Chapter III

3. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Public Sector Undertakings are included in this Chapter.

Government Companies

Andhra Pradesh State Seeds Development Corporation Limited

3.1 Loss of ₹ 90.94 lakh due to procurement of jowar on outright purchase

The Company procured excess quantity of jowar seeds on outright purchase instead of on consignment basis resulting in loss of ₹ 90.94 lakh.

Andhra Pradesh State Seeds Development Corporation Limited (Company) received (August 2009) an indent, from the Department of Agriculture (Department) for 16,501 quintals (Qtls) of jowar for Kharif 2009 - Contingency Plan (with a request to position only one third of the quantity i.e., 5,500 Qtls).

As against the requirement of 5,500 Qtls, the Company procured (September 2009) 8,993 quintals of jowar (M 35-1 variety) from three other seeds corporations[1] at an average rate of ₹ 2,850 per Qtl on outright purchase. During the Khariff and Rabi 2009 the Company sold 4,732 Qtls leaving a balance quantity of 4,261 Qtls. The unsold stock was infested and became unfit for further sales during the next season. The Company requested (December 2009) the Department for reimbursement of the loss for which there was no reply so far (June 2011). The Company further demanded (January 2010) through legal notice for reimbursement of the loss for infested seed from Joint Director of Agriculture (JDA). JDA replied (February 2010) that though the indent was for whole quantity, it requested to position only one third of the indented quantity.

The total unfit quantity of 4261 Qtls was auctioned (March/April 2010) at an average rate of ₹ 716 per Qtl. The Company incurred a loss of ₹ 90.94 lakh towards the seed procured.

Audit observed that when the Company was requested to position only one third of the indented quantity to meet the requirement of a contingency plan, it should have procured the seed on consignment basis instead of outright

[1] Maharashtra State Seed Corporation (MSSC) 2,863 Qtls, National Seeds Corporation (NSC) 2,700 Qtls, Karnataka State Seeds Corporation 3,430 Qtls.

purchase basis. This resulted in excess procurement of seed by 4,261 Qtls which was infested and became unfit for further sale.

Management stated (May 2011) that upon the repeated requests from the JDA, Anantapur and upon the instructions of Special Chief Secretary of the Department, Company procured the seed in excess of the requirement. Further, it was replied that other State Seeds Corporations were not willing to supply on consignment basis. The reply is not acceptable as the Department requested only to place one third of the indented quantity and Company did not produce any record to show orders for excess procurement nor letters of rejection for supply on consignment basis.

Thus, the action of the Company to procure seed on outright purchase instead of consignment basis resulted in a loss of ₹ 90.94 lakh.

Company while taking procurement decisions should invariably consider the facts like the quantity and variety to be procured to meet the needs of the users besides safeguarding its financial interests.

The matter was reported (April 2011) to the Government and their reply had not been received (September 2011).

3.2 Delay in receipt of non-subsidy amount resulted in loss of interest of ₹1.02 crore

Failure to enter into agreements/Memoranda of Understanding, issue suitable instructions to Distributors, non-compliance with instructions in respect of Agro Rythu Seva Kendras and monitor the timely remittance of sale proceeds resulted in loss of interest of ₹ 1.02 crore.

Andhra Pradesh State Seeds Development Corporation Limited (Company) had been acting as the Nodal Agency for distribution of various crop seeds in the districts. During the past ten years the Company had been distributing seeds under subsidy programmes by opening temporary outlets in required mandals in addition to its own sales counters. For manning the temporary outlets, the Company was utilizing the services of two types of agencies i.e., Distributors and Agro Rythu Seva Kendras (ARSKs). The Distributors were Mandal Agricultural officers (MAOs) of Agriculture Department and other Government/non-Government Organisations. ARSKs were set up by Andhra Pradesh State Agro Industries Development Corporation Limited (Agros) for sale of seeds under subsidy programmes since 2006-07.

As per the procedure in vogue, the Company procures seeds from seed suppliers and distributes the same to farmers on sale basis. For seeds distributed under subsidy programmes, non-subsidy portion was collected from the farmers and subsidy portion was released by the Government of Andhra Pradesh.

A scrutiny of records relating to collection of non-subsidy amount by the Company indicated the following deficiencies:

- In respect of Distributors, agreements/Memoranda of Understanding (MoU) were not entered into by the Company for safeguarding its financial interests. No specific instructions for timely remittance of sale proceeds collected by the Distributors were issued by the Company.

- In respect of ARSKs, though the Company had issued instructions to its District Managers (DMs) to ensure remittance of sale proceeds into Company's accounts on the immediate next day of collection by ARSKs, these were not complied with by DMs.

- The matter regarding timely remittance of sale proceeds was not taken up with Agriculture Department in respect of dues from MAOs and other officers of the Department.

- Due to lack of/non-compliance of instructions and monitoring by the Company, abnormal delays (up to 3 years) in remittance of sale proceeds by the Distributors (₹ 19.04 crore) and ARSKs (₹ 7.86 crore) were noticed as on 31 March 2011.

Absence of suitable arrangement and suitable instruction for immediate payment of the money received by the Distributors, strict implementation of instructions in respect of ARSKs and absence of an effective mechanism to monitor the dues of the Agriculture Department resulted in abnormal delays in remittance of sale proceeds of ₹ 26.90 crore (as on 31 March 2011) ranging from one month to three years by the Distributors/ARSKs with consequent loss of interest (at the rate of 7 *per cent*) amounting to ₹ 1.02 crore.

The Company should take steps for timely remittance of sale proceeds by distributors and ARSKs to avoid consequent loss of interest.

The matter was reported (May 2011) to the Government/Management and their reply had not been received (September 2011).

Andhra Pradesh Industrial Infrastructure Corporation Limited

3.3 Loss due to inclusion of a provision detrimental to the interests of the Company and violation of terms and conditions of Collaboration Agreement by the Developer

Inclusion of contradictory clause in the MOU, reassignment of development rights to other parties without in-principle approval of the Company and failure of the VC&MD of the Company to monitor and report the same and sale of plots below market rate resulted in loss of revenue of ₹ 126.90 crore in one SPV. In another SPV, the Company had suffered a loss of revenue of ₹ 3.67 crore with an expected loss of ₹ 109.37 crore for the balance period of lease.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) selected another promoter viz., Emmar Properties PJSC, Dubai (Emmar) through the Competitive process of selection for formation of three Special

Purpose Vehicles[2] (SPVs). The factors that favoured the selection of Emmar were the technical capability, experience in the field of infrastructure and financial soundness as the developmental activity was expected to be carriedout by the SPV. The SPVs were created to develop the following infrastructures.

Name of SPV	Area of the land to be developed (acres)	Purpose
EHTPL	285 (sale)	Villas, residential accommodation and IT infrastructure.
BHLPL	235 (lease)	Golf course in 235 acres. In addition, construction of Boutique Hotel in 17 acres of SPV 1.
CCCPL	15 (sale)	Convention centre.

As the process of developmental activity started, there were Memorandum of Understanding (MoU) (November 2002) and the Collaboration Agreement (CA) entered into (August 2003) between both parties, figuring out the rights, duties, obligations and profit sharing of the promoters. The profit which would accrue to the SPV was expected to be shared between the promoters in the ratio of 74:26. While the prime objective was carrying out the development activity by the SPVs themselves, the MoU and CA contained an enabling clause whereby the SPV could reassign the right of development to any other entity. Insertion of the above clause in the MoU and CA tilted the process of execution in favour of a third party through reassignment which went against original objective of formation of SPV. By taking advantage of this clause, the SPV reassigned the rights of development to another sister Company of Emmar viz., Emaar MGF Land Private Limited (MGF). While reassigning the development work to MGF, it was prescribed in the agreement between the SPV and MGF that 75 *per cent* of the profit accruing to the developer would be retained by MGF and only 25 *per cent* would be transferred to the SPV. This has the effect of substantially reducing the profit of SPV in the development activity. In addition to the above financial impact of the arrangement done by the SPV, the following irregularities were also noticed in carrying out the same.

a) Violation of terms and condition of Collaboration Agreement by the Developer

i. Clause 2.4(x) of collaboration agreement stipulated that the Developer should obtain an in-principle approval of the Company for re-assigning its rights towards implementation of the Project. We observed that the

[2] 1. Emaar Hills Township Private Limited (EHTPL); 2. Bowlder Hills Leisure Private Limited (BHLPL); and 3. Cyberabad Convention Centre Private Limited (CCCPL).

Developer assigned the development work to MGF without in principle approval of the Company, which was irregular.

ii. ***VC & MD's inaction:*** When the Board of Directors of EHTPL decided (September 2006) to transfer its rights for development of the township to MGF, the Vice Chairman and Managing Director of the Company (VC &MD) attended the meeting as nominee Director of the Company. Despite the decision being in deviation to the CA terms, the VC &MD did not report the same to the Government/Board.

iii. ***Absence of monitoring system:*** While entering into CA, the Company failed to devise a mechanism to watch and verify the correctness and impact of transactions through periodical returns on development activity including the revenues generated to safeguard its financial interests.

b) Loss of revenue

EHTPL: Due to re-assignment of development work by EHTPL to MGF without in-principle approval, the revenues that accrue to the SPV will automatically vest with MGF consequently diluting the percentage of income that should have come to the Company by virtue of original agreement.

We observed that MGF entered (November 2008 to July 2010) into sale agreements with 89 parties for sale of 25.03 acres of land at an average rate of ₹ 2.50 crore per acre as against ₹ 22 crore per acre evaluated by Axis Bank. If the sale had been carried out by the SPV at the market value of ₹ 22 crore per acre, the SPV would have earned a profit of ₹ 488.09 crore, in which the Company would have got a share of ₹ 126.90 crore. Entering into the development agreement by SPV with MGF resulted in loss of revenue of ₹ 126.90 crore to the Company.

BHLPL: The Company concluded (December 2005) an agreement leasing out 235 acres of land to BHLPL. According to this, lease rentals at two *per cent* of the gross annual revenue of the golf course/club for the first 33 years and three *per cent* for the next 33 years were payable by BHLPL. Similarly, in November 2006 BHLPL executed a deed to assign its lease hold rights to MGF, which provided for retention of 95 *per cent* of the total revenue earned from golf course/club by MGF and to pass on 5 *per cent* of the revenue to BHLPL, without in-principle approval of the Company, which resulted in reducing the Company's share. With reference to the revenue of ₹ 9.66 crore received by BHLPL towards its five *per cent* share of the golf revenue for the period from April 2008 to December 2010 we worked out the loss of revenue to the Company at ₹ 3.67 crore with an expected loss of revenue of ₹ 109.37 crore (based on revenue of 2010) for the balance lease period.

Thus, inclusion of contradictory clause in MoU/CA, violation of the terms of CA by the EHTPL and BHLPL, which resorted to re-assignment of development rights without in-principle approval of the Company and consequent sale of plots below market rate resulted in loss of Company's share of revenue in EHTPL by ₹ 126.90 crore and loss of its revenue from BHLPL by ₹ 3.67 crore with an expected loss of ₹ 109.37 crore for the balance period of lease.

The Company should frame the terms of the MOU with due care and institutionalise a mechanism to monitor the implementation of the projects by the SPVs to safeguard the interests of the Company.

The matter was reported (June 2011) to the Government/ Management and their reply had not been received (September 2011).

3.4 Undue favour extended to an allottee

Extending undue benefit at every stage of project implementation led to forgoing of DP revenue of ₹ 126.22 crore, reduction of debenture interest to two *per cent* for 2010-14 resulting in loss of ₹ 33.29 crore, deferred realisation of ₹ 230.27 crore towards land cost instead of lump sum receipt and non-forfeiture of PS amounting to ₹ 32.90 crore besides the project not yet taking off.

The Government of Andhra Pradesh (GoAP) had allotted 97 acres of land in Manchirevula village, Rajendranagar mandal, Ranga Reddy district to Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC/Company) during February 2004 for development of IT Park. However, the actual area on ground was found (October 2004) to be 80.68 acres only. Expression of Interest cum Request for Qualification (EOI cum RFQ) for development of Trade Towers (100 floors building) and Business District (Project) was invited (April 2006) by the Company. After evaluation of technical and commercial bids by Capital Fortunes Limited (Consultant) the Project was awarded (6 October 2007) to Reliance Energy Limited (REL) – Sobha Developers Private Limited (SDPL) (Consortium) who quoted ₹ 6.57 crore per acre.

The Letter of Award (LOA) *inter alia*, contained formation of a Special Purpose Vehicle (SPV) by the Consortium and the Company for implementing the Project. A scrutiny of the formation of SPV and the subsequent developmental activity indicated the following unintended benefits to the private parties.

1. While bidding for the project of Trade Tower and Business district, the Consortium of REL and SDPL had the share in the consortium in the ratio of 66:23. The above Consortium was awarded the contract only because of the presence of SDPL with enormous experience in the infrastructure activity without whose presence the Consortium could not have bagged the contract by securing the highest cumulative score of 75 in the bidding process. By way of amendment to the LOA in November 2007, the Company permitted the Consortium to maintain share of 89 *per cent* in the SPV rather than the original share of Consortium partners in the ratio of 66:23 between REL and SDPL. At the time of formation of SPV in May 2008, the REL maintained its share at 89 *per cent* and the Company at 11 *per cent,* thereby knocking out the SDPL out of SPV. The knocking out of SDPL out of SPV was against the terms and conditions of EOI cum RFQ, which provided as follows.

Clause 7.5.7 of EOI cum RFQ provided that "any change in the shareholding pattern of the SPV after award of the Project should be with the prior approval of APIIC and shall be such that the technical and financial capability of the Consortium is unchanged even after such substitution".

However, no specific approval for removing SDPL was accorded by the Company as required by clause 6.2 of EOI cum RFQ. As REL did not possess relevant experience and it did not substitute SDPL with any other party, having expertise in construction activity to ensure technical and financial capability of the Consortium is unchanged, it is not eligible for carrying out the quoted work. This was a 'significant event of default' by SPV as per clause 6.1 of Development Agreement (DA) which cannot be cured. Hence, the allotment itself is irregular.

2. As per terms of LOA, the SPV has to complete construction of Trade Tower of minimum 100 floors – minimum of 4 million square feet and market at least 50 *per cent* of built up area, under first Module, to be eligible for execution of Sale Deed for land required for second Module. However, while entering into DA, this condition was changed to mere payment of land cost of second Module, which diluted the very purpose of the LOA condition i.e., achievement of substantial progress in the construction of Trade Towers and sale of built up area under first Module before allotting land for second Module. Consequently the Company handed over/executed Power of Attorney (POA) for land under second Module without start of any developmental activities under first Module as envisaged by the GoAP.

3. Allotment of Secured Fully Convertible Debentures (FCDs) of ₹ 180 crore carrying interest @ 12 per cent per annum as Development Premium (DP) compounded annually as per LOA was changed to 12 per cent simple interest (effect not quantifiable). Debenture interest of ₹ 36.15 crore accrued till 31 March 2010 was allowed to be paid during FY 2014 as onetime payment with interest @ two per cent per annum. Debenture interest was reduced from 12 per cent to two per cent per annum during 2010-14 resulting in loss of ₹ 33.29 crore.

4. The amendment given to the LOA changed construction of international standard building to warm shell which requires less capital cost and time.

5. Even after getting into DA in May 2008, the SPV till November 2009 - (i) did not pay the part consideration of ₹ 230.27 crore for second Module land as per DA and (ii) did not arrive at zero date[3] due to non-submission of DPR within 180 days and non-obtaining of Critical Project Clearances (CPCs) within 12 months of DA. These defaults entitle the Company to forfeit the Performance Security (PS) of ₹ 32.90 crore but the Company did not forfeit the same.

[3] Zero date means latter of (i) handing over the land (ii) fulfilling of the conditions precedent by the Company and SPV.

6. The Company executed (28 May 2008) the Power of Attorney (POA) despite receipt (July 2008) of only ₹ 100 crore within the due date as against the total due of ₹ 330.27 crore for second Module land. Deferring payment for second Module land (as per restructuring proposal approved by the Company in November 2009) staggered up to 2014 for which POA was executed in favour of the SPV was not in the interests of the Company. Thus, REL did nothing except forming of the SPV and allotment of FCDs/Equity Shares for first Module land and payment of ₹ 100 crore towards second Module land cost during the period from October 2007 to till date (May 2011) i.e., no construction activity was initiated except getting rights over land.

7. The restructuring proposal involved unjustified waiver of DP on land cost of second Module amounting to ₹ 126.22 crore (₹ 53.92 crore accrued till March 2010 and ₹ 72.30 crore that would accrue till March 2012).

Thus, extending undue benefit at every stage of project implementation had led the Company to forgoing the DP revenue of ₹ 126.22 crore, reduction of debenture interest to two *per cent* for 2010-14 resulting in loss of ₹ 33.29 crore, deferred realisation of land cost of ₹ 230.27 crore instead of a lump sum receipt besides the project not yet taking off.

The Company should ensure that the allottees fulfill all the terms and conditions of the agreements and safe guard its financial interests while accepting any change in the terms of agreement/ restructuring proposals.

The matter was reported (June 2011) to the Government/Management and their reply had not been received (September 2011).

3.5 Loss of ₹29.17 crore due to allotment of lands at concessional rates and non-collection of other mandatory charges

Allotment of lands at concessional rates than those fixed by the Price Fixation Committee led to loss of revenue of ` 28.25 crore. Interest on belated payment, restoration penalty and land cost amounting to ` 0.92 crore were not collected before final allotment.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) allots lands for establishment of industries in the State at the price fixed by the Price Fixation Committee (PFC). PFC notifies the land rates and their validity period after considering the land rate and development charges etc. The terms and conditions of allotment are as follows:

a. Allotment for commercial purpose would be charged at twice the prevailing rate of land.

b. In case of non-payment of dues by the stipulated period, the allotment would be cancelled and EMD would be forfeited.

c. In case of restoration of allotment, restoration charges would be paid at two *per cent* of the prevailing land cost and fresh EMD would be furnished.

A review of allotment of land at IT Park, Financial District, Nanakramguda, Ranga Reddy district revealed that the Company allotted land to three industrial units during October 2009 to January 2010. Scrutiny of these revealed the following shortcomings:

1. The land was allotted at the rates lower than those fixed by the PFC on the grounds of economic slowdown, irregular shape of the plots and absence of approach road without approval of the Board of Directors resulting in a loss of ₹ 28.25 crore as detailed in the **Annexure-34.**

2. There was no condition in the allotment regulations for reduction in price due to irregular shape, if any. Also no study was conducted to calculate the wastage in the utility of the land due to irregular shape. Further, roads of 30/24 metre wide abutting the plots had been proposed.

3. In case of VHPL, a plot admeasuring 0.30 acre abutting on northern side and earmarked for development of greenery had no access except to VHPL, but the land cost was not collected.

4. VHPL did not pay the land cost for 1.23 acres allotted to them within time and the allotment was cancelled (May 2010) duly forfeiting the EMD of ₹ 52.45 lakh. However, the allotment was restored (June 2010) after receiving an amount of ₹ 4.72 crore towards land cost. Though the Company demanded (June 2010) VHPL to pay the restoration penalty of ₹ 19.87 lakh and interest of ₹ 11.33 lakh for belated payment, they did not demand recoupment of EMD of ₹ 52.45 lakh forfeited. The Company made final allotment contrary to its allotment regulations, without recovering ₹ 91.97 lakh (EMD forfeited - ₹ 52.45 lakh + Restoration penalty - ₹ 19.87 lakh + Interest upto March 2011 - ₹ 19.65 lakh).

Thus, due to allotment of the lands at the rates lower than those fixed by PFC and failure to collect interest, restoration penalty and land cost from VHPL, the Company lost revenue of ₹ 29.17 crore.

Company while allotting lands to the private parties should charge the rates fixed by PFC to safeguard its financial interest and avoid undue benefit to the allottees on account of interest/penalties payable by them.

The matter was reported to the Government/ Management (May 2011); their reply had not been received (September 2011).

3.6 Allotment of land at concessional rate and waiver of lease rentals/penalty resulted in loss of ₹13.40 crore

The Company allotted land at a concessional rate of ₹ 40 lakh per acre as against the prevailing rate of ₹ 60 lakh per acre and also waived lease rental/penalty resulting in loss of ₹ 13.40 crore.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) allotted (August 2008) 60.15 acres of land at the total cost of ₹ 24.06 crore in Andhra Pradesh Special Economic Zone at Atchutapuram, Visakhapatnam to Anjaney Alloys Ltd, Kolkata (Allottee) for setting up of Ferro alloys project on lease basis for a period of 33 years at a concessional lease premium of ₹ 40 lakh per acre. The Letter of Allotment *inter alia* provided for the following:

- The Allottee shall pay lease rentals in advance every year at the rate of two *per cent* of the 50 *per cent* of the lease premium per annum from the date of taking possession of land.

- Construction should commence within six months and the manufacturing activities should commence within two years of taking possession of land and any extension of time would be subject to levy of penalty at the rate of 10 *per cent* of the lease premium.

After receiving (September 2008) the payment for lease premium and advance rental for 6 months (₹ 12.03 lakh), the Company executed (October 2008) the lease deed and handed over the possession of land. The Allottee, after one year from taking the possession of land, expressed (August 2009) its desire to retain 40 acres and surrender balance 20 acres of land (approximately) and requested to waive lease rentals for at least a period of two years as they were unable to start construction due to its inability to obtain the required environmental and forest clearances. Based on the request a fresh lease deed was entered (September 2009) for 40 acres of land after cancelling the previous lease deed for 60.15 acres and waiving lease rentals for two years. The Allottee surrendered (September 2009) 20.15 acres to the Company.

The amount paid by the Allottee towards 60.15 acres of land was adjusted towards the lease premium for 40 acres of land and the lease rentals for 60.15 acres for the period of occupation and balance amount of ₹ 8.01 crore was refunded (December 2009). However, in view of the improved economic scenario, the Allottee again requested (April 2010) for re-allotment of surrendered land of 20.15 acres for the purpose of future expansion of their project which was accepted and a letter of allotment was issued (May 2010) fixing lease premium of ₹ 40 lakh per acre and lease rentals at two *per cent* of the total lease premium. The Allottee remitted (May – July 2010) ₹ 8.06 crore towards the lease premium.

In this connection, the following observations are made:

- Allotment of land at a concessional rate of ₹ 40 lakh per acre as against the prevailing rate of ₹ 60 lakh was without any justification or approval from the Board of Director (Board) or Government; hence was irregular. This resulted in loss of ₹ 12.03 crore to the Company.

- Waiver of lease rental for two years in respect of 40 acres was not justified as the allotment itself was at a concessional rate and the Allottee did not commence construction activity within six months of taking possession of the land. This resulted in loss of revenue of ₹ 16 lakh (₹ 40 lakh x 2 *per cent* x 50 *per cent* x 40).

- Penalty amounting to ₹ 1.21 crore was not levied while restoring the 20.15 acres of land. The reasons for the same were not on record and there was no approval of the Board for the same. (₹ 60 lakh x 20.15 acres x 10 *per cent*).

Thus, allotment of land at a concessional rate (₹ 12.03 crore), unjustified waiver of lease rentals (₹ 16 lakh) and penalty (₹ 1.21 crore) led to loss of revenue of ₹ 13.40 crore.

Company should adhere to its allotment regulations in respect of allotments, collection of various charges, fees or penalties as applicable, to avoid loss.

The matter was reported (April 2011) to the Government/Management and their reply had not been received (September 2011).

3.7 Loss of ₹ 24.03 crore due to short/non-collection of service charges and process fee

The Company, contrary to its allotment regulations, collected only two *per cent* service charges against the prescribed 15 *per cent* and also did not collect the process fee of ₹ 10,000 per acre resulting in loss of revenue of ₹ 24.03 crore.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) in pursuance of its objects for industrial development acquires land on behalf of others for establishment of industrial zones in accordance with the directions of the Government. For acquisition of land on behalf of others, the Company *inter-alia*, collects 15 *per cent* on the total cost of acquisition of the land as service charges and process fee of ₹ 10,000 per acre.

