

Chapter III

3. COMPLIANCE AUDIT OBSERVATIONS

GOVERNMENT COMPANIES

Andhra Pradesh Power Development Company Limited

3.1 Implementation of Sri Damodaram Sanjeevaiah Thermal Power Station at Krishnapatnam in Andhra Pradesh

3.1.1 Introduction

The construction of Sri Damodaram Sanjeevaiah Thermal Power Station (SDSTPS) at Krishnapatnam (Project) was envisaged (2006) to meet growing demand for power in the State of Andhra Pradesh. For implementation of the Project, Andhra Pradesh Power Generation Corporation Limited (APGENCO) was authorised by Government of Andhra Pradesh (GoAP) as an implementing agency.

Andhra Pradesh Power Development Company Limited (Company) was incorporated (March 2006) as a Special Purpose Vehicle (SPV) for setting up the Project. The Share Capital of the Company was contributed by APGENCO (50.45 *per cent*), four Distribution Companies of erstwhile Andhra Pradesh (44.72 *per cent*) and Government of Andhra Pradesh (4.83 *per cent*). The Project consisted of two super critical thermal power units of 800 MW each, under Phase I.

APGENCO had entered into an agreement (December 2005) with M/s Lahmeyer International (India) Private Limited (Consultant) for preparation of Detailed Project Report (DPR). As per the agreement, the DPR was to be submitted by the Consultant within 180 days.

The execution of the Project was awarded to three contractors viz., (i) M/s BHEL (Boilers & Auxiliaries) (August 2008), (ii) M/s L&T (TG & Auxiliaries) (September 2008) and (iii) M/s Tata Projects Limited (Balance of Plant) (August 2009).

The estimated cost (August 2006) of the project as per the Detailed Project Report (DPR) was ₹ 8,432 crore. As per the DPR, the scheduled Commercial Operation Dates (COD) of the Project were August 2012 for Unit-I and February 2013 for Unit-II.

The estimated cost increased to ₹ 12,290 crore (April 2014) due to the inclusion of additional works viz., External Coal Conveying System (ECCS), township, initial spares of major equipment, water treatment plant, transmission lines, exchange rates variation etc. The cost further increased to ₹ 12,630 crore (July 2015) due to increase in the cost of land, fish barrier and groyens extension etc. The increase in project cost was also due to increase in Interest During Construction (IDC), financial charges, exchange rate variation and price variation due to delay in execution of works.

Audit was conducted during April to June 2016, covering the period 2013-16 to ascertain whether the Project was implemented economically and efficiently. Audit covered the planning, preparation of DPR, agreements and execution of various works under the project.

3.1.2 Audit Findings

Delay in Preparation of DPR and award of contracts

The preparation of DPR and award of contracts for execution of the Project were reviewed and the observations are discussed below:

3.1.2.1 Delay in submission of DPR

As per the terms and conditions of the agreement (15 December 2005) with the Consultant, the DPR was to be submitted within 180 days from the date of agreement i.e., by May 2006. However, the Consultant submitted the DPR in August 2006 i.e., with a delay of three months. On submission of the DPR, the Company noticed that the Consultant had not included the works of initial spares, environmental issues, water treatment plant, exchange rate variation and transmission lines in the DPR, though included in the Scope of work for preparation of DPR. The inclusion of the above works subsequently resulted in increase in project cost by 49.79 *per cent* from ₹ 8,432 crore to ₹ 12,630 crore. The delay in submission of DPR led to delay in award of contracts and escalation in costs.

3.1.2.2 Defective Detailed Project Report

The Detailed Project Report did not include important items viz., (i) water treatment plant (ii) environmental issues (iii) initial spares (iv) exchange rate variation and (v) transmission lines.

Audit observed that non-inclusion of these items in the DPR resulted in the revision of estimates of the project cost thrice (July 2012, April 2014 and July 2015).

The Management stated that APGENCO, the implementing agency, had no experience in taking up construction of power plants with super-critical technology.

The reply of the Management was not acceptable as the Company should have selected implementing agency/consultant who had experience in such super-critical technologies. Frequent changes to the DPR have resulted in delay in implementation of the project and consequential additional costs, as discussed in subsequent paragraphs.

3.1.2.3 Additional interest burden of ₹52.64 crore due to higher debt-equity ratio

As per the DPR, the estimated cost of phase-1 (800 MW x 2) was ₹ 8,432 crore. As per the DPR, the Company was to maintain debt equity ratio of 80:20. Due to delay in implementation and inclusion of additional items of work, the estimated cost of the project increased to ₹ 12,630 crore (July 2015).

Audit observed that the company had not increased the equity component proportionate to the increase in project cost. The equity of the company remained at ₹ 2,068.27 crore (March 2016), resulting in shortfall of ₹ 457.73 crore. This in turn led to additional borrowings and interest burden of ₹ 52.64 crore.

The Management stated that the equity holders were being pursued to increase equity contribution. It was further stated that the revenue generated from the project was being used to meet the project cost.

However, additional interest burden due to higher loan component would result in further increase in unit cost of production and increase in per unit cost to consumers.

3.1.2.4 Avoidable payment of ₹ 84.00 crore towards 'Execution and Supervision' charges

The Company had entered into Project Execution Agreement (October 2009) with APGENCO for implementation of the Project. As per the agreement, 'Execution and Supervision (E&S)' charges were payable to APGENCO at the rate of one *per cent* of the project cost. On request of APGENCO, the Company enhanced (March 2010) the E&S charges to two *per cent* and paid ₹ 168 crore at the rate of two *per cent* of the DPR cost of ₹ 8,432.20 crore towards E&S charges to APGENCO.

Audit observed that the Company enhanced E&S charges within six months from the date of the agreement and before the commencement of the project work, though there was no contractual obligation. The Company incurred an additional expenditure of ₹ 84.00 crore towards payment of enhanced E&S charges.

Audit further observed that while enhancing the E&S charges, the Company had failed to include the penalty clause for delay in the completion of the Project. The project was delayed by two and half years. Though the time schedule was defined and fixed in the agreement with APGENCO, the Company had not imposed any penalty for delayed execution of the Project for about two and half years due to absence of such clause in the agreement with APGENCO.

The Management accepted the audit observation.

Contract Management

The Company had invited (December 2006) International Competitive Bidding (ICB) for EPC (Engineering, Procurement and Construction) contract. As only one bid was received, on the advice of GoAP, the Company divided the works into three packages viz., (i) Boilers & Auxiliaries (ii) Turbine Generator (TG) & Auxiliaries and (iii) Balance of Plant (BOP). Accordingly, the Company floated tenders for two packages (Boiler and TG) on ICB and the zero dates³² fixed for the two contractors were: (i) M/s BHEL (Boilers & Auxiliaries) (August 2008) and (ii) M/s L&T (TG & Auxiliaries) (September

³² The date of implementation of project begins

2008). As per the CEA norms, the contract for Balance of Plant (BOP) was to be awarded within six months from the award of the other two contracts i.e. by February 2009. However, after awarding these two contracts, the Company invited ICB for the BOP works and selected TPL, out of two bidders and awarded the contract of Balance of Plant (BOP) to M/s Tata Projects Limited in August 2009 i.e., with a delay of six months.

3.1.2.5 Irregular refund of liquidated damages (LD) to M/s BHEL – ₹ 240 crore out of borrowed funds

The Company had issued (25 July 2008) Letter of Intent (LOI) for the execution of erection and commissioning of Boiler & Auxiliaries to M/s BHEL. As per the LOI, the works were to commence from 29 August 2008 (zero date) and were to be completed by July 2012 for Unit-I and January 2013 for Unit-II. The Company extended the completion dates till 31 March 2013 for Unit I and till 30 June 2013 for Unit II with imposition of LD. The same were further extended to 31 March 2014 for Unit I and II with imposition of LD (with the approval of the Board) at 10 per cent (maximum) of the contract value.

As there was delay in execution of the works by M/s BHEL, the Company recovered (March 2014) ₹ 240 crore towards LD. Audit observed that the Company refunded (July 2014) the LD to M/s BHEL even though M/s BHEL had been slow in execution of works against approved schedules, which consequently affected the schedule of M/s L&T (for the erection of TG) and M/s TPL (for BOP works). Audit further observed that the contract for the BOP was awarded to TPL with a delay of six months (August 2009) which resulted in delay in achieving the Commercial Operation Dates (CODs) of the plant. It was also observed that this refund was made from the loan funds of the PFC. Due to this delay, the Company had to extend the completion dates of those two works viz., TG and BOP and paid ₹ 86.83 crore (till March 2016) towards price escalation to TPL during the extended period of the contract.

The Management replied that M/s BHEL had reduced their working cycle and speeded up synchronisation of Unit-I.

However, the refund of LD was a violation of terms and conditions of the agreement and was not in the best financial interest of the Company. Further, non-synchronisation of the units as per the schedule resulted in delay in achieving the CODs.

3.1.2.6 Non-recovery of interest to the tune of ₹ 6.47 crore on advances paid to contractors

The Company awarded contracts for supply of equipment, machinery and for execution of works and extended interest free advances to two contractors to the tune of ₹ 557.49 crore (L&T- ₹ 217.49 crore and Tata Projects Limited- ₹ 340.00 crore).

Audit observed that there was delay in execution of works by L&T and TPL, leaving balance works worth ₹ 56.24 crore to be completed as of July 2013. Commercial Operation Dates were achieved in February and August 2015 for Unit-I and II, respectively.

Audit observed that the Company had not incorporated any clause in the agreement to recover the advances with interest in case of delay in the execution of the works by the agencies. As per guidelines of Central Vigilance Commission (CVC), interest was to be charged on delayed recoveries. Non-recovery of interest of ₹ 6.47 crore (at PFC loan interest rate) on the advances resulted in undue favour to the contractors.

The Management replied (May 2016) that a suitable clause/provision for recovery of interest from contractor would be incorporated in future.

3.1.2.7 Avoidable expenditure of ₹69.43 crore on transportation of coal to Coal Handling Plant

The contract for supply, erection and commissioning of External Coal Conveying System (ECCS) between Krishnapatnam port and coal stock yard was awarded to M/s Indwell Constructions Private Limited, Vijayawada at a cost of ₹ 139.67 crore. The Letter of Intent (LOI) was issued on 21 April 2014 for completion by July 2015.

Audit observed that even after issuing notices for completion of ECCS system, the system was not completed fully as observed during trial operations (March 2016) and the company extended time till July 2016 for commissioning of the system.

Though the Commercial Operation Dates (CODs) were declared (February and August 2015) for both the units, the ECCS was not ready for transportation of coal for the project. The Company made alternative arrangement for transportation of coal by road at a cost of ₹ 55.46 crore (March 2016).

Further, as per the provisions of the agreement, Liquidated Damages (LD) were recoverable at the rate of 0.5 *per cent* of the contract price per each week of the delay subject to a maximum of 10 *per cent* of the total contract value. However, the Company did not recover LD of ₹ 13.97 crore despite delay in completion of the project (till March 2016).

The Management in its reply (June 2016) stated that the time given to the contractor for completion of the project was unrealistic.

The reply was not acceptable as the contractor was to complete the work as per the agreement.

3.1.2.8 Delay in completion of 'Integrated Township and Infrastructural Works' – Non-levy of liquidated damages of ₹2.09 crore

The Company had issued (7 March 2012) LOI to M/s GKC-SRR Joint Venture (Contractor), Hyderabad for the construction of Integrated Township and Infrastructural Works (IT & I works) at a cost of ₹ 124.95 crore. The work was to be completed by October 2013. However, only 27.03 *per cent* of work valued at ₹ 33.78 crore was completed upto October 2013. The Company extended the time upto September 2015 without levy of LD.

Audit observed that the agency completed 66.57 *per cent* of the IT & I works worth ₹ 83.18 crore upto September 2015. As per the agreement, LD to the extent of five *per cent* of the remaining value of work was to be imposed for the delay. However, the Company had not imposed LD on incomplete works.

