(3) of the CA read with supplementary CA

was also stated that this would be an impediment in the execution of the project. Therefore instead of taking steps for resolution of the environmental clearance issues at Charkop and Mankhurd Depot sites, MMRCL went ahead with the appointment of the Independent Engineer (IE) and also released payments to them. Thereafter, MMRCL took up (June 2011) the matter with the Ministry of Environment and Forest, Government of India (GoI) to relax the conditions put forth by them for construction of car sheds at Charkop and Mankhurd. The services of the IE who were engaged from October 2011 to June 2013, had to be subsequently discontinued (August 2013) because of uncertainty of the project. Since the environmental clearances were not received and the project had become a non starter, the GoM decided (November 2014) to terminate the contract at no cost to either parties. Consequently, the entire payment of ₹ 4.71 crore made to the IE from October 2011 to June 2013 became infructuous. The work done/services rendered by IE was not verifiable.

Further, 50 *per cent* of this expenditure which was to be reimbursed by MMTPL had not been received by MMRCL till date (December 2015). When MMRCL claimed (March 2012) reimbursement from MMTPL, the MMTPL refused (April 2012) to make the payment stating that they were unable to commence project implementation due to obstacles such as environmental clearances and other issues. They had also stated that payment to IE would prove infructuous at that stage and had requested MMRCL to review the possibility of discontinuing the services of IE.

Thus, decision of the MMRCL to go ahead with the appointment of the IE acknowledging the issues which required resolution for a mammoth project of this nature to commence, had resulted in infructuous expenditure of ₹ 4.71 crore.

MMRCL stated (October 2015) that the process of obtaining environmental clearance was started in 2009 (before signing of CA) and was received in December 2011 with very stringent conditions making construction work almost impossible. Further, the expertise of IE was necessary for various activities such as site surveys, identifying utilities, laying geographical profile of site *etc.* before starting the project and was also required in dispute resolution while foreclosing CA to avoid future litigation/arbitration in such mega infrastructure projects. By comparing huge compensation to MMTPL, in case of litigation, the expenditure incurred was very minimal and hence continuation of IE services was justified.

The reply of the MMRCL was not acceptable, since it was well aware of the fact that environmental clearances were required from GoI for this project and in absence of the same, the project would be a non-starter. Therefore the role of the IE whose services were engaged for work relating to implementation of the project were rendered futile and MMRCL had to discontinue their services.

The matter was reported to the Government (October 2015); their replies were awaited (January 2016).

**Mahatma Phule Backward Class Development Corporation Limited, Maharashtra Tourism Development Corporation Limited and Sant Rohidas Leather Industries and Charmakar Development Corporation Limited**

**4.6 Loss of the Company's funds due to fraudulent transactions**

**Absence of adequate internal controls in handling investments of the Company resulted in loss to the Companies' funds of ₹ 194.82 crore in fixed deposits in Banks due to fraudulent transactions.**

The Government of Maharashtra (GoM) issued (March 2006) detailed guidelines regarding investment of surplus funds by Public Sector Enterprises. As per the guidelines, the decision on investment of funds shall be taken by the Board of Directors (Board). The Board may delegate the powers to invest funds up to one year maturity and up to prescribed limits of investments to a designated group of Executives which should invariably include Managing Director (MD) and Head of Finance (HoF). Besides there should be a proper system of automatic internal reporting to the Board of all the investments made, at its next meeting in all cases.

The three State Government Companies, made Fixed Deposits (FD) in Banks as detailed below:

Sl. No.	Name of the PSUs	Amount of deposits (₹ in crore)	Deposited during	Rate of interest (in per cent per annum)	Name of the Bank
1.	Maharashtra Tourism Development Corporation Limited (MTDC)	125.82	January-May 2014	9 to 9.98	Dena Bank
2.	Mahatma Phule Backward Class Development Corporation Limited (MPBCDC)	30.00	January 2014	9.35	Dena Bank
3.	Sant Rohidas Leather Industries and Charmakar Development Corporation Limited (SRLIDC)	9.00	February 2014	9.75	Vijaya Bank

We observed (April 2015) that these Companies did not have a formal system of delegation of the powers for investment to a Committee as envisaged in the Government guidelines. The investment limit was also not prescribed by the Board and, therefore, the procedures laid down for handling investment of surplus funds were not followed scrupulously by the Companies.