Lepakshi Knowledge Hub Private Limited (LKHPL), Bangalore requested (March 2008) the Company for allotment of 10,000 acres of land in Ananthapur district for establishment of a knowledge hub for developing the area by establishing a cluster of national and international universities along with research centres etc. In this regard, the Government of Andhra Pradesh (GoAP/Government) entered (December 2008) into a Memorandum of Agreement (MoA) with LKHPL for allotment of required land through the Company at the rates fixed by it.

The observations made in this regard are as below:

- The Company did not enter into any formal agreement with LKHPL to specify the terms and conditions. Even the MoA entered with the Government also did not contain clear terms and conditions of the project like requirement of the extent of land, project report, time schedule etc.

- The Company while provisionally allotting 1,118.20 acres of land, *inter-alia* directed (January 2009) LKHPL to pay 15 *per cent* service charges on the total cost of ₹ 19.57 crore and collected ₹ 2.94 crore towards service charges without any mention of the process fee payable by them. However, upon a request (February 2009) made by LKHPL to fix service charges at one *per cent* of the total land cost, the Company revised the same to two *per cent* contrary to its allotment regulations for the total area allotted including 1,118.20 acres handed over in January 2009. As such the Company, on the total allotted and registered (February – October 2009) land of 8,844.01 acres (Government land - 3,032.83 acres at the rate of ₹ 0.50 lakh per acre and DKT land - 5,811.18 acres at the rate of ₹ 1.75 lakh per acre) to LKHPL at a total cost of ₹ 116.86 crore, collected/ adjusted service charges of ₹ 2.34 crore only (at the rate of two *per cent* on ₹ 116.86 crore) instead of ₹ 17.53 crore[4] in violation of its own policy resulting in loss of ₹ 15.19 crore to the Company. Further, the Company did not collect the process fee of ₹ 8.84 crore[5]. Thus, non-collection of process fee and short collection of service charges resulted in extension of undue benefit to LKHPL and loss of revenue of ₹ 24.03 crore to the Company.

In reply the Management stated (June 2011) that the Government extended various incentives like reimbursement of VAT/CST/Stamp Duty and providing water supply and other facilities to the project. It was further stated that as the Company is an extended arm of the Government, to encourage LKHPL to set up the project for developing the backward area, Company collected two *per cent* service charges on the land cost, but was silent about non-obtaining of the approval of the Board for the same.

The reply is not tenable as the Government has already extended the required benefits to LKHPL to encourage the setting up of the project and did not direct/authorise the Company to extend any benefits in addition to the already extended concessions through MoA. Thus, collection of service charges at a concessional rate of two *per cent* as against 15 *per cent* and non-collection of process fee of ₹ 10,000 per acre were contrary to the Company's allotment regulations and were irregular as they were without approval of the Board of Directors/Government.

While allotting the lands to the private entities, the Company should follow their allotment regulations and collect the applicable process fee and service

[4] Service charges at the rate of 15 *per cent* on ₹ 116.86 crore = ₹ 17.53 crore.

[5] Process fee at the rate of ₹ 10,000 per acre = 8,844.01 acres x₹10,000 = ₹ 8.84 crore.

charges at the prescribed rates. Any deviations, if necessitated, should be got approved by the Board/Government.

The matter was reported (April 2011) to the Government and their reply had not been received (September 2011).

3.8 Failure to collect at commercial rate and process charges resulted in loss of revenue of ₹ 11.71 crore

Company failed to charge not only commercial rate for the land allotted but also the requisite process charges for change in constitution of allottee company resulting in loss of ₹ 11.71 crore. It also allowed total elimination of initial promoter from the project; making the allotment irregular.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) allots lands for industrial development. According to the Company's regulation 7.7 (c) allotments for any commercial purpose should be charged double the rate of prevailing land cost. Further, any request for approval of change in constitution of the allottee may be considered by levying 10 *per cent* on the prevailing land cost subject to the condition that the sale consideration should have been paid fully and project implemented by the time the request is received as per the Company's regulation 18.1(a).

MAPE Advisory Group Private Limited requested the Company to allot land for setting up of institutional and retail broking etc., and infrastructure for finance related companies. In response, the Company allotted/handed over possession of 1.34 acres of land at Financial District, Nanakramguda, Hyderabad to the special purpose vehicle formed viz., MAPE Infrastructure Projects (India) Private Limited (MIPL) by concluding (June 2008) an agreement for sale of land (ASL). ASL *inter alia*, provided for the following:

- The allottee was to pay ₹ 9.76 crore towards the cost of land at the prevailing land rate of ₹ 18,000 per square metre.
- The allottee should commence and complete construction of project within six months and two years respectively from the date of taking possession of land failing which the allotment and the ASL would be cancelled and the earnest money deposit (EMD) would be forfeited.
- Sale deed would be executed by the Company only after implementation of the envisaged project by MIPL.
- No transfer or change of ownership/constitution of business was allowed until execution of sale deed.

The MIPL requested (December 2008) the Company to broaden the scope of common facilities to include additional activities such as hotels, shopping complex, entertainment facilities etc., as it was unviable to confine to providing financial or broking service alone due to global financial crisis. For this purpose, the Company concluded (September 2009) a supplementary ASL for including additional line of activity, by collecting (June 2009) a process fee of ₹ 5,000.

The MIPL informed (June 2009) the Company that there was a change in its constitution. For this, the Company instead of 10 *per cent* of prevailing land cost (₹ 2.17 crore) collected (18 February 2010) only two *per cent* (₹ 0.22[6] crore) at the request of MIPL that it was a burden due to global crisis. The MIPL again informed (19 February 2010) that there was a change in the constitution i.e., shareholding pattern changed to Tulasiram Pillarisetty – 10 *per cent* and Dr.PRK Prasad - 90 *per cent* and requested to approve the same. The Company, quoting the earlier two *per cent* payment, approved (26 February 2010) the second change also without collecting any additional amount.

In this regard the following observations are made:

- The Company collected ₹ 9.76 crore towards the land cost instead of ₹ 19.52 crore i.e., double the cost of land as per regulation 7.7 (c) as the modified line of activities approved were of commercial nature. This resulted in a loss of revenue of ₹ 9.76 crore.

- The actions of approval of change in constitution before completion of the Project and reduction of the charges from 10 to two *per cent* of prevailing land cost for such change, without the approval of the Board were irregular and resulted in loss of revenue of ₹ 1.95 crore (₹ 2.17 crore – ₹ 0.22 crore).

- Change in ownership also led to allotment of the project to the individuals whose credentials were not on record; hence the allotment was irregular.

- The Company failed to forfeit EMD of ₹ 90 lakh and cancel the allotment of land as the allottee did not establish their unit so far (March 2011) as against the scheduled completion within two years from the date of possession of land i.e., by June 2010.

Thus, failure to collect commercial rate for the land allotted for commercial purpose (₹ 9.76 crore) and collection of lesser charges for approval of change in constitution (₹ 1.95 crore) resulted in loss of ₹ 11.71 crore. Further improper monitoring by the Company resulted in allowing the MIPL to retain the land without fulfilling the project completion as per ASL and eliminating the original allottee; hence irregular.

The Company should follow the allotment regulations strictly and collect the rate and charges applicable as per the regulations to avoid loss. Further, while approving changes in the constitution of the allottee, the Company should reassess the eligibility of the allottee to ensure that the objective of industrial development is fulfilled.

[6] Two *per cent* on prevailing land cost i.e., (₹ 10.85 crore*2) x 2 *per cent*.

The matter was reported (April 2011) to the Government/Management and their reply had not been received (September 2011).

3.9 Short collection of land cost and non-collection of interest on belated payments resulted in loss of ₹18.65 crore

Allotment of land at lesser rate and short/non-collection of interest for delayed payments resulted in loss of ₹ 18.65 crore.

The Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) selected a consortium[7] for development of IT Park at Raidurg village, Ranga Reddy district and allotted (October 2005) 37.50 acres of land at the rate of ₹ 3.69 crore per acre. As per Letter of Allotment, a special purpose vehicle[8] formed /Developer should complete development of Phase-I within three years and the entire project within five years from the date of Development Agreement (DA). The Company handed over (March 2007/April 2008) the total land allotted. However, during the resurvey of lands (October 2007), the area was arrived at 40 acres instead of 37.50 acres. As there were delays in payment of the land cost, the Board of Directors decided to charge interest at 12 *per cent* compounded annually on the delayed payments.

The Developer requested (April 2008) for allotment of additional 2.5 acres of land identified at the bid price of ₹ 3.69 crore per acre with 12 *per cent* development premium as against ₹ 10.52 crore per acre[9] fixed (June 2008) by the Price Fixation Committee (PFC). The Company allotted (October 2008) the land at the rate of ₹ 8.09 crore per acre[10]. However, upon a request (July 2009) by the Developer for reduction in the price, Vice-Chairman & Managing Director directed and nominated (September 2009) a Consultant[11] to value the land. The Consultant indicated (October 2009) the value of the land to be between ₹ 5.40 crore and ₹ 5.80 crore per acre on the presumption that the land was for residential purpose and there was no road access to it. Based on this, a final allotment order was issued (February 2010) fixing the land cost at ₹ 5.51 crore per acre (net of 5 *per cent* waiver on ₹ 5.80 crore), but without a mention of interest payable for the delay in payment.

We observed the following irregularities in this regard:

- Allotment of 2.5 acres of land at ₹ 5.51 crore per acre in deviation of the rate fixed by the PFC resulted in a loss of ₹ 12.53 crore.

- The Developer delayed fulfillment of some important obligations viz., submission of Detailed Project Report/entering into DA and payment of purchase price, which entitled the Company to cancel allotment. Nevertheless, the Company extended undue benefit by way of short/non-collection of interest of ₹ 4.61 crore on the belated payments made in

[7] Shyamaraju & Company (India) Private Limited and Nuziveedu Seeds Limited.
[8] Divyasree NSL Infrastructure Private Limited.
[9] 4,047 sq.meters x ₹ 26,000 = ₹ 10.52 crore.
[10] 4,047 sq.meters x ₹ 20,000 = ₹ 8.09 crore.
[11] CB Richard Ellis South Asia Pvt. Ltd.

different installments for 37.50 acres ignoring the Board's decision to charge compound interest.

- The Company did not charge interest of ₹ 1.51 crore on the belated payments for the additional allotment of 2.5 acres.

- The practice of engaging outside valuer for fixation of the rate, for which PFC exists, was not in vogue in the Company. Valuation of land by the Consultant was erroneous and improper as he assumed that the land was for residential purposes but not for the allotted commercial purpose and discounted the future revenues at a very high rate of 27.65 *per cent.* The rate fixed based on these assumptions was not realistic. By appointing a consultant for valuation of land, the PFC cannot abdicate its responsibility for fixation of land at lower rate.

- Further, the reason attributed for undervaluation that the land had no road access was not correct as the Company itself had handed over possession (April 2008) of 11.50 acres of land which was close to the road without leaving road access to the extra land identified in October 2007; hence it was a pretext created by the Company itself.

Thus, the Company suffered loss of revenue of ₹ 18.65 crore due to allotment of land at lesser rate (₹ 12.53 crore) and short/non-collection of interest for delayed payments (₹ 6.12 crore).

The Company should collect the land rates fixed as per allotment regulations and strictly comply with the decisions of the Board to levy interest and penal charges.

The matter was reported (May 2011) to the Government/Management and their reply had not been received (September 2011).

3.10 Loss of ₹ 3.84 crore due to non-compliance with the Allotment Regulations

Company, contrary to its Allotment Regulations, short collected service and process charges and did not levy occupation charges while cancelling the allotment.

Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) in pursuance of its objects for industrial development acquires land on behalf of others for establishment of industries. For acquisition of land the Company *inter-alia*, collects 15 *per cent* on the total cost of acquisition of the land as service charges and process fee of ₹ 10,000 per acre. Further, in the event of surrender, it should also collect occupation charges based on the period of occupation.

