

Chapter III

3. COMPLIANCE AUDIT OBSERVATIONS

GOVERNMENT COMPANIES

The Singareni Collieries Company Limited (SCCL)

3.1 *Infructuous expenditure on proposed 20 MW Captive Power Plant*

Without assessing the economic viability of 20 MW Captive Power Plant, Company incurred an expenditure of ₹ 4.35 crore on Consultants' fees and other civil works. An amount of ₹ 1.76 crore was finally written off in view of another upcoming Project (Singareni Thermal Power Project) leading to infructuous expenditure.

The Singareni Collieries Company Limited (SCCL) decided (February 2007) to set up a 20 Mega Watt (MW) Captive Power Plant (CPP) at Kothagudem, under Engineering, Procurement and Construction (EPC) mode at a cost of ₹ 92.10 crore. The project report envisaged completion of the project in 24 months from date of EPC order.

SCCL appointed (December 2007) APGENCO (Andhra Pradesh Power Generation Corporation Limited) as consultant at a fee of ₹ 1.00 crore. The scope of work included preparation of site layout and assistance in the appointment of technical consultants. Based on APGENCO's advice, SCCL appointed (June 2008) M/s Cethar Consulting Engineers (P) Ltd. (CCEPL), Chennai as technical consultants (for preparation of NIT) at a fee of ₹ 1.18 crore. Thereafter, tenders were floated and Letter of Intent (LoI) was issued (October 2009) to M/s Cethar Vessels Ltd. (CVL) for ₹ 74.40 crore. Before starting the work, the contractor requested (November 2009) for changes in commercial and technical aspects and increasing the contract value by ₹ 7.10 crore. The Company did not agree and decided (November 2010) to drop the LoI and refloat tenders again. The Board directed (November 2010) the Management to have a relook into the economics of the small Power Station i.e., 20MW Power Plant vis-à-vis cost already incurred and take appropriate decision. However the Management decided to go ahead with retendering. After limited tender enquiry, it placed an order (April 2012) on M/s Desein Pvt. Ltd. (DPL) for technical consultancy at a fee of ₹ 0.89 crore. DPL submitted NIT (July 2012), but the Company did not act upon it. No further action was taken by the Company on this project.

Audit observed that the company at no stage verified/studied the economic viability of the small project and incurred expenditure on consultants and civil

works. It incurred ₹ 4.35 crore¹⁸ on consultants' fees and civil works, plant & equipment even though no work had been done under the project.

Government replied (January 2016) that in view of upcoming Singareni Thermal Power Plant (STPP) at Jaipur in Adilabad District (2x 600 MW), it was felt that the additional investment of 20 MW Power House was not necessary. Hence the proposal for setting up of 20 MW CPP at Kothagudem was dropped in March 2015. Of the total expenditure incurred (₹ 4.35 crore), an amount of ₹ 1.76 crore was written off.

The reply is not tenable as the 20 MW project was started in 2007 without studying economic viability or technical feasibility of a small project. The Company had given in-principle approval for STPP (2X600 MW) in December 2009, whereas the 20 MW project was dropped only in March 2015. The expenditure of ₹ 4.35 crore out of which an amount of ₹ 1.76 crore was written off was rendered infructuous.

Telangana State Industrial Infrastructure Corporation Limited

3.2 Non-inclusion of rental clause for FTL land in lease agreement resulted in non-recovery of ₹ 31.45 lakh and undue favour to the Developer

Non-inclusion of rental clause for FTL Land in the Tripartite agreement of lease rent entered into with the Department of Youth Advancement, Tourism & Culture and the Developer, resulted in non-recovery of ₹ 31.45 lakh and undue favour to the Developer

Department of Youth Advancement, Tourism & Culture (Department), Govt. of Andhra Pradesh, requested (March 2005) Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) for handing over of 7,710.12 Sq. yards of vacant land at Durgam Cheruvu lake area for a hotel (Project) on Build, Operate and Transfer (BOT) basis under Public Private Partnership (PPP) mode. The Department was to ensure collection of annual lease rent along with Additional Development Premium (ADP) from the developer and remit the same to the Company. The land included 5362.12 square yards of Full Tank Level (FTL)¹⁹ area and 2,348 square yards of non FTL area. The Department awarded (November 2012) the Project (Eco Tourism Park) to M/s Shri Ravi Teja Restaurant & Resorts Private Limited, Hyderabad (Consortium) on BOT basis under PPP mode for 30 years. As per the Letter of Award (LOA), the lease amount was payable for 2,348 Square Yards (Non FTL) only, at the rate of 5 per cent of basic market value of the land, with increase of 5 per cent every year over the previous year's lease amount. But the issue of rent payable on 5,362.12 square yards of FTL area remained to be resolved. The Department asked the Company to fix a nominal lease rent for

¹⁸ Consultancy charges - ₹ 1.76 crore, (GENCO and CCEPL) and Civil works - ₹ 2.59 crore (Compound wall and other civil works ₹ 0.41 crore, water storage tank - ