

## Chapter III

### 3. COMPLIANCE AUDIT OBSERVATIONS

#### GOVERNMENT COMPANIES

##### Andhra Pradesh Power Generation Corporation Limited

**3.1** Andhra Pradesh Power Generation Corporation Limited (Company) insures the assets of its generating stations to cover risk of loss due to fire, explosion and machine breakdown etc.

*Under insurance of asset resulted in short realisation of claim - ₹5.09 crore*

Due to under insurance of assets by Company, the insurance company settled the claim for ₹ 0.91 crore against the insurance value of ₹ 6.00 crore resulting in foregoing an amount of ₹ 5.09 crore.

**3.1.1** It insured (June 2009) the assets of Unit 6 of NTTPS-Stage-III, Ibrahimpatnam through three insurance policies with M/s New India Assurance Co. Ltd., Hyderabad (Insurer) for the period from 7 June 2009 to 6 June 2010. The policies covered risks included in (a) Standard Fire and Special Perils (b) Boiler Explosion and (c) Machinery Breakdown. The Company paid ₹ 15.33 lakh towards insurance premium.

Subsequently, the generator failed and the Unit 6 tripped (23 December 2009). The stator coils failed, the rotor was short circuited and the Unit Auxiliary Transformer (UAT) was damaged, necessitating extensive repairs. The Company incurred an expenditure of ₹ 21.67 crore on repairs of the generator. The Company submitted (February 2011 and April 2011) a claim for the amount against which only ₹ 91.40 lakh was allowed by the insurer on the ground that the policy failed to cover the full value of the generator. The Company accepted (July 2015) the claim as finalised, foregoing an amount of ₹ 5.09 crore. This amount (₹ 5.09 crore) was deducted as per the 'average clause' of the policy, which states that if the assets are insured for less than their full value, the insured is to bear the loss in proportion to the amount by which it is undervalued. Audit noticed that the total value of the generator was ₹ 45 crore. However, the Company had taken the value of the generator for the purpose of insurance as ₹ 6 crore only. Thus the asset was under insured.

Management replied (May 2015) that due to severe power demand, capital overhauls had not been carried out. The reply was not relevant to the issue raised by Audit.

Thus, due to under insurance of the asset, the Company had to forgo an amount of ₹ 5.09 crore.

***Not meeting basic requirements of the policy resulted in loss of ₹ 84.24 lakh***

Failure of the Company in meeting the maintenance requirements of the policy resulted in rejection of the insurance claim and loss to the Company to the extent of ₹ 84.24 lakh.

**3.1.2** The Company insured (November 2011) the assets of Unit 1 of RTPP-Stage-I through an insurance policy with National Insurance Co. Ltd. (insurer) for the period from 22 November 2011 to 21 November 2012. The insurance policy covered risks included in (a) Standard Fire and Special Perils (b) Boiler Explosion and (c) Machinery Breakdown. The Company paid ₹ 44 lakh towards insurance premium for total sum insured of ₹ 426.54 crore. A condition of the insurance policy stipulated, that generators, whose capacity exceeded 30,000 KW, should be overhauled after 24,000 hours of operation or at least once every three years, failing which any claim could be rejected by the insurer.

Audit observed that the Company had not overhauled the generator after 2007 even once and not even after insuring it.

The Unit 1 broke down on 13 June 2012. After rectification of the fault and overhauling, the generator was synchronized on 2 July 2012. The Company submitted (August 2012) a claim of ₹ 84.24 lakh under Machine Breakdown Policy. The insurer informed (July 2013) the Company that its claim had been rejected as the stipulations regarding overhauling of generator was not met, the last overhaul having been carried out in 2007. Thus, failure of the Company in meeting the maintenance requirements of the policy resulted in rejection of insurance claim and loss to the Company to the extent of ₹ 84.24 lakh.

Management stated (November 2015) that the matter was discussed with the insurers and they had agreed to reopen the claim. However, the Company could not submit any document to substantiate its reply.

**Infrastructure Corporation of Andhra Pradesh Limited**

***Discontinuance of a project resulted in infructuous expenditure of ₹ 7.84 crore***

Cancellation of a drinking water project, by Government, resulted in infructuous expenditure of ₹ 3.41 crore incurred on preparation of DPRs and ₹ 4.43 crore incurred on maintenance of Project Monitoring Unit and Project Implementation Unit and blocking up of ₹ 49.24 crore towards mobilisation advances to contractors.