The Company, at the request of Thermal Powertech Corporation (India) Limited, Hyderabad (TPCIL) for allotment of 1,200 acres of Government land at Polatitippa village of Krishna district for setting up of coal based thermal power project (Project) of 1,320 MW, filed (December 2007) requisition with

District Collector, Krishna district for alienation of required land. Government fixed (April 2008) the market value of land at ₹ 2.00 lakh per acre and accordingly revenue authorities handed over (May 2008) advance possession of 1,200 acres of Government land at Polatitippa village to the Company pending finalisation of regular alienation. The Company provisionally allotted (May 2008) and handed over possession of land to TPCIL on receipt (May 2008) of land cost ₹ 24 crore (₹ 2.00 lakh x 1,200 acres) and service charges of ₹ 2.4 crore (i.e., 10 *per cent* on land cost). The Company also entered (June 2008) into Agreement of Sale of land.

As the land allotted at Polatitippa falls under Coastal Regulatory Zone (CRZ), TPCIL requested (December 2008) the Company to allot alternate land of 1,800 acres near Krishnapatnam village of Nellore district in lieu of land allotted at Polatitippa. The Company allotted (February 2009) 1,802.84 acres of land in Krishnapatnam village at an upfront fee of ₹ 9.00 lakh per acre on lease basis with lease rentals of two *per cent* per annum on the upfront fee and adjusted the amount of ₹ 26.40 crore received for Polatitippa land towards the upfront fee. TPCIL handed over (January 2010) the possession of land at Polatitippa to the Company i.e., after one year eight months.

In this connection the following irregularities were observed:

- The Company collected ₹ 2.40 crore towards service charges and process fee for the land allotted at Polatitippa as against ₹ 4.80 crore collectible.

- The Company did not collect the charges of ₹ 1.44 crore (6 *per cent* of ₹ 24 crore) for the occupation of land for a period of one year eight months.

Thus, the Company's failure to comply with the Allotment Regulations resulted in short collection of ₹ 2.40 crore towards service charges and process fee and non-collection of occupation charges of ₹ 1.44 crore.

The Company should strictly adhere to its Allotment Regulations in allotments as well as cancellations so as to safeguard its financial interest.

The matter was reported (June 2011) to the Government/Management and their reply had not been received (September 2011).

3.11 Mid-course evaluation of the Special Economic Zones

Abnormal delay in finalization of land rate by Price Fixation Committee (PFC) and consequent allotment of land on adhoc basis and violation of PFC recommendations resulted in loss of revenue of ₹ 54.86 crore. Lack of watch over imports resulted in foregoing of import duty of ₹ 17.59 crore. Monitoring was deficient with reference to fulfillment of commitments by units in respect of timely implementation of projects, employment creation, investments and exports.

3.11.1 The Government of India (GoI) had announced (April 2000) the introduction of Special Economic Zones (SEZ) policy in the country. The SEZ

Act, 2005, supported by SEZ Rules, came into effect on 10 February 2006. The main objectives of the SEZ Act are (a) generation of additional economic activity, (b) promotion of exports of goods and services, (c) promotion of investment from domestic and foreign sources, (d) creation of employment opportunities and (e) development of infrastructure facilities.

After notification of formation of SEZ, the developer (APIIC in case of Andhra Pradesh), would be entitled to all exemptions/taxes/ concessions. The land at SEZs would then be allotted by the developer on lease basis to the eligible SEZ Units under the guidelines of the Act. The developer has to see that the Units have to commence the production/ manufacturing activity within two years of handing over the possession of land and required eligible employees are being deployed before the completion of the project as per the MoUs entered with the State Government. The Company is one of the developers of SEZs in Andhra Pradesh and had developed 17 SEZs between December 2006 and September 2009 and allotted 1,576.45 acres of land for 84 Units from these SEZs for industrial development. Out of these units, 44 units were allotted land during 2009-11 for which the gestation period of two years has not been completed. In the remaining 40 units, 22 Units did not implement the projects and 18 Units had implemented their projects. The evaluation of the implemented 18 units has been taken up.

Based on the projections given by the individual units, Letter of Permissions (LOPs) will be issued by the Development Commissioner (DC) for availing of the import duty exemptions. The Unit has to submit Bond-Cum-Legal Undertaking (BLUT) to the extent of the duty exemptions that are going to accrue. The Units will avail of other benefits such as exemption from Income Tax, Minimum Alternate Tax, Central Sales Tax, Service Tax, State Sales Tax/ VAT, Professional tax etc., based on the LOP. The Quarterly / Annual Performance have to be reviewed through the Quarterly / Annual Performance Reports (QPR/APR).

Audit Objectives

3.11.2 A review of the performance of all the 18 implemented Units was taken up with the objective to assess a range of issues such as price fixation, investment, employment generation and fulfillment of its export and import obligations etc. Considering the long gestation period of such projects and contractual commitments to be fulfilled by the SEZ Units at various intervals, it is essential that they are evaluated on various key parameters from time to time. The results of such evaluation assist the policy makers and the implementing agencies alike in steering the project appropriately through these lessons learnt. In this backdrop, it was decided to intervene and evaluate these 18 units implemented which were developed by the Company. The results of the evaluation are discussed below.

Audit Findings

3.11.3 Price Fixation

a) The pricing policy of the Company envisaged formulation of a Price Fixation Committee (PFC) to recommend the land rate and lease premium. We observed that there were delays ranging between three months and three years in price fixation in five Units[12] that led to allotment of lands on an adhoc basis involving a loss of ₹ 18.37 crore as detailed in the **Annexure-35.**

b) In three cases[13], the rate of allotment was lower than the rates fixed by the PFC resulting in a loss of ₹ 20.21 crore.

c) In nine cases[14] the Government of Andhra Pradesh (GoAP) directed the Company to allot land at the rates agreed upon by them with the Units i.e., without PFC route thereby resulting in fixation of price at a lower rate involving a loss of ₹ 16.28 crore.

Investments

3.11.4 One of the objectives of development of SEZs is promotion of investments from domestic and foreign sources. As on 31 March 2011, the projected investment vis-a-vis actual investment of these 10 Units[15] was ₹ 565.27 crore and ₹ 386.04 crore respectively indicating a shortfall of 31.71 *per cent* as detailed in **Annexure-36** The shortage of investments was very high in respect of Mahati Software Private Ltd., (95.22 *per cent*), Kenexa Technologies Private Limited (68.35 *per cent*) and Infotech Enterprises (43.31 *per cent*). There was no specific clause regarding the time frame within which the proposed investment was to be fulfilled.

Employment generation

3.11.5 We observed that 13 Units[16] did not generate projected employment. As against the projected employment of 11,541 people, the actual employment provided was only to 5,698 people as on 31 March 2011 i.e., a shortage of 50.63 *per cent*, while five Units[17] had employed 2,592 people as against the proposed number of 1,300 as detailed in **Annexure-37**. As per MoUs entered with following seven units, the cost of land *pro-rata* along with interest should be refunded in case of shortfall of employment. However, no amounts were recovered even though there was shortfall of employment.

[12] Sl. Nos 1 to 3, 5 and 8 of Annexure - 35
[13] Sl. Nos. 6, 7 and 18 of Annexure - 35.
[14] Sl. Nos. 9 to 17 of Annexure - 35.
[15] Sl. Nos. 1, 2, 4, 7, 8, 10 to 12, 15 and 18 of Annexure - 36.
[16] Sl.Nos. 4 to 8, 10 and 12 to 18 of Annexure - 37.
[17] Sl.Nos. 1 to 3, 9 and 11 of Annexure- 37.

The major shortfall in employment was noticed in respect of the following Units:

Sl. No.	Name of the Unit & SEZ	Area (acres)	Proposed employment (Number of people)	Actual employment as on 31-3-2011 (Number of people)	Shortage (%)
1	5 Units[18] at Hill No.2 & Hill No.3 IT/ITES SEZ Madhurwada	39.00	3900	1312	66.36*
2	2 Units[19] at IT / ITES SEZ at Nanakramguda	13.52	4435	2918	34.21

* The shortage in respect of Kenexa Technologies is on very high side. They employed only 873 as against the requirement of 2500.

Exports and Imports

Exports

3.11.6 The details of projected exports to the actual exports are given at **Annexure–38.** It was seen that eight Units[20] did not achieve the projected exports while six Units had achieved the projections and the details of exports of two Units were not on record. Two Units did not complete one year of operation. The actual exports of the eight Units were ₹ 574.54 crore when compared to projection of ₹ 2,112.10 crore, the shortage worked out to ₹ 1,537.56 crore (72.80 *per cent*)**.**

Imports

3.11.7 The details of projected imports (₹ 1340.35 crore) to the actual imports (₹ 355.39 crore) are indicated vide **Annexure–39.** However, it was seen that four Units[21] had imported more than the actual requirements. The actual imports of the four Units were ₹ 82.98 crore when compared to projection of ₹ 9.33 crore, the excess worked out to ₹ 73.65 (789.39 *per cent*) which is on very high side.

One specific case where the imports were much higher than the projections is discussed below:

3.11.8 Infotech Enterprises was allotted (22 September 2007) five acres of land at Hill No.3 Madhurwada IT/ITES SEZ for manufacture of software including engineering electronic and information technology services. Letter of Permission (LOP) was issued on 5 February 2009. The Unit had commenced commercial operations w.e.f. 28 June 2010 and as such the LOP was valid upto 27 June 2015. The total projected import for the first five years was ₹ 15.47 crore. The Unit had submitted BLUT for ₹ 6 crore for getting the

[18] Sl.Nos. 10 and 12 to 15 of Annexure -37.
[19] Sl.Nos. 16 and 17 of Annexure - 37.
[20] Sl.Nos. 1 to 4, 9, 10, 12 and 17 of Annexure - 38.
[21] Sl. Nos. 9, 11, 15 and 16 of Annexure - 39.

exemption of duties for the imports. As per the projections, the Unit could import goods worth ₹ 6.73 crore upto 31 March 2011. We observed that as against the projected imports of ₹ 6.73 crore, the Unit had imported goods worth ₹ 74.12 crore. Thus, the imports were higher by ₹ 67.39 crore as per the projections as on 31 March 2011. It is pertinent to mention here that the actual imports were higher by ₹ 58.65 crore when compared to the total projected imports for five years. The DC did not obtain the BLUT for the remaining amount. This resulted in forgoing of import duty of ₹ 17.59 crore taking 30 *per cent* as duty on the excess imported goods valued ₹ 58.65 crore. Considering the projections upto 31 March 2011 the duty excess availed worked out to ₹ 20.22 crore. In addition penalty and interest were also leviable which could not be quantified due to inadequate data.

Monitoring issues

3.11.9 We observed the following lacunae in monitoring at the level of Company and Development Commissioner.

a) At Company level

- MOU entered into between the Units and GoAP, caters and stipulates minimum number of employment to be created for which land cost rebate was allowed. MOU further envisages that in case the stipulated number was not achieved, the land cost was to be refunded on pro-rata basis on the employment. No monitoring in this regard was being made either by Company or by GoAP.

- As per the terms and conditions of the lease deed of allotment, the Units were to commence production and / or operation within 24 months from the date of taking over of land or such extended period as agreed by the "lessor" i.e., Company. We observed that 22 Units did not implement the projects even after two years of such possession and the Company failed to take action to cancel the allotments in respect of 22 Units.

- There was no coordination between the Company/GoAP and Development Commissioner to monitor and share information on the contractual obligations to be fulfilled by the SEZ Units at periodical intervals.

b) At Development Commissioner level

- Out of 18 Units, only 5 Units have submitted (May 2011) their APRs for the period 2009-10 and the DC did not insist APRs for the other Units.

- The Units were not submitting the actual investment made by them regularly. Even for those Units which had submitted details, no cross-verification was carried out by calling for the audited and certified annual accounts.

- The BLUT was not annexed with the details of the items to be imported and they show only the lumpsum amount. Particulars of actual imports were not compared with the projections regularly. Some Units had imported material more than projected. The Utilization Certificates in respect of utilization of the material were not being insisted upon.

- Apart from duty free import, the Units were availing other benefits such as exemption from Income Tax, Minimum Alternate Tax, Central Sales Tax, Service Tax, State sales tax, VAT, Professional tax etc. However, the DC was not getting the information on the above incentives. As per the prudent practice this information should be obtained regularly and the positive impact with reference to the exemptions availed of was to be monitored.

- The employment particulars furnished by the Units were not being cross verified with the records of the Provident Fund Commissioner's Office.

Recommendations

- Pricing through PFC route is a prudent commercial practice. The Company should adhere to it. Deviations, if any, should be well justified.

- The Company should closely monitor the implementation/progress of the Units by establishing an appropriate system.

- The Company should monitor the particulars of employment generated by the Units with reference to the commitments made in the MOUs and initiate action for getting pro-rata refund of land cost in case of failure.

- The Company should coordinate with the DC and GoAP for monitoring and sharing of information on the contractual obligations to be fulfilled by the Units.

- The DC should periodically review the performance of the Units by obtaining QPRs/APRs regularly.

- The investment details submitted by the Units should be cross checked by obtaining the audited and certified annual accounts.

- Particulars of actual imports were to be compared with the projections regularly and insist upon the Utilization Certificates in respect of the utilization of the material imported.

- The employment particulars furnished by the Units were to be cross verified with the records of the office of the Provident Fund Commissioner.

- The DC should insist for annexing the details of the items to be imported alongwith the BLUT.

APIIC stated (July 2011) that to attract industrial units, lower rates were offered for land allotment and currently the Company was adopting the pricing policy recommended by PFC for all the SEZs/ Industrial Parks. However, the fact remains that allotment of land at lower rate than that fixed by PFC was in deviation to approved pricing policy and hence irregular.

While updating (December 2011) the data on investment, employment created, etc. (up to end of September 2011), the Development Commissioner (DC) stated that the economic slow down had affected the units, which resulted in delay in implementation of most of the projects. The DC further stated that the recommendations of Audit were noted for compliance.

The matter was reported (June 2011) to the Government and their reply had not been received (December 2011).

Hyderabad Growth Corridor Limited

3.12 Irregular payment of ₹ 9.11 crore to contractors towards price adjustment

The Company without ensuring the genuineness of claims preferred by the contractors paid an amount of ₹ 9.11 crore towards price adjustment.

Hyderabad Growth Corridor Limited (Company) was incorporated (December 2005) by Hyderabad Urban Development Authority (a statutory body of Government of Andhra Pradesh (GoAP)) and Infrastructure Corporation of Andhra Pradesh Limited (a GoAP Company) as a special purpose vehicle. The objectives of the Company were designing, constructing, implementing, operating and maintaining the primary, complementary and support project components of Hyderabad Growth Corridor Project (Outer Ring Road (ORR) and its ancillary projects)(Project). The Project was to be implemented by the Company in two phases. For executing the Project, the works were awarded to eight contractors (two for phase-I and six for phase-II).

As per clause 70 (3)(iv) of Part-2 of Conditions of the Contract and Technical Specifications forming part of the above contracts, price adjustment (increase/ decrease) in the cost of plant & machinery, spares PROCURED by the contractor, shall be paid in accordance with the formula stipulated therein based on the wholesale price index for heavy machinery and parts. The price adjustment for plant & machinery spares was applicable on 20 *per cent* of the total value of the work done.

However, it was observed in Audit that the Company paid (July 2006-September 2010) ₹ 9.11 crore towards price adjustment on plant & machinery, spares to the contractors without ascertaining the details of the plant & machinery, spares actually procured by them to ensure genuineness of the claims for upward revision in the prices. Thus, payment of ₹ 9.11 crore to the contractors towards price adjustment was irregular. Further the price adjustment clause is defective to the extent that it provided for payment based on procurement instead of on consumption.

In reply, Management stated that the price adjustment amount was arrived at and paid to the contractors in accordance with contract conditions as the contract clause (sub-clause 70.3 (viii)) neither specified any need to ascertain the details of the plant & machinery for allowing price adjustment nor the same is needed. Further, though the price adjustment clause provides for payment based on procurement of plant & machinery it actually means payment for consumption. Hence the Company followed the procedure stipulated in agreement while making payments towards price variation.

The reply is not acceptable as payment of price variation without verifying the details of plant & machinery actually procured/consumed by contractors tantamounts to financial impropriety. The Company also did not furnish any document in support of its contention that the price variation payments were based on actual consumption of plant & machinery.

Company should make payment to contractors following due procedures and also ensure that their claims are genuine.

The matter was reported (May 2011) to the Government and their reply had not been received (September 2011).

Northern Power Distribution Company of Andhra Pradesh Limited

3.13 Unfruitful Expenditure of ₹11.11 crore

Procurement of DTRs, which failed within guarantee period and failure of the Company to get them repaired at the risk and cost of the suppliers led to unfruitful expenditure of ₹ 11.11 crore.

Northern Power Distribution Company of Andhra Pradesh Limited (Company) regularly procures Distribution Transformers (DTRs) of various capacities for installation in the distribution system following tendering process. As per the terms and conditions of the purchase orders the DTRs should be guaranteed for satisfactory operation for a period of two to five years (as specified in the purchase order) from the date of supply and the supplier should rectify or replace the defective DTRs within 60 days of receipt of intimation of defects, failing which payment to the extent of failed DTRs will be deducted from the subsequent bills/ bank guarantees. If the supplier fails to repair within 60 days from the date of information, the Company shall get the DTRs repaired at the cost of the supplier. The supplier was required to furnish performance security to the extent of 10 *per cent* of contract value for proper fulfillment of contract including the warranty period.

It was observed during audit that 2,479 DTRs valued ₹ 11.11 crore supplied by 38 suppliers to the Company failed within the Guarantee Period (WGP) and they were pending rectification/replacement, for six months to five years, to the end of March 2011. Out of these 2,142 DTRs (86.41 *per cent*) valuing ₹ 9.44 crore were supplied by eight different suppliers during 2007-10 and the percentage of failures ranged between 4.31 and 31 *per cent* as detailed in **Annexure-40**.

We observed that though majority of WGP failed DTRs were lying un-repaired for periods exceeding the stipulated 60 days period, the Company failed to take any action to a) forfeit the available Performance Security Bank Guarantees; b) recover the cost of failed DTRs from subsequent bills of the suppliers; c) get the WGP failed DTRs repaired at the risk and cost of the suppliers; and d) black list the suppliers. We also observed that the Company did not hold any security in respect of 19 suppliers against whom 73 WGP failed DTRs valued ₹ 45.66 lakh were pending repair/ replacement for periods ranging from two to five years.

Thus, non-replacement/ rectification of defective DTRs by the suppliers, in spite of the fact that the DTRs were under guarantee up to five years, and failure on the part of the Company either to take stern action against the defaulted suppliers or to get the equipment repaired at the risk and cost of the suppliers rendered the expenditure of ₹ 11.11 crore unfruitful.

The Company should take prompt action as per the provisions of Purchase order/ purchase manual for forfeiture of performance security and recovery of the cost of failed DTRs from payments against subsequent supplies to safeguard its financial interest. Further the Company should also examine the feasibility of getting the failed DTRs repaired at the risk and cost of suppliers so as to put the equipment to use.

The matter was reported (May 2011) to the Government/Management and their reply had not been received (September 2011).

Southern Power Distribution Company of Andhra Pradesh Limited

3.14 Avoidable expenditure of ₹ 33.08 crore due to defective price variation clause in HVDS works

The Company's failure to include appropriate price variation clause in the bid to take care of both positive and negative price variation of the cost of DTRs, led to avoidable expenditure of ₹ 33.08 crore.

Southern Power Distribution Company of Andhra Pradesh Limited (Company) entered (April – August 2007) into 16 Agreements with eight contractors for execution of High Voltage Distribution System (HVDS) works in Chittoor and Kadapa districts at an aggregate estimated cost of ₹ 438.40 crore. These works were awarded on turnkey basis and about 87 *per cent* of the estimated cost represents the cost of 25/16 KVA distribution transformers (DTRs). The Company regularly purchases DTRs of various capacities for installation in the Distribution System. The prices of DTRs are variable. As per para 5.13 of the Purchase Manual of the Company, 'where variable prices are permitted, a definite price variation formula should be indicated in the Bid and where IEEMA[22] price variation formula is applicable, the same may be adopted'. Accordingly, in all the purchase orders placed by the Company for procurement of DTRs, the clause relating to 'Prices' was being indicated

[22] Indian Electrical & Electronics Manufacturers Association.

as - The prices are variable as per IEEMA price variation formula (duly indicating specific base date and PV formula).

However, contrary to the above practice the Company, in the General Conditions of Contract of HVDS bid document indicated (Clause 45.1.3) that 'Estimate rates given in the schedule are the rates of the Distribution Transformer as on 01 October 2006 including VAT. Price variation will be allowed as and when there is hike in the material cost reported in IEEMA Journal'. Thus, the price variation clause included in the bid is in deviation to the regular price variation clause mentioned in all the purchase orders for purchase of DTRs, as the present clause provides for price variation only when there is hike in the material cost reported in the IEEMA Journal and hence highly detrimental to the financial interests of the Company. The Company, however, recovered (June 2007 to March 2010) ₹ 31.98 crore from the running bills of the contractors towards negative price variation due to reduction in cost of raw materials etc., as per IEEMA data. One of the contractors represented (August 2010) for refund of the recovered amount on the ground that the price variation clause was specifically referring to hike in the material cost and hence the said clause cannot be applied when there is reduction in the material cost. The Company, after obtaining legal opinion of Advocate General of the State, which confirmed the fact that the provisions of the contract does not permit the Company to recover negative price variation amount, refunded (November 2010) ₹ 33.08 crore (₹ 31.98 crore already recovered towards negative price variation and ₹ 1.10 crore towards differential taxes and duties etc.) to the contractors.

It was replied (May 2011) by the Management that based on instructions from Government to take further action on the representation of one contractor for refund of amount recovered towards negative price variation, the Company took the opinion of Advocate General, Government of Andhra Pradesh, who opined that in terms of general clauses of contract there is no empowerment in the contract to empower the employer to resort to negative price variation in the event there being reduction in the material cost. Based on the opinion, the Company after obtaining approval of Board of Directors, refunded the recovered amount to the contractors. The reply is irrelevant and was silent about the reasons for non-adoption of the price variation formula specified in the Purchase Manual. The legal opinion also confirms the fact that the price variation clause was defective, unilateral and detrimental to the financial interests of the Company.

Thus, failure of the Company to include appropriate price variation clause to take care of both positive and negative price variation of the cost of DTRs led to incurring avoidable extra expenditure of ₹ 33.08 crore, which consequently resulted in unintended benefit to the contractors.

Inclusion of a suitable price variation clause in the bids is a matter of common prudence. The Company, while finalising bid documents should scrupulously follow the relevant provisions of the Purchase Manual and take utmost care in framing the terms and conditions to safeguard its financial interests.

The matter was reported (May 2011) to the Government and their reply had not been received (September 2011).

3.15 Uneconomical purchase of Energy Meters

The Company failed to take advantage of the lowest rates and procured meters at higher rate resulting in uneconomical purchase of meters with consequential extra expenditure of ₹ 2.08 crore.

Southern Power Distribution Company of Andhra Pradesh Limited (Company) invited tenders (December 2008) for procurement of four lakh LCD type Electrostatic Energy Meters with 'Infra Red port[23]' (IR port). Technical Bids were opened on 30 December 2008 and Price Bids of four technically qualified bidders (out of total 13 bidders) were opened on 6 March 2009. ICSA India Ltd., Hyderabad quoted the lowest rate of ₹ 808.52 per meter. While the process of finalisation of the tender was on, the Company proposed (April/May 2009) to change the specification from IR port to IrDA[24] port to facilitate higher data transfer speed. As the tender was not finalised, the Company held (June 2009) discussions and negotiations, with regard to change in technical specification and consequent price revision, and the L1 bidder agreed to supply meters with IrDA port at ₹ 909 each (original L1 price of ₹ 808.52 *plus* ₹ 100 extra for IrDA port). The remaining three bidders (L2 to L4) also agreed to supply the meters at L1 price. The Company placed orders (July 2009) on all the four bidders for supply of two lakh meters (50000 meters each). The Company also placed repeat orders (February/ July 2010) on the same four firms for another four lakh meters (one lakh meters each) at the same rate of ₹ 909 per meter. In this regard the following audit observations are made:

1. After opening price bids on 6 March 2009 and knowing that the lowest rate quoted was ₹ 808.53 per meter, the Company resorted (March 2009) to purchase two lakh meters with IR port at higher rate of ₹ 847.78 per meter through APCPDCL on the plea that stock of meters on hand exhausted. Instead the Company could have requested the qualified bidders to supply the meters with IR port immediately, so as to take advantage of the lower rate offered by the bidder. Due to this uneconomical purchase the Company incurred avoidable extra expenditure of ₹ 78.52 lakh.