In addition, it was noticed that:

- MTDC and MPBCDC had no previous banking relation with the Malabar Hill Branch (MHB) of Dena Bank. The reasons the MTDC and MPBCDC selected this particular branch for investment purposes were not on record.
- Although, MTDC had received (23 April 2014) the same rate of interest from three other Banks, the MTDC decided to invest in Dena Bank, MHB, for which there were no recorded reasons.

- MPBCDC acknowledged that the FD receipts were not collected by the official of the Company but delivered by an official of the Bank.
- The Statutory Auditors of MTDC, MPBDC & SRLIDC in their Reports had reported that there were weak control procedures in various operational activities and the Companies had its accounts in arrears.

Subsequently, based on the advice (July 2014) of Economic Offences Wing (EOW), Mumbai Police, MTDC and MPBCDC verified the FDs and found that FD receipts held by them were fake and an Overdraft (OD) of ₹ 63 crore (MTDC) and ₹ 25.50 crore (MPBCDC) had been fraudulently created against the security of FD receipts without the knowledge of the Companies. Thereafter, MTDC and MPBCDC requested (July 2014) the Bank to release the proceeds of their FDs which was not accepted by the Bank due to the ongoing police investigation. Further, citing similar investigation of FDs of various banks, FDs of ₹ 30 crore of MTDC in Punjab and Sind Bank (Khar Branch) were also not released, though no lien had been created on these Deposits.

In the case of SRLIDC, we noticed that the Company received (June 2014) a communication from Vijaya Bank stating that an OD of ₹ 8.10 crore was created against the security of its FD. An enquiry by the SRLIDC revealed that the FD receipts held by them were fake and the OD created was not authorised by them. Hence, SRLIDC filed a complaint with the EOW of Mumbai Police and a First Information Report (FIR) was registered (August 2014). It was revealed from the FIR and show cause notice issued to the Financial Advisor & Chief Accounts Officer (FA&CAO) of SRLIDC that third persons who were not appointed by the Company, had handled the FD receipts.

Thus, due to non-compliance of stipulated procedures for investment of surplus funds and absence of internal controls, these Companies could not safeguard their investment and met with fraudulent transactions and likely loss of the investments of ₹ 194.82 crore.

MTDC and MPBCDC stated (November 2015) that the Board had delegated the powers to invest to the MD. The decision to invest the funds with MHB of the Dena Bank was taken as it offered the highest rate of interest. It also stated that the Bank had committed the fraud as they had not availed any overdraft against the FDs. However, MTDC was silent for selecting MHB though same rate was offered by other Banks.

SRLIDC stated (August 2015) that there was no involvement of investment consultant. The *post facto* approval of Board for investment had been obtained in June 2015. It also stated that the then FA&CAO had failed to perform his duty in obtaining original documents in person from the bank for which explanation was called from him. SRLIDC also stated that it had never approached the Bank for OD and there was no role of SRLIDC in this fraudulent transaction.

Though, these fraudulent transactions were noticed and being investigated by the concerned authorities, the fact remains that the Companies did not follow the procedure/guidelines prescribed by the GoM.

The matter was reported to the Government (May/October 2015); their replies were awaited (January 2016).

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

#### **4.7 Toll Rights on Mumbai entry points**

**The recovery of cess on petrol and diesel continued even after recovery of the cost of project by the Company resulting in excess financial burden on the toll paying public.**

In order to decongest vehicular traffic, the Government of Maharashtra (GoM) assigned construction of the flyover projects in Mumbai to the Maharashtra State Road Development Corporation Limited (Company) on Build, Operate and Transfer (BOT) basis in terms of GR dated 4 September 1997 and 22 August 2002. The cost incurred on the projects was to be recovered through toll, advertising and fuel cess on sale of petrol and diesel in Mumbai, Thane and Navi Mumbai Municipal Corporation areas. The Company constructed 37 flyovers at a total cost of ₹ 1,065.25 crore (excluding interest during construction ₹ 167.70 crore). The Company started toll collection at five Mumbai Entry Points (MEP) from 1999-2000 onwards through private contractors and had collected ₹ 1,058.66 crore upto October 2010. The Toll collections were in terms of GRs of June 1999 and August 2002 of GoM (State Public Works Department (PWD)). The Company also received from the GoM, fuel cess levied at one *percent* of the cost of petrol and three *per cent* of the cost of diesel in Mumbai and adjoining towns since 22 January 2000. They had received ₹ 536.44 crore upto March 2011.