This resulted in extension of undue benefit of ₹ 2.09 crore to the contractor since the delay was attributable to the contractor.

The Management stated that the LD was not imposed as the contractor was handing over the township in phases meeting the requirement of the Company.

The Management reply was not acceptable as there was no provision in the agreement for handing over in phased manner. Further, LD was also not imposed as per the agreement. The quarters and other infrastructural facilities have not been handed over to the Company as of March 2016.

3.1.2.9 Non-payment of Labour Cess of ₹44.19 crore

The Building and Other Construction Workers (Regulation of Employment and Conditions of Services) Act, 1996 and the Building and Other Construction Workers Welfare Cess Act, 1996 (Cess Act) and Cess Rules, 1998 were enacted by the Government of India with an objective to collect cess from employers undertaking construction activity and to implement welfare measures for the construction workers who are registered as beneficiaries with the 'Building and Other Construction Workers Welfare Board' constituted by the State Government.

The Company entered into four contracts (EPC packages) with M/s BHEL, M/s L&T, M/s INDWELL and M/s Navayuga Engineering Limited, in connection with the implementation of the project.

The Labour Department (GoAP) had issued demand notices to the Company for payment of Labour Cess and the same was not paid by the Company (May 2016).

Audit observed that the Company had failed to specifically incorporate recovery of Cess in the agreements and thus did not collect and pay Cess amounting to ₹ 44.19 crore to the Labour Department.

The Management in its reply stated (May 2016) that the contractor (TPL) had approached the court and that the information would be furnished, based on the outcome of the court case.

3.1.2.10 Non-receipt of mandatory spares

As per the agreement with the suppliers, certain spares (capital spares) were to be supplied by the contractor along with the main equipment. The object of obtaining these spares along with main equipment was to keep them as stand by, in case of emergency.

Audit observed that the essential spares in respect of two contractors viz., M/s BHEL and TPL (M/s BHEL- ₹ 20.95 crore and USD 0.05 crore) and (TPL- ₹ 0.41 crore and EURO 0.002 crore) were not received from suppliers (March 2016) even though CODs of Unit I and II were declared. The Company had neither received nor had reconciled the receipt of mandatory spares so far (March 2016).

The Management replied (May 2016) that essential spares from the suppliers were still awaited/unbilled (March 2016).

However, the fact remained that neither had the company taken up the issue with the suppliers nor reconciled the same till date (May 2016).

Coal related issues

The Company entered into Fuel Supply Agreement (FSA) with MCL for supply of coal for running the plant. The Company also entered into agreements with transport contractors for beneficiation (washing of coal after removal of stones and other waste material) and supply of coal. The FSAs and MoUs were reviewed in Audit and the observations are discussed below:

3.1.2.11 Delay in entering into MoU with MCL for supply of coal, resulted in avoidable expenditure of ₹12.98 crore

The Company had FSA (September 2013) with MCL for supply of coal to Unit I and II. The Company entered into MoU for Unit I on 16 May 2015. In respect of Unit II, though synchronisation was done in December 2014, MoU with MCL was entered into belatedly in November 2015 for the supply of coal at the rate of ₹ 4,030 per MT. After commissioning of the Unit II in August 2015, the Company faced shortage of coal for running the Plant due to delay in entering into MoU with the MCL for the supply of coal. To meet the requirement, the company entered into MoU (October 2015) with SCCL for supply of 5 LMT of coal at the rate of ₹ 5,266 per MT till March 2016. This resulted in procurement of 1.05 LMT coal (till March 2016) at avoidable additional price of ₹ 1,236 per MT (SCCL: ₹ 5,266 - MCL: ₹ 4,030).

Audit observed that failure of the Company to enter into MoU immediately on synchronisation of Unit-II in December 2014 led to the procurement of coal at the higher price from SCCL. This resulted in avoidable expenditure of ₹ 12.98 crore (₹ 1,236 per MT x 1.05 LMT).

3.1.2.12 Undue benefit of ₹35.34 crore on beneficiation and transportation of coal from MCL

The Company had entered into an agreement with two contractors for beneficiation and transportation of coal. At the time of beneficiation, some quantity of coal rejects was being removed from the coal and the balance coal transported to the Company. The transportation cost is arrived at by deducting the value of the coal rejects from the transportation cost and the net amount is paid to the transporter by the Company.

The Company, at the time of issue of tenders, had incorporated a condition (3.3 Section III Reject Disposal under Annexure-II- Part-II of special terms of the tender specification) that the tenderer should quote the transportation cost considering 'Reserve Price' at ₹ 250 per MT for coal rejects. As per the tender specification, 'Reserve Price' was the minimum price per MT of the 'rejected coal' below which the contractor could not quote.

Audit observed that the Company had disregarded the 'Reserve Price' of coal rejects indicated in the Tender and finalised the price of coal rejects at ₹ 102.76 per MT resulting in an undue benefit of ₹ 35.34 crore (24 LMT x ₹ 147.24 per MT) to the contractors.

The Management replied (May 2016) that necessary amendments to the agreement had been carried out.

However, documents relating to such amendments were not furnished to audit.

Inefficiencies in operation of plant

The efficiency of the plant in terms of consumption of auxiliary power was examined and the observations are discussed below:

3.1.2.13 Excess consumption of 'Auxiliary Power' against APERC Norms- Avoidable expenditure of ₹116.97 crore

Auxiliary Consumption denotes the power consumed by Plant and equipment for generation of power. As per the DPR, Auxiliary Consumption should be upto six *per cent* of the total power generated.

Audit observed that during 2014-16, due to forced outages (controllable breakdowns) and low plant load factor, the auxiliary power consumption exceeded the norms by 229.36 MU (**Annexure 3.1**) valued at ₹ 116.97 crore.

The Management stated that all possible efforts would be made to keep the auxiliary consumption within the norms.