**3.2** Government of Andhra Pradesh (GoAP) contemplated (December 2012) a project for providing drinking water to major towns in Chittoor District from the Kandaleru reservoir situated in adjacent Nellore District. GoAP nominated (December 2012) M/s. Infrastructure Corporation of Andhra Pradesh Ltd (Company) as the nodal agency to supervise the implementation and commissioning of the Project. The Project consisted of two Phases with an estimated cost of ₹ 7,390 crore and was to be completed in two years.

Phase- I of the project was divided into two parts viz., Stage I & II. Stage I covered preparation of Detailed Project Reports (DPRs) for works (to be executed under Stage II) through consultants and obtaining necessary

clearances. GoAP released (February 2013) an amount of ₹ 137 crore for Stage I. Stage II was to cover construction of the Main Trunk Line and Secondary Trunk Line. Three consultants were appointed (October-December 2013) and they prepared and submitted the DPRs (March-June 2014). They were paid a total amount of ₹ 3.41 crore.

Audit noticed that, even before the consultants were appointed, the Company had set up a Project Monitoring Unit (PMU) at Hyderabad and a Project Implementation Unit (PIU) at Tirupati during January 2013 and March 2014 respectively, for executing the Project. However, the project actually never commenced. The Company incurred an expenditure of ₹ 4.43 crore on these Units up to November 2015, when the project was finally abandoned. The expenditure of ₹ 4.43 crore incurred on PMU and PIU was, thus, rendered wasteful. Before obtaining the requisite clearances, the Company had also entered into (February 2014) agreements for execution of works under Stage II, (even though DPRs had not yet been received) paid an amount of ₹ 49.24 crore towards mobilisation advances to contractors.

The Government in their reply stated (January 2016) that the Project was cancelled in November 2015. They also stated that mobilisation advances to the extent of ₹ 6.56 crore was recovered and recovery of the remaining advances was in process.

The fact remains that the Project was cancelled after Audit pointed it out. Further, mobilisation advance of ₹ 42.68 crore is still lying with the contractors in the absence of any pending bills, recovery of the same is remote.

With the cancellation of the Project, the expenditure of ₹ 3.41 crore incurred on preparation of DPRs and ₹ 4.43 crore incurred on maintenance of PMU and PIU were also rendered infructuous.

### **Andhra Pradesh Handicrafts Development Corporation Limited**

#### ***Non utilization of Red Sanders procured at a cost of ₹ 1.54 crore***

Due to non-utilisation of 93.93 MTs Red Sanders procured (May 2012) at a value of ₹ 1.54 crore at subsidised rates resulted in blocking up of funds and failure to provide benefits to the artisans and develop their skills.

**3.3** The Development Commissioner (Handicrafts) New Delhi sanctioned (September 2008) a Scheme for setting up Raw Material Bank (RMB) for providing continuous supply of Red Sanders Wood (RSW) to artisans for manufacturing artistic furniture and handicrafts (artefacts) under Ambedkar Hastshilp Vikas Yojna (AHVY). Accordingly Andhra Pradesh Handicrafts Development Corporation Limited (Company) received ₹ 50 lakh (September 2008) under the scheme, as first installment to be utilized in 12 months. The second instalment was to be released only after submission of account for the first installment.

The Company requested (April 2011) the Forest Department, GoAP (three years after receipt of funds from the Development Commissioner) for allotment of 100 MTs of RSW for setting up the Raw Material Bank. It envisaged the manufacture of artefacts at Hyderabad and at Tirupati and

projected a net profit of ₹ 85 lakh on sale of artefacts so manufactured. The Company procured (May 2012) 100 MTs of RSW “C” grade at cost of ₹ 1.64 crore utilizing ₹ 50 lakh grant and ₹ 1.14 crore from internal resources. It was allotted RSW at a subsidized price so as to enable it to provide benefits to the artisans and develop their skills. The Company also incurred an expenditure of ₹ 9.81 lakh on organising an Integrated Design & Technical Development Project (May 2013 and November 2013) wherein 50 artisans were trained.

Audit observed that the Company had utilised only 6.07 MTs of RSW so far (May 2012 to July 2015) and 93.93 MTs of RSW were lying idle. The Company did not take any steps to engage the artisans for making value added products out of RSW, though 50 artisans were trained for this purpose. Thus the Company failed to provide the intended benefits to artisans and had also forgone the realisation of envisaged profit.