The Company through the GoM (in PWD) submitted a proposal (November 2008) to the Cabinet Committee on Infrastructure to recover ₹ 2,100 crore by way of securitisation of toll rights on five Mumbai Entry Points (MEP) for the ostensible reasons of retiring outstanding borrowings of the Company and cost of proposed Peddar Road flyover and Sion Panvel Highway. While working out the cash flow for awarding the securitisation of toll rights contract, the Company had projected a toll revenue of ₹ 6,738 crore<sup>6</sup> for 18 years period from 2009-10 to 2026-27, whereas the outstanding expenditure to be recovered as on 2009-10 was worked out at ₹ 2,366.36 crore for the completed 37 projects by applying an Internal Rate of Return (IRR) of 16.12 *per cent*.

The Company awarded the contract for securitisation of toll rights for a period of 16 years from 20 November 2010 to 19 November 2026 to MEP Infrastructure Private Limited, Mumbai (MEPIPL) for an upfront receipt of ₹ 2,100 crore. The Agreement with MEPIPL was executed in November 2010 after due approvals by the GoM and receipt of the upfront amount.

We observed that taking in to account the IRR at 16.12 *per cent* for the project cost as approved by GoM on the Company's proposals, the entire project cost stood recovered in November 2010 itself with the securitised amount of

<sup>6</sup> Based on Manual traffic count prepared by a private consultant

₹ 2,100 crore and cess received, yet the Company continues to receive the fuel cess from GoM. The excess cess burden of the public was therefore financially not justified.

The Company stated (January 2016) that the securitisation of toll collection rights applying IRR of 16.12 *per cent* was approved by the GoM and there were delays in receipt of the fuel cess from the Government.

We therefore recommend that the GoM may consider discontinuation of the fuel cess as the entire project cost stood recovered in November 2010 itself with the upfront receipt of ₹ 2,100 crore and the cess received by them.

The matter was reported to the Government (December 2015); their reply was awaited (January 2016).

#### **4.8 *Infructuous expenditure on Passenger Water Transport***

**The proposal to implement Water Transport System in Mumbai could not be implemented even after 16 years due to indecision of the Government besides infructuous expenditure of ₹ 20.95 crore on appointment of consultants was incurred since the project was withdrawn from the Company.**

Government of Maharashtra (GoM) appointed (June 1999) Maharashtra Maritime Board (MMB) as implementing agency for the work of developing Passenger Water Transport system along the coast of Mumbai. MMB had conducted surveys and prepared Detailed Project Report (DPR) and invited tenders for implementing the project. Before finalising the award of the work on Build, Own, Operate and Transfer (BOOT) basis, GoM transferred (February 2002/September 2002) the project to Maharashtra State Road Development Corporation Limited (Company) and appointed as 'Nodal officer' for Water Transport Project. Accordingly, Company prepared feasibility reports, detailed engineering drawings and obtained necessary statutory permissions. The Company invited tenders for implementing both the projects on BOT basis, three times during the period 2002-2009, (East Coast and West Coast) but these tenders were, however, not finalised due to various reasons such as non-availability of land parcel from Mumbai Port Trust, internal disputes of the contractor and poor response of operators *etc.*

The GoM, subsequently revised (March 2012) its decisions and decided to develop the projects on Engineering, Procurement and Construction (EPC) basis for which the Company was again appointed as 'Implementing Agency'. The Company invited (June 2012) tenders for construction on Cash Contract basis for East Coast (estimated cost ₹ 356 crore) and West Coast (estimated cost ₹ 753 crore). The Company evaluated the bids received and submitted (16 August 2012) the same to GoM for approval of appointment of contractors.