2. As per clause 5.8 of Purchase Manual, the criteria for purchase by repeat order *inter alia* stipulated that – a) the quantity in the repeat order should not exceed 100 *per cent* of the quantity ordered in the original order; b) it should be ensured that prices have not reduced; and c) repeat orders will be placed when the prices in the market are rising. We observed that after placing orders (July 2009) by the Company on four firms[25] for procurement of two lakh meters with IrDA port at

[23] IR port is an interface to the meter for accurately acquiring energy usage data.
[24] Infra red Data Association.
[25] i) ICSA (India) Private Ltd., ii) Nina Power Private Ltd., iii) HPL Socomek Private Ltd., and Himachal Energy Private Ltd.

₹ 909 per meter, APEPDCL placed orders (November 2009) on another firm[26] for supply of meters with IrDA port at ₹ 876.57 per meter (with additional feature of 'super capacitor', which enable meter reading during power outage), which indicated falling trend in prices. We observed that the Company without considering the lower rate at which APEPDCL placed orders, placed repeated orders (Feb/July 2010) on the four firms for supply of four lakh meters at higher rate of Rs 909 per meter, resulting in avoidable extra expenditure of ₹ 1.30 crore (₹ 909 (-) ₹ 876.57 x 400000 meters). While placing the repeat order the Company failed to observe the laid down procedure of obtaining the current market price by contacting the other DISCOMs to ascertain whether the prices are really falling or increasing. Further the Company also placed orders for 200 *per cent* of the original quantity without limiting the order to 100 *per cent* of the earlier order quantity, which is not in accordance with the Purchase Manual provisions.

Thus, failure of the Company to take advantage of the available lowest rates and procurement of meters at higher rates resulted in uneconomical purchase with consequential extra expenditure of ₹ 2.08 crore.

The Company should coordinate with other DISCOMs and ascertain the lowest available rates for purchase of meters by them so as to avoid extra expenditure.

The matter was reported (May 2011) to the Government/Management and their reply had not been received (September 2011).

Transmission Corporation of Andhra Pradesh Limited

3.16 Idle Investment

Failure to complete stringing of second circuit of 132 KV transmission line resulted in idle investment of ₹ 2.10 crore.

Transmission Corporation of Andhra Pradesh Limited (Company) accorded administrative approval (December 2006) for erection of second circuit stringing of 45 kilometers on 132 KV line at an estimated cost of ₹ 2.71 crore. Accordingly, the work was taken up at a cost of ₹ 2.17 crore (funded by Power Finance Corporation) to improve the reliability of the supply in Wadapalli and Miryalguda area, as the section was having only a single circuit line. The work which was scheduled to be completed by March 2008 was executed by August 2009 through a contractor at a cost of ₹ 2.10 crore except at two places i.e., at broad gauge railway track near Piduguralla and at the crossing of river Krishna. At these two places, the vacant cross arms with single circuit line were being used by Southern Power Distribution Company of Andhra Pradesh Limited (SPDCL) by stringing the 33 KV line. We observed that, though the Company was aware of this fact since 2003, it took up the works for second circuit without getting the cross arms vacated resulting in idle investment of

[26] Elymer International (P) Ltd.

₹ 2.10 crore for 20 months (upto April 2011) with consequent avoidable expenditure of ₹ 35.50 lakh on the borrowed funds besides defeating the objective of providing uninterrupted power supply to the area.

In the reply of the Management, received through the Government, the Company stated (June 2011) that an undertaking was given by Superintendent Engineer (Operation) for laying the underground cable at railway crossing span. Regarding the river crossing span, it was stated that administrative approval for 33 KV features at 132 KV substation was accorded by the Company and the work was also awarded (May 2011) to Heavy Engineering Company. The Company assured that on completion of these works, the 33 KV lines would be vacated by SPDCL and second circuit would be energized.

The reply is not acceptable as there was already an abnormal delay in getting the 33 KV lines vacated, which are still strung on 132 KV Towers resulting in non-charging of the works completed by the Company.

Thus, improper planning of the Company in taking up the work without arranging for vacation of the existing 33 KV lines strung on its 132 KV cross arm not only resulted in locking up of Company's funds to the tune of ₹ 2.10 crore but also in loss of interest of ₹ 35.50 lakh (April 2011).

The Company before awarding the work for erection of lines and towers should take necessary line clearances in advance to avoid right of way problems.

3.17 Idle expenditure

Non-commissioning of 132/33 KV sub-station due to poor planning resulted in idle expenditure of ₹ 3.05 crore.

In order to meet the increasing load growth and to provide uninterrupted power supply during emergency to the entire Vijayawada City and surrounding areas, the Transmission Corporation of Andhra Pradesh Limited (Company) constructed (September 2010) a 132/33 KV substation (SS) at Autonagar, Vijayawada in Krishna District at a cost of ₹ 3.05 crore. Another agreement for erection and stringing of 1 KM of Line in Line out (LILO) to the substation from Gunadala-Gangoor 132 KV line to commission the substation was also awarded (August 2010) to the same contractor at ₹ 45.62 lakh which was yet to be taken up (March 2011). As a result, the SS at Autonagar could not be commissioned (September 2011) for want of completion of LILO works.

Scrutiny of records revealed that LILO works could not be taken up as the street through which transmission line was to pass was not in a straight line and the required horizontal clearance of 2.75 metre from the buildings at one corner of street as per Indian Electricity Rules, 1956 could not be maintained. Moreover the local residents, on the grounds of health hazards of a HT line passing through a residential area, approached the Hon'ble High Court of Andhra Pradesh for staying the proposal. Efforts made by the Company to change the design of the pile foundation for erecting the narrow based multi circuit towers also did not fructify.

We further observed that the Company was aware (March 2008) of the space constraint to maintain horizontal clearance and concern of the residents on passing of HT lines through the residential colony. However the Company awarded (April/November 2009) the work of construction of SS and LILO works which eventually led to protest and litigation by the local residents resulted in non-commissioning of the SS and consequential idling of funds to extent of ₹ 3.05 crore.

The Management replied (June 2011) that though a gazette publication was issued before laying LILO line for Autonagar SS for public awareness and inviting objections, no claim was received from public and accordingly the works were taken up. However, during the marking of foundations, the local residents objected. It was also stated that Company is putting all efforts to get the stay order vacated and soon after solving of right of way (RoW) problems, the line work will be completed and the substation would be charged by end of June 2011. The reply was endorsed (June 2011) by the Government.

The reply is not acceptable as the Company should have obtained the RoW clearance before taking up the works as it was well aware of the objections raised by the residents before marking the foundations itself. Further, the RoW problem remained unsolved even as on date (September 2011).

The Company, while conducting feasibility study should obtain the prerequisite advance RoW clearances before planning for construction in order to avoid delays in commissioning and resultant idle expenditure.

Statutory Corporation

Andhra Pradesh State Road Transport Corporation

3.18 Extra expenditure of ₹ 9.72 crore in procurement of Pre-cured Tread Rubber

The Corporation incurred extra expenditure of ₹ 9.72 crore on procurement of Pre-cured Tread Rubber due to (i) non-enforcement of risk purchase clause; and (ii) change in evaluation method.

Andhra Pradesh State Road Transport Corporation (Corporation) procures Pre-cured Tread Rubber (PTR) for recapping the worn out tyres to improve their life. PTR is procured as per the guidelines approved (June 2000) by its Board of Directors which *inter alia* provided that procurement of PTR was to be based on the (i) performance of latest six quarters measured in terms of Cost per Kilometre (CPK) of the PTR supplied by firms (suppliers), (ii) firms whose performance was available for a minimum 1,000 tyres should be considered for placing bulk orders (more than 10 metric tonnes (MTs)) and (iii) in case of firms who were considered earlier for bulk orders and from whom supplies were discontinued for different reasons they should be offered quantity not exceeding 50 MTs at the lowest CPK.

During 2006-11, tenders were invited seven times and orders worth ₹ 132.68 crore were finalised for procurement of 9,906 MTs of PTR (9.00 x 20 size). Scrutiny of the records relating to the above tenders indicated that the Corporation incurred extra expenditure of ₹ 9.72 crore as discussed below:

a) Non-enforcement of purchase order terms led to extra expenditure of ₹ 5.69 crore

As per the NIT / Purchase Orders terms and conditions, rates quoted by the suppliers shall remain firm for 12 months. We observed that on one occasion rates were enhanced (May 2006) against these terms and conditions resulting in extra expenditure of ₹ 0.69 crore. Further, on two occasions (March 2008 and February 2010), the Corporation purchased PTR from alternative sources at higher rates due to non supply of the same by the suppliers on whom orders were placed and incurred extra expenditure of ₹ 5.00 crore but no action was taken on the defaulting suppliers to invoke the risk purchase clause / blacklist them and orders are also continued to be placed on these suppliers. We further observed that while purchasing PTR from alternate suppliers Board approved guidelines were not followed as PTR was purchased from alternate sources on lowest rate per Kg basis instead of lowest CPK basis resulting in extra expenditure of ₹ 5.69 crore as detailed in **Annexure – 41**.

In reply it was stated (January / July 2011) that the firms are local industries and regular suppliers to the Corporation and blacklisting these suppliers will amount to loosing local industries and the risk purchase clause is being invoked sparingly where the firms are regular defaulters. It was also stated that 75 *per cent* of the requirement of PTR should be procured from the local Medium, Small and Micro Enterprises (MSMEs).

Reply is not acceptable as the suppliers didn't default in 2006 due to rate enhancement but defaulted in 2008 and 2010 when the Corporation did not enhance the rates. From this it is clear that the suppliers are regular defaulters and action should have been taken on the defaulting suppliers. Regarding purchase of PTR from local MSMEs, Government orders did not provide any immunity to the suppliers in the event of default as it is fulfilment of contractual obligations and the Corporation has got every right to protect its interests. Further, Government directed (October 2010) the Corporation to call for open tenders in place of limited tenders to ensure better competition.

b) Change in evaluation method resulted in extra expenditure of ₹ 4.03 crore

Based on offers received, Provisioning Committee (PC) recommended (February 2011) to procure 600 MTs from eight firms (including 475 MTs from four local firms) at the CPK of L3[27] firm (Treadsdirect) at 4.3257 paise based on the performance during the preceding six quarters as per guidelines. Surprisingly, based on a representation received from a local firm, performance / CPK was reworked changing the evaluation period to 20 quarters as per which, CPK of Treadsdirect became the lowest at 4.9261 paise and orders were placed (March 2011) on nine firms for supply of 640 MTs (including 495 MTs from local firms). By merely changing the evaluation period, local firms were paid higher rate ranging from ₹ 18.32 to ₹ 26.92 per Kg which resulted in extra expenditure of ₹ 1.31 crore. Thus, change of evaluation period to 20 quarters was not justified. Notwithstanding the revision of PTR guidelines in 2008 and 2004 by a committee of officers of the Corporation, no change was suggested regarding the evaluation period. Besides, 20 quarters mileage was considered for arriving at the CPK in the subsequent tenders (June 2011) also. We observed that had six quarters mileage been considered, Corporation could have saved ₹ 2.72 crore based on the matching CPK rate of L1 firm MRF. Thus, by changing the evaluation period to 20 quarters, recurring additional burden was thrust upon the Corporation.

In reply it was stated (July 2011) that there was huge difference in the mileage of the firms with six and 20 quarters evaluation period. Hence, Corporation has considered 20 quarters for the time being and simultaneously directed the Mechanical Engineering Department to conduct a comprehensive study on the issue and hence it can't be interpreted as additional expenditure.