Efficiency of the plant

The performance of the plant depends on the use of coal, matching boiler conditions. The output efficiency depends on (a) Plant availability (b) Plant Load Factor (c) Capacity utilization and (d) Outages etc. The efficiency achieved by the plant was examined and the observations are discussed below:

3.1.2.14 Plant Availability

Plant availability means the ratio of actual hours operated to maximum possible hours available during a specific period. The norm of the Central Electricity Regulatory Commission (CERC) for plant availability during the period 2014-16 was 85 *per cent*. During 2014-15 to 2015-16, the average percentage of Plant Availability of Unit I and II was 42.43 and 53.37 respectively. The plant availability was significantly less than the norm in both the years, mainly due to poor quality of coal, tube leakages etc.

3.1.2.15 Plant Load Factor

Plant Load Factor (PLF) refers to the ratio between the actual generation and the maximum possible generation at installed capacity. The CERC has fixed the PLF norm at 85 *per cent* for this thermal power station. Against this, the PLF was 18.14 and 35.46 *per cent* for the years 2014-15 and 2015-16 respectively.

The poor performance was due to low-availability and forced outages of plant viz., shortage of coal, poor quality of coal and boiler leakages etc., in 2014-15 and 2015-16 mainly in respect of Unit II. This also resulted in potential loss of saleable energy worth ₹ 9,251.43 crore.

3.1.2.16 Capacity Utilisation

Capacity Utilisation is the ratio of actual generation to possible generation during actual hours of operation. The details of possible generation based on actual hours of operation and actual generation for two years are as follows:

Table 3.1: Statement showing generation of power

Year	Possible generation (MU) (@ 85 per cent of PLF)	Actual generation (MU)	Difference (MU)
2014-15	920.45 (Unit I)	429.68 (Unit I)	490.77 (Unit I)
2015-16	8,820.96 (Unit I+II)	4,585.80 (Unit I+II)	4,235.16 (Unit I+II)
Total	9,741.41 (Unit I+II)	5,015.48 (Unit I+II)	4,725.93 (Unit I+II)

Source: Information furnished by the Company

Audit observed that due to forced outages, feeding constraints, auxiliary constraints, stabilisation/shut downs, and planned outages, there was loss of power generation during the years 2014-15 and 2015-16.

The Management stated (May 2016) that the Performance Guarantee tests of both units were yet to be carried out.

However, during the period there was generation loss and the Company had foregone the revenue to that extent, apart from non-achievement of supply of power to the consumers.

3.1.2.17 Forced Outages

Outages refer to the periods for which the plant remains closed for attending planned/forced maintenance.

It was seen that there were forced outages on 23 occasions during 2014-16 involving 1,673 hours, mainly due to poor quality of coal, tube leakages etc. The loss of generation, as calculated by Audit was ₹ 675.69 crore.

The Management in its reply stated that the technical problems were being studied for adopting the best operation and maintenance practice and exploring all possible ways for improving the performance of units.

Environmental issues

The Ministry of Environment and Forest (MoEF), Government of India, Central Pollution Control Board (CPCB) and Andhra Pradesh Pollution Control Board (APPCB) are vested with power under these Acts. The compliance with these provisions was reviewed in audit and observations are discussed below:

3.1.2.18 Poor implementation of green belt against the guidelines of MoEF

As per the guidelines of Ministry of Environment and Forest, Government of India, green belt was to be developed covering the plant area by planting trees (including landscaping) in 1/3rd of the total plant area. MoEF had granted initial clearance (July 2007) to the Company to develop green belt in 420 acres out of 1,250 acres of project land. However, the Company acquired (March 2016) 1,497.27 acres of land for the project and was required to maintain the green belt in 499 acres. MoEF instructed (July 2015) that development of green belt should be completed by the end of 2015.

Audit observed that the Company developed only 173.50 acres (March 2016) of green belt against 499 acres required.

Audit also observed that the Company had not considered the total land for arriving at the extent of green belt required and had not obtained revised permission.

The Management stated that though the estimation was made for development of green belt during the preparation of budget, the same could not be allocated due to shortage of funds. It was also stated that steps were being taken to develop green belt in due course.

3.1.2.19 Failure to maintain APPCB limit for Air pollution

As per the conditions of 'APPCB Consent Order' (April 2015), the emission levels of Suspended Particulate Matter (SPM) of the plant should be within the prescribed limit of less than 100 mg/NM³. To maintain the standards, the Company installed Electrostatic Precipitators (ESPs) to minimise the SPM. The plant also installed (2015) online monitoring system in both the units for periodical recording of SPM levels at a cost of ₹ 2.47 crore.

Audit observed that during April 2015 to March 2016 (except during August and September 2015), concentration levels of SPM ranged from 101.409 to 565.76 micrograms/cubic metre in Unit-I, whereas they were within the limits (except in June and November 2015) in Unit-II, indicating failure of the company to take effective measures to control the concentration of SPM in Unit-I.

It was also seen that APPCB had conducted the 'Ambient Air Quality and Stack Monitoring' test (July 2015) and directed the Company to control the emissions as they had exceeded the limits.

While accepting the observation, the Management stated (April 2016) that the existence of high level of air pollution was due to erroneous readings of the SPM. It was also stated that the faulty equipment was under rectification.

3.1.2.20 Non-compliance with the parameters in respect of hazardous waste

The Hazardous Waste (Management and Handling) Rules, 1989 (Rule 5) provide that every occupier handling hazardous waste has to obtain authorisation from State Pollution Control Board/Committee and the Board has the authority to suspend or cancel authorisation (Rule 6) to any unit which is operating without authorisation or in violation of conditions of operations issued under these Rules.

The Company received authorisation from APPCB (16 April 2015) which was valid till 31 March 2017.

Audit observed that certain parameters viz., biological, radioactive, heavy metals, toxic chemicals etc., were not being tested by the Company though they were required to be tested every six months (mandatory) as per the prescribed norms.

The Management stated (May 2016) that these tests were being conducted as and when necessitated through an approved laboratory.

The reply of the Management was not acceptable as the norms stipulated that the Company was to furnish half yearly report as per the parameters along

with test results to APPCB. However, the Company had furnished the half yearly report to APPCB without indicating the test results.