Management replied (July 2015) that the Government had been allotting RSW to the Company for taking up value-addition and marketing. However, sale of red sanders products was restricted to Indian markets on account of ban on export of red sanders and restriction on movement of the finished products.

The reply was not tenable as the ban was on export of RSW and there was no ban on export of value added products made out of RSW. Thus, non utilisation of RSW led to unwarranted blockage of funds of ₹ 1.54 crore since May 2012.

## STATUTORY CORPORATION

### Andhra Pradesh State Road Transport Corporation

#### *Commercial exploitation of vacant lands in the State of Andhra Pradesh*

**3.4** Andhra Pradesh State Road Transport Corporation (Corporation), in erstwhile Andhra Pradesh state, with a view to augment non-traffic revenue had contemplated commercial exploitation of vacant lands. Accordingly two schemes viz., Deposit, Operate and Transfer (DOT) and Build, Operate and Transfer (BOT) were contemplated in 1998 and 2001 respectively. Under both schemes, the land/constructed shop would be given on long term lease i.e. 20 and 30/33 years respectively.

On review of both schemes, the following issues were noticed:

#### **BOT Scheme:**

**3.4.1** Under BOT scheme, tenders for leasing the land are floated, finalised and agreements are entered into with the licensees, centrally at Corporate office level. License deeds are to be registered by the licensee who have to obtain all the required statutory permissions and are responsible for construction and operation of the project. Liquidated Damages would be collected from the licensee for any delay in achieving the Commercial Operation Date (COD). Besides, interest for belated annual payments, as per the terms of agreement, would be collected from the licensee.

The successful bidder, after taking possession of the shop, pays monthly license fee during the license period and has to bear statutory payments viz.,

property tax, service tax, electricity charges and comply with all other statutory levies under Central/State laws issued from time to time.

Under the BOT scheme, 15 projects were awarded in Andhra area of the erstwhile State of Andhra Pradesh between years 2005 to 2014. Out of these 15 projects, five projects are yet to commence, two projects were under litigation, two projects are in progress, and six projects were completed (March 2015). All the six<sup>22</sup> completed projects were reviewed in audit. Audit observed that:

#### **Non registration of BOT license agreement**

**3.4.1.1** It was noticed that in three<sup>23</sup> cases, the license deeds were not registered as was required under the terms of the agreement. In the absence of registered documents, the Corporation would not be able to defend its interest in realisation of its dues under the agreement in the event of any dispute/future legal complications. Non registration of agreements was also a loss to the exchequer in the form of stamp duty.

The Management in its reply to the audit enquiry stated that efforts would be made to get the license deeds registered as per the terms of agreement.

#### **Non recovery of service tax in BOT Projects**

**3.4.1.2** In respect of four<sup>24</sup> BOT projects, it was observed that contrary to the terms and conditions of agreement, service tax amounting to ₹ 1.49 crore was not billed and collected during the periods 2007 to 2015 from the licensees and remitted to the appropriate authorities.

The Management replied that service tax on renting of immovable properties was not collected as per the guidelines (April 2009) as the license fee received was treated as inclusive of service tax. The service tax is being claimed with effect from 01 July 2012 as per the revised guidelines issued w.e.f. April 2014.

The reply of the Management is not correct as the relevant agreements had separate clauses for payment of taxes and for payment of license fee. Guidelines of April 2009 were applicable to shops, vacant spaces and stalls constructed under DOT scheme only and not to the projects awarded under the BOT scheme. Thus, non-adherence to the terms of the agreement and non-compliance with statutory laws resulted in non-realisation of service tax and loss of revenue to the exchequer.

#### **Short levy of interest for delayed payment of license fees in two projects**

**3.4.1.3** As per BOT agreement, the license fees shall be paid in advance, every year on or before 10<sup>th</sup> of the month in which it was due, failing which interest @ 36 per cent p.a. would be levied for the delayed period. It was observed in audit that in two<sup>25</sup> BOT projects there was a delay in payment of license fees by

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<sup>22</sup> (i) Sri B Srimannarayana (Jyothi wines), Ongole (ii) Janatha Waiting Hall, Tirupati (iii) Dr. B. Jhansi Lakshmi Bai, Chamakalva, Nandyal (iv) Dwaraka Bus Station, Visakhapatnam, (v) Old Bus Station, Chilakaluripet, Guntur (vi) Chandana Brothers Multi Complex Pvt. Ltd., Visakhapatnam.