Reply is not acceptable. Board approved guideline on arriving at the CPK followed since June 2000 was changed without comprehensive study / prior approval of the Board and also disregarding recommendations of earlier committees. Further, contrary to the recommendations of the PC to conduct comprehensive study and put up the recommendations to the Board for revising the existing guidelines, ratification of the Board was obtained (March 2011) for change in the evaluation period to 20 quarters for future procurement in an unjustified manner without comprehensive study, without bringing the fact of additional expenditure of ₹ 1.31 crore, without bringing the recommendations of the previous committees etc., to Board's notice. Management is silent as to how ratification was obtained without comprehensive study and without furnishing full facts to the Board.

c) Deviations from the Board/ Government approved guidelines

Following deviations from Government/ Board approved guidelines were noticed.

- Limited tenders were invited instead of open tenders.

[27] Offers of L1 firm MRF (3.7480 paise) and L2 firm Kwolity Rubber Ltd (4.0688 paise) were not considered for bulk procurement and order quantity was restricted to 25 MTs each since the tyres analysed were less than 1000 in respect of MRF (224 tyres) and Kwolity (731 tyres).

- Security deposit was not collected at 10 *per cent* of the order value or ₹ 5 lakh whichever is less to ensure adherence to purchase order terms and conditions.

In reply it was stated (July 2011) that various related aspects are being studied in detail and the comprehensive guidelines will be put up for approval of the Board and the same will be informed to the Government as and when required.

Reply is silent about the reasons for inviting limited tenders instead of open tenders and reasons for not collecting security deposit. Further, there is no evidence that various observations raised in the para having significant financial implications were brought to the notice of the Board for deliberating on the same and taking judicious decisions in the best financial interest of the Corporation.

Thus, payment of price escalation despite the price being firm and procurement at a higher rate resulted in extra expenditure of ₹ 9.72 crore.

Recommendations

The Corporation may

- **take stringent action against the defaulting firms;**
- **ensure minimum allocation to major suppliers to keep their performance under reckoning; and**
- **strictly avoid deviations from guidelines without prior approval of the Board/ Government.**

The matter was reported (June 2011) to the Government and their reply had not been received (September 2011).

3.19 Short devolution of scrapped springs resulted in revenue loss of ₹ 4.35 crore

The Corporation failed to adhere to the instructions in respect of devolution of scrapped springs which resulted in short devolution of springs valuing ₹ 4.35 crore.

The Corporation uses spring blades (springs) in the suspension system of their buses. It procures new springs for issuing to the depots for replacement of broken/unserviceable spring blades. New springs are issued to the needy depots by the zonal stores. As per the instructions (October 1999) in vogue the norm for returning scrapped springs is equal to the quantity of new springs drawn. The instructions further stated that the zonal stores should maintain a record of quantities of issue of new springs and receipt of scrapped springs for each depot and the Regional Manager/Executive Director of the concerned region/zone had to monitor the scrapping of springs.

Audit scrutiny of the issue of new springs vis-à-vis receipt of scrapped springs during 2006-07 to 2010-11 (upto December 2010) indicated that there was huge variation in the new springs drawn and scrapped springs returned by the depots. Against the issue of 83.24 lakh Kgs of new springs, the receipts from depots were only 63.21 lakh Kgs resulting in shortage of 20.03 lakh Kgs (24.06 *per cent*) of scrapped springs valued ₹ 4.35[28] crore. Review of data also indicated the following:

- Short devolution of scrapped springs by six[29] zones ranged between 0.61 lakh and 8.07 lakh Kgs (i.e., 8.25 *per cent* to 39.23 *per cent*) as against the norm of zero *per cent* short devolution.

- Scrutiny of depot-wise details revealed that the percentage of short devolution of scrapped springs was upto 90.19 (Ranigunj-I).

- None of the six zonal stores had the cumulative figures of scrapped springs not returned by the depots at any particular given time indicating poor accounting and monitoring of the scrapped returns.

From the above it is clear that proper accountal and internal controls/monitoring were lacking at various levels in the system of accounting/devolution of scrapped springs which resulted in loss of revenue to the tune of ₹ 4.35 crore.

Management replied (May 2011) that circular instructions were issued in 1999 which were being reiterated directing that the scrapped springs are to be used for generating useful leaves from them and the vehicles are to be fitted with these reconditioned springs. Due to this depots maintain huge inventory of loose blades and hence it is not possible to arrive at the variance by merely looking at the difference in the quantities of new springs issued and scrapped springs returned. The reply is not acceptable as the Corporation has not furnished any documentary evidence in support of the fact that stock of reconditioned and removed springs were lying in stores. The depots were also not maintaining any records for the stock of reconditioned/ removed springs lying with them. This clearly indicates the failure of the Corporation in monitoring the usage and accountal of scrapped springs, which is one of the high value items requiring cost control mechanism.

It is recommended that the Management should formulate comprehensive guidelines/ system for closely monitoring the devolution of scrapped springs and their accountal to take appropriate timely action in case of delays.

The matter was reported (April 2011) to the Government and their reply had not been received (September 2011).

[28] Based on the average rate realized on the disposal of scrapped springs in 2010-11.

[29] Hyderabad (39.23 *per cent*), Kadapa (26.79 *per cent*), Vizianagaram (22.62 *per cent*), Nellore (20.78 *per cent*), Karimnagar (9.41 *per cent*) and Vijayawada (8.25 *per cent*).

3.20 Irregular payment of reimbursable allowances covered in Grade pay - ₹4.51 crore

Irregular payment of ₹ *4.51* crore was made towards reimbursable allowances which were converted into grade pay.

The revised pay scales of staff and officers of Andhra Pradesh State Road Transport Corporation (Corporation) had been approved by the Board of the Corporation (February 2010) and Government of Andhra Pradesh (GoAP) (October 2010). On scrutiny of records relating to implementation of revised pay and allowances we observed that based on a representation submitted (January 2010) by the APSRTC Officers Association, the Board approved (9 February 2010) introduction of Grade Pay and the amount of existing reimbursable allowances towards refreshments, news paper and bearer had been taken as Grade Pay[30]. In the letter sent (February 2010) to the GoAP for sanction of revised pay scales, it was clearly mentioned that it was agreed to convert the existing reimbursable allowances of refreshments, news paper and bearer named as grade pay to the officers.

We observed that separate proposal was submitted (9 February 2010) to the Board on the same day for revision of allowances to the officers. However, contrary to the facts mentioned in the proposals submitted for revision of pay scales, allowances which were proposed for conversion into grade pay were again included in the list of allowances to be revised without mentioning this important fact in the note submitted for approval and the Board approved this proposal also without considering full facts. Thus, approval of the Board was obtained for drawal of allowances converted into grade pay. The Corporation has paid both the Grade Pay and again the allowances resulting in irregular payment of Rs.4.51 crore (up to August 2011) with recurring impact till the same is stopped.

In reply it was stated (August 2011) that the enhanced part of allowances payable towards newspapers and refreshments were only provided excluding the amount that merged into Grade Pay and the same was implemented with the approval of the Board.

Reply is not acceptable as the fact that allowances converted into Grade Pay are proposed in addition to the Grade Pay was not brought out in the note submitted to the Board and the fact that it was agreed to convert the existing reimbursable allowances of refreshments, news paper and bearer as Grade Pay was clearly mentioned in the letter sent to the GoAP. Hence, payment/ continuation of allowances converted to Grade Pay has no justification.

It is recommended to review the matter for determining the allowances in accordance with the norms and initiate recovery action, wherever necessary. Responsibility may also be fixed for not appraising the Board with regard to payment of Grade pay and reimbursable allowances. The Management should

[30] Grade pay per month to Executive Directors (EDs) (₹ 6800 – included in the basic pay), Heads of the Department (HODs) (₹ 6100), Sr. Scale Officers (SSOs) (₹ 4100) and Jr. Scale Officers (JSOs) (₹ 2700).

be more vigilant and exercise greater care in matters relating to correct implementation of decisions take by them.

The matter was reported (August 2011) to the Government and their reply had not been received (September 2011).

3.21 Undue benefit to manufacturers and additional burden in procurement of buses

Corporation extended undue benefit of ₹ 59.08 crore to the manufacturers due to waiver of penalty on delayed supply of buses. Further, there was an additional burden of ₹ 242.49 crore due to procurement of buses of BS III standard, with auto transmission and LED destination boards and without ensuring State contribution.

3.21.1 Andhra Pradesh State Road Transport Corporation (Corporation) placed purchase orders (between March 2009 and January 2011) on three vehicle manufacturers[31] for supply of 1,479 fully built buses **(Annexure-42)** under Jawaharlal Nehru National Urban Renewal Mission (JNNURM[32]) scheme of the Government of India, Ministry of Urban Development (MoUD) for operation in four cities in Andhra Pradesh viz., Hyderabad, Visakhapatnam, Vijayawada, and Tirupathi. Out of this, 1,441 buses were received up to April 2011 **(Annexure-42).** Scrutiny of the records relating to purchase of buses under JNNURM scheme revealed the following shortcomings.

Undue benefit extended to the vehicle manufacturers

3.21.2 As per the terms and conditions of the purchase orders, 1,429 buses shall be delivered by the manufacturers latest by June 2009 (1,389 buses) / October 2009 (40 buses), failing which penalty at ₹ 1000 per bus per day shall be levied. Out of this, 1,395 buses delivered up to April 2011 were with delays ranging from 87 to 664 days and the penalty towards late supply of these buses worked out to ₹ 43.21 crore. However, the Corporation waived the penalty without approval of its Board on the plea that they had not paid any advance amounts to the vehicle manufacturers and orders for majority of buses under JNNURM were placed on AL, TML and Volvo by all State Transport Undertakings (STUs) causing delay in delivery of buses due to fabrication limitations etc. Further, penalty of ₹ 23.00[33] crore deducted from the bills of vehicle manufacturers initially (in respect of buses delivered up to June 2010) was also refunded (October 2010) disregarding the earlier (July 2010) committee recommendations. Waiver of penalty on delayed delivery was not justified and the same resulted in extension of undue benefit to the vehicle manufacturers, as i) it was a conscious business decision of the manufacturers to accept orders fully knowing their supply constraints and the scheduled dates of delivery and hence, acceptance of orders disregarding the supply constraints

[31] Tata Motors Ltd (TML), Ashok Leyland Ltd (AL) and Volvo Buses India Pvt Ltd (Volvo).
[32] JNNURM scheme was initially introduced (December 2005) for development of urban infrastructure in selected mission cities and the same was extended (January 2009) for procurement of buses.
[33] TML (₹ 11.70 crore), AL (₹ 11.28 crore) and Volvo (₹ 0.02 crore).

and subsequent late delivery cannot be treated as *force majeure;* ii) cumulative delay in delivery of 1,395 buses was 4.32 lakh bus days due to which the revenue which should have accrued to the Corporation was foregone iii) substantial delay in delivery of buses affected the replacement/ augmentation schedule of the Corporation; iv) while extending (November 2010) delivery time beyond March 2010, MoUD clearly indicated that the extension of delivery period was in no way a waiver of penalty imposed by STUs.

In reply it was stated (July 2011) that during the pre-bid meeting itself vehicle manufactures requested for extension of delivery period and the Corporation informed that if GoI approves extension of last date for supply of buses, the same will be communicated. It was also stated that after examining the committee report and as agreed to in the pre-bid meeting, amount was refunded since MoUD extended the delivery time from time to time.

Reply is not acceptable. In the minutes of the pre-bid meeting (March 2009) it was recorded that "the representatives have requested to extend the last date for supply of all buses. They have also informed that manufacturers have represented the GoI to extend the last date to September 2009. In the pre-bid meeting it was also agreed to extend the lead time for delivery of buses to 40 days from 30 days as per NIT terms and conditions considering the request of the manufacturers but the issue of penalty was not discussed in the pre-bid meeting. However, all the buses delivered by TML/ AL were beyond 40 days from placement of purchase orders. While extending the delivery period, MoUD clearly indicated that the extension of delivery period was in no way a waiver of penalty to be imposed by STUs. Hence, reply that penalty was refunded as agreed in the pre-bid meetings was not correct and refund of penalty already recovered that too without approval of the Board was not justified. Management is silent on the reasons for waiver of penalty without approval of its Board.