Since conceptualisation (2002) of the project, the Company conducted various studies by appointing consultants for the project and incurred an expenditure of ₹ 20.95 crore upto 2015 which included the following major payments to consultants:

Sl. No.	Details of work	Date of work order	Name of the consultant	Expenditure (₹ in crore)
1.	Preparation of Project Report on West Coast and East Coast	07/05/2008	M/s Mott Macdonald Private Limited	1.24
2	Pre-tender activities-East Coast	24/11/2011 30/12/2011	M/s Dy. Engineering and i-Maritime Consultancy Private Limited	5.38
3.	Pre-construction Survey, planning, drawings, pre and post tender activities-West Coast	10/01/2012	M/s Louis Berger Group Inc.	2.77
4.	Financial and investment structuring	23/09/2013	M/s DARASHAW and Co. Private Limited	0.57
5.	Pre-tender and post tender activities for constructions of approach road at Nerul	09/12/2014	M/s Dhruv Consultancy Service Private Limited	0.31
6.	Vetting of traffic data from IIT	22/05/2014	IIT	0.13

Subsequently, GoM decided (November 2014) not to pursue the Western Waterways Projects and appointed (June 2015) MMB again as the implementing agency for East Coast project. They directed MMB to appoint a Project Management Consultant and prepare DPR considering both financial and technical feasibility. The MMB invited (August 2015) tenders for appointment of consultants and leasing of land for setting up of terminal building and its commercial exploitation along the East Coast.

It was observed that;

- GoM had initially entrusted (1999) the project to MMB for implementation and subsequently in 2002 transferred the project to the Company. The Company invited the tenders (June 2012), for implementation of the project and submitted them to GoM for approval of appointment of contractors.
- Without finalising the tender proposed by Company, the GoM again transferred the project for implementation to MMB (June 2015).
- MMB was again appointing consultants and preparing DPR considering the technical and financial feasibility though number of studies had already been made by the Company.

The Company stated (January 2016) that the decisions were taken by GoM. The reply of the Company indicated the weakness on the part of Company in not conceptualising the project within a span of 10 to 13 years despite being transferred to them. Besides, the indecision of the GoM, even after the lapse of 16 years, as regards its willingness to go ahead with the project and deciding the implementing agency, the project as envisaged could not be implemented. The facts remained that an expenditure of ₹ 20.95 crore incurred by the Company mainly on consultants for various surveys, feasibility studies *etc.* became infructuous.

The matter was reported to the Government (October 2015); their replies were awaited (January 2016).

**Maharashtra State Electricity Transmission Company Limited**

**4.9 Avoidable loss of interest**

**The Company released balance 10 per cent payment before completion of entire work in violation of contract conditions resulting in loss of interest of ₹ 70.03 lakh.**

Maharashtra State Electricity Transmission Company Limited (Company) awarded (September 2009) the work of erection, testing and commissioning of 400/220 KV Sub-station at Lonikhand-II and supply of all equipment/materials required for such establishment to EMCO Limited on turnkey basis for ₹ 2 crore and ₹ 79.71 crore respectively. The site was handed over (January 2010) to the contractor and the work was to be completed within 18 months *i.e.* by June 2011. The contractor requested (June 2012) for extension upto March 2013 citing reason such as change in scope of work, delay in shifting of line which was agreed (July 2012) to by the Company. Later, the contractor requested (November 2012) the Company to release the balance payment retained by the Company against the already commissioned bays and Inter Connecting Transformers till that date.

As per the terms and conditions of contract, 10 per cent of the cost of works/supplies completed was to be retained and released upon successful commissioning of all the works. The Company, however, released the retained amount of ₹ 6.84 crore in three spells from January 2013 to September 2013 to contractor to maintain adequate cash flow for completion of the balance work, in lieu of unconditional and irrevocable Bank Guarantee (BG) of ₹ 10.33 crore. The work was completed in all respects only on 6 March 2014.