Conclusion:

The delay in submission of DPR had a cascading effect which resulted in the commissioning of the plant. The DPR was prepared without inclusion of important components of work. The debt-equity ratio was not maintained at the required level of 80:20. The Company refunded the LD recovered from BHEL despite delay in completion of works. The contractors were paid advances and interest was not recovered even though there were delays in execution of works. Due to delay in completion of external coal conveying system, coal was transported by road involving additional expenditure. Due to delay in signing MoU for supply of coal with MCL, the Company purchased coal at the higher rate. The saleable energy was lost due to delay in commissioning of the plant. The plant failed to meet the efficiency parameters as per SERC. The Company also failed to comply with requirement of environmental guidelines fully.

Eastern Power Distribution Company of Andhra Pradesh Limited

3.2 Continuation of Single Bulb Subsidy without commitment of Government and approval of APERC resulted in loss of revenue ₹ 13.24 crore

Continued Single Bulb Subsidy without commitment of Government of Andhra Pradesh (GoAP) and approval of APERC which resulted in loss of revenue of ₹ 13.24 crore.

As per the Electricity Act, 2003 (No: 36 of 2003), the Andhra Pradesh Electricity Regulatory Commission (APERC) shall determine the tariff for retail supply of electricity to various categories of Low-Tension (LT) and High-Tension (HT) consumers by the Distribution Companies (DISCOMs). If the State Government decides to grant any Subsidy to any class of consumers, the APERC approves the scheme in accordance with the provisions of Electricity Act. Further, for the approved scheme the State Government shall pay in advance, every month, the total subsidy amount to compensate the DISCOMs/licensees. In case the Subsidy is not paid by the Government in advance, the DISCOMs/ licensees shall adopt the applicable tariff while billing the consumers.

The Government of erstwhile Andhra Pradesh (GoAP) had decided (September 2004) to provide ‘Single Bulb Subsidy’³³ of ₹ 10 per month towards the cost of consumption of 1 x 40 watts bulb (for 6 hours a day) during the month to every domestic consumer with consumption of 15 units per month (in the slab 0-50 units) and having a connected load of 250 watts. Accordingly, the same was allowed by APERC in the Tariff Orders up to the year 2008-09. Subsequently, APERC had allowed (June 2009) the Single Bulb

³³Single Bulb Subsidy is a subsidy extended by Government to consumer whose consumption of power is less than 15 units per month.

Subsidy for 2009-10 also after taking commitment for grant of Subsidy from Government of Andhra Pradesh.

It was observed in audit that Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL), continued the Single Bulb Subsidy of ₹ 13.24 crore during the period from 2009-10 to 2012-13 (June 2012) without any commitment from Government of Andhra Pradesh for extension of subsidy and without any provision in the Tariff Order.

Audit also observed that in the absence of commitment from Government of Andhra Pradesh and approval of APERC, APEPDCL should have adopted the applicable tariff while billing the consumers. Non-application of the relevant tariff resulted in loss of revenue of ₹ 13.24 crore.

To an audit query (June 2014), APEPDCL had replied in August 2014 that the Government of Andhra Pradesh had been requested to release the amount of ₹ 13.24 crore towards the Subsidy allowed during the above period and also sought clarification regarding continuance of the Subsidy.

Due to non-reimbursement of the Subsidy, APEPDCL has written-off the amount of ₹ 13.24 crore in their 97th Board Meeting held on 19 March 2016.

Andhra Pradesh Aviation Corporation Limited

3.3 Irregularities in Management of Andhra Pradesh Aviation Corporation Limited

3.3.1 Introduction

Andhra Pradesh Aviation Corporation Limited (Company) was incorporated in March 2006 by erstwhile Government of Andhra Pradesh with main objective of acquisition, operation and maintenance of helicopters/aircraft for development of aviation sector in Andhra Pradesh. After bifurcation of the State, the Company is continuing the activities relating to State of Andhra Pradesh.

On a review of the records for the period from inception to 2015-16, the following deficiencies were noticed.

3.3.2 Audit Findings

Operational activity

3.3.2.1 Loss of helicopters

Government of Andhra Pradesh (GoAP) (Infrastructure & Investment Department) had transferred (February 2008) the Helicopter Wing along with two helicopters to the Company. The helicopters were operated and maintained by the Company. The Company lost one helicopter (BELL 430), in an accident on 2 September 2009. The Committee, which probed the reasons (May 2010) for crash of the helicopter (BELL 430), observed lapses on the part of the Company / Government of Andhra Pradesh viz., (i) posting of a person without aviation experience as Managing Director of the Company, (ii) non-appointment of Chief Operating Officer and Quality Control Manager and

(iii) appointment of a firm with unqualified personnel i.e., 'OSS Management Services Private Limited' for maintenance of helicopters though the firm did not have qualified engineers. The Committee recommended (May 2010) that a separate hangar be constructed for VIP helicopters of the Company.

It was observed in audit that no action was taken by the Company on the above recommendation to construct a separate hangar. The Company lost second helicopter (Augusta 139) in a fire accident on 17 December 2012 when it was parked in the space provided by AP Aviation Academy.

After losing both the helicopters in accidents, the Company did not acquire any helicopter / aircraft during the period from 2012-13 to 2015-16 (up to December 2015)

3.3.2.2 Irregular expenditure of ₹ 14.33 crore on hiring of helicopter

After the loss of both the helicopters in accidents, for meeting the flying requirements of VIPs, the Company hired helicopters from 11 aviation agencies and incurred expenditure of ₹ 9.91 crore, ₹ 20.04 crore and ₹ 20.74 crore during 2012-13, 2013-14 and 2014-15 respectively.

The Company, with a view to avoiding difficulty in sourcing helicopters at short notice, entered into agreement (September 2014) with M/s Saras Aviation Services (SAS), Hyderabad. The agreement, *inter-alia*, envisaged hiring one/two twin engine helicopter for minimum 100 hours of flying per month (at the rate of ₹ 2.50 lakh per hour) for a period of five years from 1 October 2014 with a minimum guarantee fee of ₹ 25 lakh per month. After a lapse of nine months from entering the agreement, the Company arrived at the requirement of 45-50 hours of average flying. However, no formal amendment was on record in respect of the reduced average flying hours.