3.21.3 As per the scheme guidelines, all the buses procured under JNNURM shall conform to Urban Bus Specifications (UBS) which *inter alia* include Intelligent Transport System (ITS [34]) related requirements and multiplex wiring. This was also mentioned in the purchase orders and detailed specifications issued by MoUD (May 2009) on ITS were communicated to the manufacturers before delivery for compliance. However, none of the 1,441 buses delivered up to April 2011 were equipped with ITS and only low floor buses contained multiplex wiring. Due to non-provision of ITS in 997 buses delivered up to 5 June 2010, ₹ 19.22[35] crore was withheld from the bills of vehicle manufacturers which was refunded subsequently (October 2010) and no further deductions were made on the plea that that the specifications circulated by MoUD were recommendatory in nature and the vehicle manufactures assured to provide GPRS[36] hardware in the GPS[37] compatible controller. Further, a committee of the officers of the Corporation which looked into the matter in its report (July 2010) mentioned that at various stages

[34] ITS controller, Video cameras, Camera recording unit for 48 hrs, Audio visual passenger information system, Ticket issue machine with SIM card, master multiplex wiring system etc.
[35] AL (₹ 10.06 crore) TML (₹ 9.01 crore) and Volvo (₹ 0.15 crore).
[36] General Packet Radio Service.
[37] Global Positioning System.

of inspection of the buses it was clearly informed to the manufacturers to comply with MoUD specifications regarding provision of ITS/ multiplex wiring but the same was not done. Further, after refunding the withheld amount without approval of its Board, the Corporation placed a trial order on AL (February 2011) for multiplex wiring (₹ 0.64 lakh per bus) and ITS related equipment (₹ 0.53 lakh per bus) in 20 buses. From this it is clear that provision of GPS controller in the buses is not sufficient for implementation of ITS. Thus, procurement of buses without ITS related equipment in defiance of the MoUD guidelines led to extension of undue benefit of ₹ 15.87 crore to vehicle manufacturers (worked out based on the orders placed in February 2011).

In reply it was stated (July 2011) that orders were placed based on MoUD specifications of November 2008 which requires only ITS compatibility but these specifications were changed subsequently (May 2009) to provision of full fledged ITS system and as there was no clarity between the old and new specifications, amount was withheld initially. It was also stated that since the manufacturers agreed to provide ITS compatible controller and once backend office is established by the Corporation ITS will be functional. It was also stated that MoUD released CFA of ₹ 109.77 crore only as against ₹ 131.97 crore mainly due to non-provision of full fledged ITS system.

Reply is not acceptable as even before delivery of a single bus by TML/ AL, revised specifications of MoUD were communicated to them for compliance. However, Corporation failed to resolve the issue and ultimately took delivery of the buses without ITS equipment even though the cost of the buses was substantially higher than the regular buses. Reply that ITS can be functional with controller provided by the manufactures is not correct as the Corporation placed separate orders for multiplex wiring and ITS equipment at additional cost. Management is silent about the reasons for refund of amount against the recommendations of the committee (July 2010) and without approval of its Board.

3.21.4 We further observed that cost of the buses under the scheme was more (35.22 *per cent* to 202.66 *per cent*) than the cost of regular buses **(Annexure-43)** with higher operating cost. We also observed that during 2004-09, percentage of over-aged buses of the Corporation was ranging from 62.93 *per cent* to 74.39 *per cent* which could not be replaced due to financial constraints and it was operating scrapped buses for want of replacements. Further, the Corporation was in heavy debts (₹ 1,404.47 crore) with accumulated losses[38] (₹ 1,151.84 crore). Nevertheless, the Corporation decided to take part in the scheme. The following decisions taken in execution of the scheme could add to the financial woes of the already ailing Corporation.

- As per the scheme guidelines, project cost shall be borne by MoUD (35 to 80 *per cent*), State Government (10 to 20 *per cent*) and the Corporation (10 to 50 *per cent*). However, the Corporation decided to purchase the buses without State contribution which resulted in additional burden of ₹ 53.87 crore.

[38] By March 2011, Debts and Accumulated losses increased to ₹ 2440.98 crore and ₹ 1971.77 crore respectively.

- As per the scheme guidelines issued in December 2005, MoUD shall release Central Financial Assistance (CFA) to the State Government/ nodal agency, which in turn could release it to the implementing agency as grant or loan or grant-cum-loan. Though Government of Andhra Pradesh had already decided (July 2006) to release CFA as grant and loan in 60:40 ratio for transport sector projects, proposals were initiated by the Corporation presuming that entire CFA will be released as grant and the Board of the Corporation was appraised accordingly. Additional burden of loan component (40 *per cent* of CFA) would be to the tune of ₹ 89.63 crore towards principal (₹ 53.81 crore) and interest (₹ 35.82 crore).

In reply it was stated that the Corporation has purchased buses under JNNURM scheme only after examining all the pros and cons of procurement by doing cost benefit analysis, considering the fuel efficiency and maintenance cost. It was also stated that the Corporation was still pursuing with the Government to treat entire CFA as grant.

Reply is not acceptable as the details of the cost benefit analysis stated to have been done before purchasing the buses were not on record and also not made available to Audit in spite of several requests. Reply is silent as how entire CFA was treated as grant contrary to GoAP orders of July 2006. Further, Corporation is repeatedly requesting the GoAP to contribute its share of the project cost and treat the entire CFA as grant on the plea that the Corporation was not in a position to bear the huge burden in view of high cost of the buses with increased maintenance costs. This clearly indicate that the scheme was availed without cost benefit analysis.

- The Corporation provided LED destination boards to all JNNURM buses (at an additional cost of ₹ 1.41 lakh to ₹ 2.27 lakh per bus as against the cost of ₹ 200 per bus in case of conventional destination boards) on the plea that the buses were high end. We observed that out of 1,479 buses, only 98 buses are high end i.e., AC buses and the remaining 1,381 were regular metro express/ deluxe non-AC buses resulting in additional burden of ₹ 15.12 crore on provision of LED boards to regular buses.

In reply it was stated (July 2011) that MoUD informed (May 2009) that provision of LED destination Boards is mandatory in JNNURM buses. It was also replied that these electronic display Boards are superior to the conventional destination boards.

Reply is not acceptable as there was no mention of LED destination boards in the UBS applicable at the time of placement of orders. Though the Corporation was aware that LED destination boards were optional, the same were provided to all the buses on the plea that the buses were high end even though only 98 buses were high end. Reply that LED destination boards are superior to conventional boards is also not correct as most of the LED destinations boards are not functioning causing unwarranted inconvenience to the commuters rendering the expenditure incurred as infructuous. Reasons for malfunctioning of the LED destination boards and extent of malfunctioning could not be examined due to non-production of data and relevant record in spite of repeated requests.

- The Corporation purchased 238 low floor buses with auto transmission at an additional cost of ₹ 10.01 crore (₹ 5.49 lakh per bus) disregarding the technical evaluation committee recommendations (March 2009) to gather lot of information from depots/ workshops on this besides getting feedback from Mehdipatnam depot where five buses were retrofitted with auto transmission gear boxes. We observed that fuel efficiency of the buses retrofitted with auto transmission gear boxes was 24.94 *per cent* lesser as compared to manual transmission. Due to this, Corporation might incur recurring extra expenditure of ₹ 73.86 crore on consumption of extra fuel by auto transmission buses.

In reply it was stated that the Corporation conducted trial on auto transmission on five buses and the negotiations committee has deliberated at length on the subject and after detailed examination of the advantages and cost economies and based on the recommendations of Mechanical Engineering Department (MED) committee recommended auto transmission.

Reply is not acceptable as trial on auto transmission at Mehdipatnam depot in five buses was inconclusive as four out of five buses were transferred to other depots/ auto transmission removed in at least two buses without the knowledge of Head Office of the Corporation defeating the purpose of trial and rendering the expenditure on trial as infructuous. Further, copies of cost benefit analysis stated to have been done and the MED report based on which the negotiations committee recommended auto transmission were not made available to audit. Reply is also silent on the extra expenditure on consumption of extra fuel by auto transmission buses and why the recommendations of the technical evaluation committee were ignored.

Thus, waiver of penalty on delayed delivery of buses and failure to insist for ITS related equipment/ multiplex wiring in the fully built buses resulted in extension of undue benefit of ₹ 59.08 crore to the vehicle manufacturers and other decisions in procurement resulted in additional burden of ₹ 242.49 crore.

It is recommended that Management should conduct a thorough cost benefit analysis before purchasing the buses under special schemes and strictly adhere to the terms and conditions stipulated in the purchase orders.

The matter was reported (June 2011) to the Government and their reply had not been received (September 2011).

General

3.22 Follow up action on Audit Reports

Explanatory Notes Outstanding

3.22.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of Government. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the Audit findings included in the Audit Reports. Finance Department, Government of Andhra Pradesh issued (June 2004) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1992-93 to 2009-10 were presented to the State Legislature between March 1994 and March 2011, 13 departments did not submit explanatory notes on 124 out of 429 paragraphs/ reviews as on September 2011 as indicated below:

Year of the Audit Report (Commercial)	Date of presentation to State Legislature	Total Paragraphs/ reviews in Audit Report	No of Paragraphs/ reviews for which explanatory notes were not received
(1)	(2)	(3)	(4)
1992-93	29-03-1994	36	1
1993-94	28-04-1995	25	2
1995-96	19-03-1997	28	6
1996-97	19-03-1998	29	2
1997-98	11-03-1999	29	10
1998-99	03-04-2000	29	7
1999-2000	31-03-2001	24	6
2000-01	30-03-2002	21	5
2001-02	31-03-2003	23	8
2002-03	24-07-2004	16	3
2003-04	31-03-2005	21	7
2004-05	27-03-2006	23	4
2005-06	31-03-2007	23	5
2006-07	28-03-2008	29	13
2007-08	05-12-2008	25	8
2008-09	30-03-2010	27	17
2009-10	29-03-2011	21	20
Total		**429**	**124**

Department-wise analysis of reviews/ paragraphs for which explanatory notes are awaited is given in **Annexure-44**. Majority of the cases of non-submission of explanatory notes relate to PSUs under the Departments of Energy and Industries and Commerce.

Compliance to Reports of Committee on Public Undertakings (COPU)

3.22.2 Action Taken Notes (ATNs) on recommendations of the Committee on Public Undertakings (COPU) are required to be furnished within six months from the date of presentation of the Report to the State Legislature. ATNs on 607 recommendations pertaining to 37 Reports of the COPU presented to the

State Legislature between April 1991 and March 2011 had not been received as of September 2011 are indicated below:

Year of COPU Report	Total number of Reports involved	No. of Recommendations where replies not received
1991-92	1	3
1992-93	6	239
1993-94	5	136
1995-96	1	30
1996-97	1	2
1997-98	2	38
1998-99	2	16
2000-01	8	72
2001-02	2	6
2004-05	3	23
2005-06	2	17
2006-07	4	25
Total:	**37**	**607**

The replies to recommendations were required to be furnished within six months from the date of presentation of the Reports to the State Legislature.

Response to inspection reports, draft paragraphs and reviews

3.22.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2011 pertaining to 46 PSUs disclosed that 3064 paragraphs relating to 782 inspection reports remained outstanding at the end of September 2011. Of these, 126 inspection reports containing 895 paragraphs had not been replied to for one to six years. Department wise break-up of Inspection reports and audit paragraphs outstanding as on 30 September 2011 is given in **Annexure-45.** In order to expedite settlement of outstanding paragraphs, four Audit Committee meetings were held during 2010-11 wherein position of outstanding paragraphs was discussed with executive/administrative departments.

Similarly, draft paragraphs and reviews are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 20 draft paragraphs forwarded to various departments during April 2011 to August 2011 as detailed in **Annexure-46** had not been replied to so far (September 2011).

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

(SADU ISRAEL)

Hyderabad
The

Accountant General
(Commercial and Receipt Audit)
Andhra Pradesh

Countersigned

New Delhi

The

(VINOD RAI)
Comptroller and Auditor General of India