The action of the Company to pre-maturely release the balance payment although, it was having external borrowings resulted in avoidable loss of ₹ 70.03 lakh being the interest cost of funds (retention money) released earlier.

The Company stated (August 2015) that retention money released was in respect of completed and commissioned part of the works which were independent from the remaining works. It was further stated that neither any eventuality arose at the time of commissioning of subsequent works where retention amount could be used and even for such eventuality BG was obtained from the contractor. The reply was not convincing as the terms and conditions of the contract clearly specified that the retention money was to be released upon successful commissioning of all the works. The security of the BG was inadequate considering the total value of the work.

The matter was reported to the Government (June 2015); their replies were awaited (January 2016).

#### **4.10 Follow up Audit on Performance Audit of Forest Development Corporation of Maharashtra Limited**

**4.10.1** Forest Development Corporation of Maharashtra Limited (Company) was incorporated in February 1974 as wholly owned Government Company to raise plantations of important species like teak, bamboo *etc.*, protection of forest crop and wildlife, processing and grading of forest produce *etc.* Company was also engaged in production and distribution of seeds, seedlings and turnkey plantations. The main activity of the Company was forestry in 3.61 lakh Hectare (Ha) of forest land allotted to it by the Government of Maharashtra (GoM).

The Performance Audit featured in the Audit Report No.4 (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 2011-Government of Maharashtra. The Report contained six recommendations for the Company's consideration which have been discussed in subsequent paragraphs.

The Audit Report containing the Performance Audit Report on the above issue was placed in the State Legislature in April 2012 and yet to be discussed (December 2015) by the COPU.

#### **Scope of Follow up Audit**

**4.10.2** Follow up Audit of the recommendations made in the Performance Audit was conducted in April-May 2015, to assess the progress made in implementation of the recommendations. Based on a questionnaire was issued (April 2015) to the Company and replies received (October 2015) alongwith the verification of records, following observations are made with reference to each of the recommendations.

**The Company may consider preparing a comprehensive Corporate Plan encompassing plantation activities and utilisation of infrastructure facilities like nurseries strengthen efforts to reduce encroachment and illicit cutting on Company areas, *etc.***

**4.10.3** The recommendation of audit was to prepare a Corporate Plan encompassing plantation, harvesting, utilisation infrastructure facilities like nurseries, human resources development, computerisation, fund management *etc.* The Company stated that it does not prepare a Corporate Plan and instead prepares Management Plan for tenure of 10 years Division-wise covering all the forestry activities approved by Government of India (GoI). Since these activities were reviewed periodically Company did not feel the necessity of preparing a separate Corporate Plan.

The Company has restricted the Management plan to the forestry and related activities at the Divisional level, whereas it is felt that the Company may consider to prepare a composite Corporate Plan encompassing all the activities of the Company as a whole indicating its goals and the visions and covering various aspects/functions of human resource development, financial management and utilisation of infrastructure required for the Company. This

plan needs to be monitored by the Company for giving a comprehensive direction to the Company's business.

**Maintain a Land register indicating the allotment, possession, surrender and balance land available and reconcile the same with the records of Forest Department**

**4.10.4** The Company issued (November 2015) instructions to open and maintain a register of the Forest land in all Forest divisions and reconciliation to be carried out with Forest Department. Accordingly, the Division offices have maintained land registers indicating the land transferred to it, surrendered and balance land and reconciling the difference if any. Thus, the recommendation has been implemented by the Company.

**Pursue with the GoM for framing policy regarding reimbursement of expenditure incurred on Forest land surrendered on the grounds of unviability**

**4.10.5** Though, the Company pursued the matter, the GoM has neither reimbursed the expenditure nor framed a policy on the reimbursement of expenditure incurred on Forest land surrendered by the Company. As on 31 March 2015, ₹ 180.69 crore were receivable from GoM on account of these claims accumulated since 1994. Thus, the GoM had not acted on the request of the Company, despite the recommendations. It was apprised (December 2015) that the matter was pending at GoM level and the Company was pursuing the same.