Audit examined the records of the Company and observed the followings:

- The Company did not follow competitive bidding process for selection of SAS as service provider.
- The agreement was executed without any assessment of the flying hours for which helicopters were to be hired.
- The Company could not produce the files / records relating to the assessment of flying hours, selection of SAS for supply of helicopters, actual flying hours and could produce only the agreement with SAS and payments made to SAS.
- The Company paid ₹ 5.06 crore to SAS i.e. for the period from July to September 2014 towards utilisation of hired helicopters though the agreement with the service provider was effective from October 2014. In the absence of records pertaining to utilisation of hired helicopters, the genuineness of the above payment could not be verified.
- As per clause 12.1 of the agreement effective from 1 October 2014, the minimum guaranteed flying charges were ₹ 25 lakh for 100 hours per month. However, the Company paid ₹ 5.06 crore from October to December 2014 and ₹ 4.21 crore from January to March 2015 towards flying charges at 60 hours and 50 hours per month respectively.

Audit observed that payment of ₹ 14.33 crore in deviation to the terms of the agreement was irregular.

- As per the agreement, the base station declared was Hyderabad (Begumpet). The Company had to pay lodging, boarding, transportation and medical charges of the crew if the crew were utilised at a station other than the base station. As a result, the Company paid ₹ 1.31 crore (September 2014 to March 2015) towards lodging, boarding, transportation and medical charges of the crew without maintaining any records relating to actual usage of helicopters and its crew. These payments were made to a firm 'Sahasra Business Services' with whom the Company had not signed any agreement.

Financial activity

3.3.2.3 Non-establishment of regular revenue system

As per the Memorandum of Association, based on request of Government of Andhra Pradesh, the Company has to provide helicopter / aircraft services to the dignitaries of Government of Andhra Pradesh, and collect rental charges from the hiring parties. However, the Board of the Company subsequently resolved not to collect the same (Board Meeting No.4 held on 31 March 2008) on the ground that the collection of charges was only an inter-departmental transfer of funds.

Audit observed that in view of the above decision, the Company had foregone its source of revenue and depended on the budgetary support of Government of Andhra Pradesh. Further, the State Government released ₹ 67.17 crore (2011-15) as grants (plan) and the grants received from Government of Andhra Pradesh were spent on its day-to-day expenditure on hiring of helicopters for the VIPs of State Government.

3.3.2.4 Non-finalisation of Annual Accounts

As per the Companies Act, 1956 (Section 619), the annual accounts of the Company are to be certified by the Statutory auditors appointed by the CAG of India and on certification, the same are to be submitted to CAG of India for supplementary audit. Non-submission of accounts was in violation of provisions of Section 619 of the Companies Act, 1956.

Audit observed that even though Statutory Auditors appointed by CAG of India had certified the Accounts from inception to 2013-14, the same were not furnished to CAG of India till date (June 2016) for supplementary audit and the reasons for non-submission were not on record.

3.3.2.5 Loss of interest of ₹ 7.18 crore due to keeping the funds idle in current account

The insurance amount of ₹ 11.05 crore received against loss of first helicopter was kept in Fixed Deposit and, on this, the Company earned an interest of ₹ 4.14 crore. However, the insurance amount of ₹ 59.85 crore received against loss of second helicopter was kept in a current account due to which, the Company lost potential interest revenue of ₹ 7.18 crore (at the rate of 8 per cent for 1.5 years).

Audit also observed that though the ownership of the helicopter rested with Government of Andhra Pradesh (Infrastructure & Investment Department), the Company had not transferred the funds to Government of Andhra Pradesh and an amount of ₹ 27.31 crore from these funds were utilised towards day to day operations of the Company without any approval from Government of Andhra Pradesh.

3.3.2.6 Non-availment of Cenvat credit on service tax

The Company earned revenue by leasing helicopters/aircraft to VIPs of Government of Andhra Pradesh. As per the Finance Act, 1994 (Section 66), the Company being a service provider had to recover the Service Tax from the clients and pay the same to the Government. However, the Company failed to recover the Service Tax. Only after receipt of notice (September 2015) from Service Tax Department for non-payment of Service Tax, the Company paid an amount of ₹ 9.27 crore for 2010-15. The Company, on the other hand, paid ₹ 8.57 crore for the period from 2010-15 to its service providers. Therefore, the Company had the opportunity to deduct ₹ 8.57 crore as Cenvat credit from its tax liability, which would have drastically reduced its tax liability to ₹ 0.70 crore (₹ 9.27 crore – ₹ 8.57 crore) only. Thus, the Company did not claim service tax from the Government/service receivers and also did not avail of Cenvat credit, resulting in payment of ₹ 17.84 crore, besides loss of ₹ 17.14 crore (₹ 17.84 crore – ₹ 0.70 crore).

3.3.2.7 Transfer of funds without indicating the nature of transaction

As per the general accounting principles, there should be proper accounting for each and every receipt and payment and there should be proper authorisation for making any payment.

Audit observed that during the year 2012-13, an amount of ₹ 2.60 crore was paid and accounted for under the sub-head RTGS – operational and maintenance expenditure. The nature of this expenditure and the party to whom the payment was made and the relevant reference to the invoice under which the amount was paid were not on record.

Non-compliance with Statutory provisions

The Company, in its day to day operations, has to comply with various statutory provisions like conducting regular Board meetings, Annual General Meetings etc., under the Companies Act, 1956 and also has to comply with the directions of the Andhra Pradesh State Public Enterprises Department, Government of Andhra Pradesh.

3.3.2.8 Non-display of name and location of registered office:

As per the Companies Act, 1956 (Section 146), the Company should furnish information of location of registered office to the Registrar of Companies and print/ affix its name and address of its Registered Office in a conspicuous position and also display its name and address in legible characters in all its business letters, letter heads, notices and other official publications.