<sup>23</sup> (i) Sri B Srimannarayana (Jyothi wines), Ongole (ii) Janatha Waiting Hall, Tirupati (iii) Dr. B. Jhansi Lakshmi Bai, Chamakalva, Nandyal.

<sup>24</sup> (i) Sri B Srimannarayana (Jyothi wines), Ongole (ii) Chandana Brothers Multi Complex Pvt Ltd., Visakhapatnam (iii) Janatha Waiting Hall, Tirupati (iv) Dr. B. Jhansi Lakshmi Bai, Chamakalva, Nandyal.

<sup>25</sup> (i) Chandana Brothers Multi Complex Pvt. Ltd., Visakhapatnam (ii) Janatha Waiting Hall, Tirupati.

the lessees. The Corporation short levied the interest to the extent of ₹ 19.41 lakh for the belated payment resulting in loss of revenue.

The Management replied that as the penal rate was on the higher side, the same was relaxed.

The reply was not tenable as there was no provision in the agreement for relaxation in rate of interest.

### **Non levy of additional license fee**

**3.4.1.4** As per agreements under the BOT scheme, the Developer (licensee) shall strictly conform to the built up space specified in the Detail Project Report (DPR) approved by APSRTC. Deviations in built up space shall not be more than (+) or (-) 5 *per cent*. Any increase beyond this shall be with the prior permission of the APSRTC and the Developer should pay proportionate additional commercial license fee. It was observed that in the following two cases, the licensees built excess areas, but the Corporation collected license fee only for approved built up area as explained below:

- The licensee<sup>26</sup>, entered into a license agreement in 2006 for construction of a Shopping Complex. But the licensee constructed extra 155.15 *per cent*<sup>27</sup> of the built up area and also utilised more land than the leased land. The Corporation did not revise the license fee for the excess land and for the excess built up area resulting in short realization of license fee of ₹ 51.07 lakh up to 2014-15.
- In another case<sup>28</sup>, the licensee constructed 857 Sqm as against the approved built up area of 307 Sqm i.e. by 179 per cent beyond the area mentioned in the agreement (April 2006). The license fee was revised by the Corporation for the actual built up area but the licensee was not paying the revised license fee as supplementary deed was not finalized. This resulted in short collection of ₹ 13.76 lakh for the period upto 2014-15.

The Management reply was awaited (January 2016) in the first case. In respect of the second case the Management replied that the revised supplementary deed was not necessary (for increased built up area) as the methodology for collecting additional license fee was already defined in the agreement. The reply was silent about short collection of license fees.

The reply was not tenable as ‘the annexure attached to the relevant agreement’ stipulated year wise license fees payable and the same needed to be revised through a supplementary deed to safeguard the interests of the Corporation.

### **DOT scheme:**

**3.4.2** Under DOT scheme, approval on proposals received from different regions for construction of shops would be accorded by the Corporate office. The successful bidder, after taking possession of the shop, pays monthly license fee during the license period and has to bear statutory payments viz.,

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<sup>26</sup> Sri B Srimannarayana (Jyothi wines).

<sup>27</sup> 8337.39 Sqm as against approved area of 3267.70 Sqm in the land of 2465 Sqm as against the leased land of 2020 Sqm

<sup>28</sup> Janatha Waiting Hall, Tirupati

property tax, service tax, electricity charges and comply with all other statutory levies under Central/State laws issued from time to time. A review of shops constructed under DOT scheme in two Divisions viz. Tirupati and Visakhapatnam out of six Divisions in Andhra area of erstwhile State of Andhra Pradesh revealed the following:

**Non realization of service tax for shops leased under DOT Schemes**

**3.4.2.1** It was noticed in audit that service tax amounting to ₹ 16.24 lakh was not collected from the DOT licensees, for the period July 2012 to March 2014 in Tirupati and Visakhapatnam Divisions.

The Management replied that as per the guidelines contained in circular (April 2014) for all existing rental agreements, except agreements under BOT schemes, the license fees was to be treated as inclusive of service tax w.e.f. 1 July 2012 and for the future tenders, a clause would be incorporated for remittance of service tax by the licensee. Thus, service tax to the tune of ₹ 16.24 lakh from the DOT licensees in the above mentioned regions was not recovered.

The reply was not tenable as the terms of agreement cannot be changed by a circular. The service tax was to be collected from the lessees.

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