**Strengthen efforts to reduce the encroachment and illicit cutting on areas belonging to the Company**

**4.10.6** The Company apprised (July 2015) that in order to contain encroachment and illicit cutting, the Company has established mobile squad, regular beat checking, night patrolling of sensitive and hyper sensitive area, creation of check post *etc.* The data regarding illicit cutting indicate a downward trend. The number of trees illicitly cut during 2010-11 was 26,468 whereas in 2014-15 it has come down to 10,175. As regards land encroachment the total area under encroachment on 31 March 2015 was 241.78 hectares and the Company has handed over 13,700 hectares of encroached land to the Forest Department. These measures have reduced the incidents of encroachment and illicit cutting as well.

**Taking action in co-ordination with Forest Department for increasing the sale of seedlings to improve utilisation of the infrastructure of nurseries and meet the demand for seeds**

**4.10.7** The GoM directed (November 2011) the Forest Department to procure seedlings from the Company. It was noticed that though the Company supplied seedlings to the Forest Department, demand was not sufficient to improve the capacity utilisation of the nurseries. In the Root trainer and Clonal nurseries, the utilisation was almost nil and in the teak stump nurseries also utilisation decreased from 76 to 66 *per cent.* The Company attributed

(October/December 2015) that the lower capacity utilisation was due to lower plantation targets and meagre demand from Forest Department. It further stated that the capacity utilisation of nurseries would increase with the increase in the demand of seedlings from Forest Department and other agencies.

**Draw a comprehensive Action Plan to turn-around the loss making Divisions of the Company**

**4.10.8** The operational performance of Kinwat, Nandurbar and Thane divisions for 2014-15 revealed that of the Company were incurring continuous loss due to low productivity, lesser area of harvesting and excess manpower as given below:

<i>(₹ in lakh)</i>				
Sl. No.	Division	Revenue	Direct expenditure	Profit/(Losses)
1	Thane	115.33	179.15	(63.82)
2	Nandurbar	5.63	7.64	(2.01)
3	Kinwat	518.38	229.90	228.48

It could be observed that two divisions (Thane and Nandurbar) continued to incur losses whereas Kinwat division could turnaround and has earned profit. The Company attributed (November 2011/December 2015) the loss to apportionment of overheads and writing off of initial plantation cost and has stated that it has taken measures including securing turn-key projects to improve the profitability. The Company may consider drawing up a comprehensive action plan to improve productivity, increase the area of harvesting and rationalise manpower to turnaround the loss making Divisions.

**Statutory Corporation**

**Maharashtra Industrial Development Corporation**

**4.11 Implementation of Board decision in respect of price revision of land**

**Introduction**

Maharashtra Industrial Development Corporation (Corporation) was established with the main objective of creating infrastructure for rapid and orderly establishment of industries in Maharashtra. The Corporation revises from time to time the lease premium rate for allotment of land, in various Industrial Estates of the Corporation. Based on the decision of the Board, the revised rates are communicated by Corporate office to its field offices for implementation. The allotment of plots to the applicants is based on the recommendation of the Land Allotment Committee (LAC) constituted at the Head Office (HO)/Regional Office (RO) level. The LAC at RO level deals with applications for allotment of land area upto 30,000 square metre (sq.mtr.) and applications beyond that area is dealt with by LAC at HO level. The plots are allotted at the prevailing rate on the date of offer letter issued to the applicant.

The present audit covers the effectiveness in implementation of the Board's decisions relating to revision of lease premium rates for allotment of land. We scrutinised the issue in all the six industrial areas where the lease premium rates were revised by the Corporation during the period April 2013 to March 2015. We observed that;

***Loss of revenue due to delay in communicating the Board decision for revision in land rates***

**4.11.1** The table shows the delay in revising the rates since the date of the Board decision as per details given below:

Sl. No.	Industrial area	Date of Board decision for revision of lease premium rate	Date of issue of circular communicating revision of lease premium rate	Delay (in days)	Rate (₹ per sq.mtr.)	
					Pre-revised	Revised
1	Butibori, Nagpur	24.05.2013	05.09.2013	104	520	1,150
2	Additional Butibori, Nagpur	24.05.2013	05.09.2013	104	520	1,150
3	Shirala, Sangli	13.08.2014	03.11.2014	82	55	320
4	Additional Lote Parsuram, Ratnagiri	22.03.2013	24.06.2013	94	335	800
5	Additional Amravati, Amravati	27.11.2013	27.01.2014	61	235	400
6	Majalgoan, Beed	27.11.2013	18.02.2014	83	350	600