Audit observed that the Company had failed to comply with the provisions of Section 146 till date (June 2016). Further, the Company also failed to disclose the address of its Registered Office on its annual financial statements.

3.3.2.9 Failure to conduct minimum number of Board meetings/Annual General Meetings

As per the Companies Act, 1956, the Board of the Company shall meet at least once in three calendar months and at least four such meetings shall be held in every financial year (Section 285). Further, the Company shall convene one Annual General Meeting in each financial year within six months from the close of the financial year (Sections 166 and 210).

Audit observed that the Company since inception conducted only 10 Board Meetings (including three circular resolutions) (till March 2015) against minimum 32 meetings. The Company had conducted only one Annual General Meeting on 25 July 2009 since its incorporation.

Audit further observed that the Company had not conducted Annual General Meetings and failed to get the approval of the annual financial statements from the stake holders of the Company year after year.

3.3.2.10 Non-implementation of Board's decisions

The Board took important decisions viz., i) to take appropriate measures to identify and revive the inactive airports (July 2006) and ii) to develop heliports in all the districts headquarters (March 2008) to improve aviation sector in the State.

Audit observed that the Company had not taken any action to implement the decisions of the Board till date (June 2016) for reasons not on record.

3.3.2.11 Non-compliance with Statutory Auditors observations

The Statutory Auditors have repeatedly pointed out in their reports that the Company failed to maintain records showing full particulars, i.e., details and situation of the fixed assets, no stock records for stores and spares were maintained and all the purchases were debited to the revenue statement without reference to balance on hand.

However, the Company had not rectified the lapses and also not laid down the delegation of powers.

3.3.2.12 Non-implementation of directions of Andhra Pradesh State Public Enterprises Department

As per the directions (2002) of the Public Enterprises Department, Annual Action Plan and Perspective Plan were to be submitted by all State PSUs to the concerned Administrative Department.

Audit observed that the Company had not prepared Perspective Plan. This resulted in failure to achieve main objective of development of aviation sector in the State.

The Management in its reply stated (May 2016) that a consultant would be appointed to look into the issues relating to Board Meetings, Service Tax, Income Tax etc.

Andhra Pradesh Mineral Development Corporation Limited

3.4 Non-achievement of milestones on time led to payment of penalty to the tune of ₹ 1.57 crore and blocking up of ₹ 285.85 crore

Failure to adhere to the milestones of Government of India for commencement of production of coal resulted in avoidable payment of penalty of ₹ 1.57 crore and blocking up of ₹ 285.85 crore.

At the request (January 2007) of Andhra Pradesh Mineral Development Corporation Limited (Company), Ministry of Coal (MoC), Government of India (GoI) had allocated (July 2007) 'Suliyari-Belwar Coal Block' in Singrauli district of Madhya Pradesh for development of mineral-based industries and for generation of captive power. The allotment letter *inter-alia* stipulated various milestones to be achieved by the Company. In the event of lapses, if any, observed during the Annual Review, in achieving the milestones, a proportionate amount was to be encashed and deducted from the Bank Guarantee.

The due dates for achieving some of the important milestones were i) to apply for Prospecting Licence³⁴ (PL) within three months of allotment and purchase of Geological Report³⁵ (GR) within two years of issue of PL and ii) Mining Lease (ML) application was to be submitted within three months from procurement of GR to ensure earliest commencement of production.

The Company could not get the Prospecting Licence as it had failed to furnish the requisite interim GR, the plan showing the location and the features of the coal block, while submitting the application to Madhya Pradesh Government in October 2007. The Company, by virtue of its past association with Mineral Exploration Corporation Limited (MECL), was aware that MECL, a central PSU, could undertake exploration without obtaining a PL and by which the GR could be purchased. The Company entered into an agreement with MECL for exploration and also for purchase of GR, only in April 2010 i.e. after a delay of two and half years from July 2007 when the Coal Block was allotted. This delay in entering into agreement with MECL had resulted in delay in purchase of GR and consequent delay in submission of application for Mining Lease. The GR could be purchased from MECL only in October 2011 and Mining Lease (ML) application was submitted in October 2012.

Audit observed that the above delay in entering into agreement with MECL had a cascading effect and the Company failed to achieve the other milestones also. Ministry of Coal had issued three show cause notices (September 2009, October 2010 and June 2013) seeking explanation for the delays. Though the Company submitted the explanations, the same were rejected by Ministry of Coal and penalty of ₹ 1.57 crore was imposed and deducted (March 2014) from the Bank Guarantee submitted by it.

³⁴ A Prospecting Licence is a permit, issued by the State, which allows the licensee to prospect for minerals.

³⁵ Geological reports are concise, informative and well documented reports used to present, analyse and summarise field data for both industry and research purposes. They should be accompanied by geological maps, figures, stratigraphic columns, tables, graphs, etc.

The Company had deposited ₹ 285.85 crore with Government of Madhya Pradesh towards acquisition of land (till August 2014). In the meanwhile, the Hon'ble Supreme Court of India cancelled (September 2014) allotment of all coal blocks which had not commenced production. Consequently, the 'Suliyari-Belwar coal block' allotted to the Company was also cancelled as production had not commenced in this coal block. The amount deposited with Government of Madhya Pradesh had not been received back till date.

The Government of Andhra Pradesh in its reply (December 2016) stated that efforts were being made to get the refund ₹ 1.57 crore deducted as penalty, from MoC/GoI. However, there has been no response from the Government of India in this regard so far (December 2016). Regarding deposit of ₹ 285.85 crore made upto August 2014 for acquisition of land, the GoAP stated that it was live and efforts were being made to revive the process of acquisition of land.

The reply was not tenable as the MoC had clearly indicated in June 2009 itself that the Company should get Prospecting Licence etc., like any other parties and MoC was not concerned with the difficulties involved. Therefore, the chances of getting refund of penalty amount is remote. Despite deposit of ₹ 285.85 crore upto August 2014, the land has not been acquired till date.

Indira Gandhi Centre for Advanced Research on Livestock Private Limited

3.5 Extension of undue benefit to the contractor to the tune of ₹ 9.44 crore

Grant of extension of time to the Contractor in violation of the agreement resulted in payment of price escalation of ₹ 9.44 crore.