- We observed that the Board while revising the lease premium rates did not specify the dates from which such revision in rates would be made applicable by the Corporation. The decisions of the Board revising the rates were communicated with a delay ranging from 61 to 104 days by Land Section of the Corporation to the field offices as stated in the Table above. Further, the ROs where allotments of land were made during the intervening period,<sup>7</sup> delay in communication of the revised rates by the Corporate Office to its field offices resulted in allotment of land at the pre-revised rates and consequential loss of revenue ₹ 21.98 crore to the Corporation as discussed in succeeding paragraphs.
- RO, Nagpur, issued (May to September 2013) offer letters to 51 applicants for land aggregating to 2.67 lakh sq.mtrs. at pre-revised rate. These offers were made subsequent to Board decision to revise the land rate but prior to issue of Circular notifying the revision in the rates by the Board. Similarly, RO, Sangli issued (20-28 August 2014) offer letters to four applicants for land area aggregating to 5,025 sq.mtrs. at pre-revised rates subsequent to decision (13 August 2014) of Board for price revision. Thus, delay in communicating the price sensitive decisions of the Board to field offices, to effect the revised land rates resulted in loss of revenue of ₹ 16.94 crore.

**4.11.2** As per delegation (August 2012), the decision in respect of allotment of land upto 15,000 sq.mtrs. was to be taken by the Land Allotment Committee (LAC) headed by Regional Officer (RO), while area between 15,001 and 30,000 sq.mtrs. was to be decided by the LAC headed by Deputy Chief Executive Officer (Dy. CEO). Allotment of land in excess of

<sup>7</sup> Date of board decision and date of issue of circular for revision in rates

30,000 sq.mtrs. was to be decided by LAC headed by Joint Chief Executive Officer (Joint CEO). Based on the decisions of the LAC, offer letters were issued to the applicants.

LAC headed by Dy. CEO decided (February 2013) to allot 28,000 sq.mtrs. and 18,000 sq.mtrs. of land to two<sup>8</sup> parties. Though, allotments had been approved to the parties, the Corporation did not issue offer letters. In July 2013, the RO, Nagpur, however, issued offer letters for land admeasuring of 40,000 sq.mtrs. each at the pre-revised rate of ₹ 520 per sq.mtr. to the two parties in Butibori Industrial Area, inspite of initial decision of LAC and revision in the allotment rates of ₹ 1,150 per sq.mtr. in May 2013.

We observed that these two allotments were required to be approved by the LAC headed by the Joint CEO at HO since the land allotted was in excess of 30,000 sq.mtrs. However, without scrutiny and approval of concerned LAC, the Corporation approved (July 2013) allotment of 40,000 sq.mtrs. of land each to NAPPL and VPPL. It was further observed that the land was not demarcated and available on the date of allotment of land and consequential benefit ₹ 5.04 crore accrued to the allottees as the offers were at pre-revised rates.

**4.11.3** We also observed that RO, Nagpur did not maintain records indicating the waiting list numbers of applicants, criteria for taking applications to the LAC meetings for decisions, while keeping some applications pending and priority list of applicants for allotment. The agenda for LAC meetings was also not prepared and lacked transparency in decision making. The offer letters for allotments which were approved by the LAC in the same meeting, were issued to allottees on different dates at different rates. For instance, of the 60 allotments scrutinised by Audit, based on decision of LAC meetings (January and February 2013), it was noticed that 53 cases (mentioned in the **Paragraphs 4.11.1 and 4.11.2** above), offer letters were issued at pre-revised rate of ₹ 520 per sq.mtr., whereas in seven cases, offer letters were issued at revised rate of ₹ 1,150 per sq.mtr. after issue (September 2013) of Circular. Besides, the RO has not maintained any records for subsequent monitoring the allotments based on the decisions of LAC and, therefore, it could not be concluded that the allotment decisions of the LAC was implemented by the RO in its entirety and in timely manner. The allotments made were not audited by internal audit wing of the Corporation since April 2011 in the absence of requisite information made available by RO, Nagpur despite repeated requests by them. Thus, there was complete lack of transparency in allotments of land in RO, Nagpur.

The matter was reported to the Management/Government (August 2015); their replies were awaited (January 2016).

---

<sup>8</sup> M/s Navdeep Agriculture & Properties Private Limited, Nagpur (NAPPL) and M/s Vaibhav Plastimoulds Private Limited (VPPL)

## Conclusions

- **There were systemic delays in implementation of the Board's decisions to revise the lease premium rates due to delayed communication of the revised rates to field offices resulting in loss of revenue to the Corporation.**
- **Transparency and fairness in allotment of land to allottees and its subsequent follow up could not be established due to non-maintenance of basic records in Regional Office, Nagpur.**

### 4.12 Delay in finalisation of tender

**The Corporation did not finalise tenders within the validity period resulting in excess expenditure of ₹ 1.80 crore and delays in Commencement and completion of works in Industrial Estates.**

The Division Office of Maharashtra Industrial Development Corporation (Corporation) at Nagpur invited (April 2012) tenders to carry out the work of construction of 5.5 m wide WBM road and providing, laying, jointing DI distribution pipe line in new 'G' layout at an estimated cost of ₹ 1.62 crore. The lowest offer received was for ₹ 1.41 crore (13.13 per cent below). The validity of the offer was for 180 days *i.e.* upto 2 November 2012. The Corporation could not finalise the tender within validity period and hence requested the contractor twice (16 October 2012 and 7 February 2013) to extend the validity period upto 2 February 2013 and 28 February 2013 respectively which was agreed to by the contractor. As the Corporation could not finalise the tender within the extended period, the Corporation for the third time requested (7 March 2013) the contractor for extension which was not accepted. The work was therefore re-tendered (July 2013) and Corporation received (August 2013) the lowest offer of ₹ 1.85 crore (14.21 per cent above) which was accepted (January 2014).

We observed that the Corporation did not finalise the tender despite having initial 180 days validity period which was further extended by four months. This resulted in avoidable extra expenditure of ₹ 0.44 crore, being the difference between the L1 offer earlier and the price at which the work was awarded.

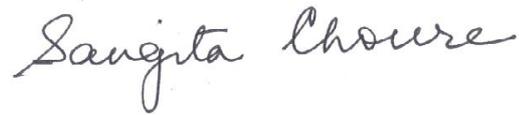
In another tender (estimated cost ₹ 9.32 crore) for up-gradation of water supply distribution network (Phase-II) providing, laying, jointing and commissioning DI distribution pipe line and picking old CI pipe line invited in May 2012, the Corporation did not finalise the L1 offer of ₹ 7.74 crore (17 per cent below) within the validity period of 180 days. The request (November 2012) for extension of validity period was not accepted by the contractor. Therefore, the work was re-tendered (July 2013) and LI offer of ₹ 9.10 crore (2.37 per cent below) was accepted, which resulted in an excess expenditure of ₹ 1.36 crore.

Thus, slackness of the Corporation to finalise the tenders within validity period resulted in consequent re-tendering and extra expenditure of

₹ 1.80 crore, besides delays in commencement and completion of works relating to maintenance/facilities in Industrial Estates.

The Corporation attributed (August 2015) the delay mainly to circulation of documents between various authorities of the Corporation for compliance. The proposal in respect of works having tendered cost above ₹ one crore was also required to be submitted to the *ex-officio* Chairman of the Corporation. The Corporation assured that due care would be taken in future to finalise tenders within the time frame.

The matter was reported to the Government (May 2015); their reply was awaited (January 2016).



**MUMBAI**  
The 25 April 2016

**(SANGITA CHOURE)**  
Principal Accountant General (Audit)-III, Maharashtra

*Countersigned*



**NEW DELHI**  
The 27 April 2016

**(SHASHI KANT SHARMA)**  
Comptroller and Auditor General of India