Government of Andhra Pradesh (GoAP) had decided to establish (January 2008) Indira Gandhi Centre for Advanced Research on Livestock (IGCARL) at Kadapa district in Andhra Pradesh and incorporated the same as a Company (November 2008).

A Memorandum of Understanding (MoU) was entered into (September 2007) by GoAP³⁶ with Andhra Pradesh Industrial Infrastructure Corporation Limited (APIICL) for construction of IGCARL building complex. APIICL, being the executing agency, was required to select the contractor for completion of the project by December 2008. APIICL awarded the work of "construction of IGCARL building complex and providing infrastructure facilities" to a Contractor (IVCRL). Accordingly, APIICL signed an agreement (March 2008) for ₹ 78.85 crore with the contractor for execution of the work for completion by September 2009 (18 months from agreement date).

As per the agreement, price adjustment in respect of cement, bitumen, steel,

³⁶ Officer of Special Duty, Special Secretary to Government, Government of Andhra Pradesh, Animal Husbandry, Dairy Development & Fisheries Department.

petrol, oil and lubricants (POL) was to be allowed if work was completed within the original agreement period only. The price adjustment was also allowed if extension was granted on valid grounds viz., land acquisition, shifting of utilities and natural calamities.

The Company had granted extension of time (September 2010) without assigning any reason and the contractor completed the work in September 2010.

In this regard audit observed that the contractor completed the work in September 2010 i.e., with a delay of 12 months. The Company paid ₹ 9.44 crore towards price escalation during the extension period of contract i.e., beyond the agreement period which is against the terms and conditions of the agreement.

The Management stated (September 2016) that extension of time was granted on account of change of drawings, strikes, bundhs, agitations and unprecedented rains which were beyond the control of the executing agency.

The analysis of disruption of work caused by above said reasons is not available in the records produced to audit. However, as per the agreement extension is permissible limited to the actual period of delay due to land acquisition, shifting of utilities and natural calamities.

Thus, granting extension of time in violation of the agreement conditions and subsequent payment of price escalation (₹ 9.44 crore) resulted in extension of undue benefit to the contractor.

STATUTORY CORPORATION

Andhra Pradesh State Warehousing Corporation

3.6 Non-adherence to the provisions of Income Tax Act resulted in avoidable payment of penalty and interest to the tune of ₹ 7.30 crore.

Failure of the company to assess its income tax properly resulted in payment of penalty and interest of ₹ 7.30 crore.

As per Section 208 of Income Tax Act, a Corporation, whose estimated tax liability for the Financial Year exceeds ₹ 10,000 or more, shall pay tax in advance in the form of 'advance tax' by 15 June (Up to 15 *per cent* of advance tax), by 15 September (up to 45 *per cent* of advance tax), by 15 December (up to 75 *per cent* of advance tax) and by 15 March (up to 100 *per cent* of advance tax) of every year.

As per the Income Tax Act, different types of interests / penalties are levied in respect of payment of advance tax, as detailed below:

- (a) Section 234-A deals with delay in filing the 'Return of Income'. The delay in filing Return attracts penalty at the rate of one *per cent* per month/part of the month.

- (b) Section 234-B deals with (i) short payment of advance tax (where the advance tax paid by the tax payer is less than 90 *per cent* of the assessed tax³⁷) and (ii) non-payment (when the tax payer has failed to pay advance tax though is liable to pay the same). The above defaults attract interest at the rate of one *per cent* per month/part of the month.
- (c) Section 234-C deals with default in payment of installment(s) of advance tax which attracts interest at the rate of one *per cent* per month/part of a month (simple interest) if the Corporation fails to pay the advance tax on or before 15 June (which is less than 12 *per cent* of advance tax payable), on or before 15 September (which is less than 36 *per cent* of advance tax payable), on or before 15 December (which is less than 75 *per cent* of advance tax payable), on or before 15 March (which is less than 100 *per cent* of advance tax payable).

Audit observed that due to failure to file the return on time and assess the estimated income properly in all the three years, the Corporation had to pay ₹ 7.30 crore towards interest and penalty under the various provisions of the Income Tax Act, as detailed in the table below.

Table: 3.2 Statement showing details of penalty and interest paid

Previous year	Assessment year	Due date for filing original return	Actual date of filing original return	Amount paid (₹)			
				Penalty	Interest	Interest	Total
				234 A	234 B	234 C	
2011-12	2012-13	30.09.2012	31.10.2012	27, 31, 267 (1 Month)	1,91,18,869 (7 months)	1,37, 92,897	3,56,43,033
2012-13	2013-14	30.09.2013 Extended up to 31.10.2013	30.09.2013	--	69,83,731 (24 months)	28,45,246	98,28,977
2013-14	2014-15	30.09.2014 Extended up to 30.11.2014	30.09.2014	--	1,89,84,660 (16 months)	85,02,846	2,74,87,506
				27,31,267	4,50,87,260	2,51,40,989	7,29,59,516

Source: Information furnished by the Company

The Corporation in its reply (June 2016) stated that the Food Corporation of India had revised (2011-12) the storage charges belatedly pertaining to earlier years which resulted in payment of interest on differential claims thereon.

³⁷ Assessed tax means amount of tax as determined under Section 143(1) and where regular assessment is made, the tax on total income as determined under regular assessment as reduced by tax deducted/collected at source, remit/ deduction claimed under various Sections like 90/90 A/91 and tax credit claimed under Sec 115JAA/115JD.

The reply was not tenable as the tax was payable on accrued income and the delay in receipt of income from FCI was not an acceptable reason. Further, the Corporation paid interest during 2012-13 and 2013-14 also for delayed payments / short payments, which indicate that the Corporation is irregular in tax compliance leading to avoidable payment of penalty and interest.



Hyderabad
The 13-02-2017

(LATA MALLIKARJUNA)
Accountant General
(Economic & Revenue Sector Audit)
Andhra Pradesh and Telangana

Countersigned



New Delhi
The 17-02-2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India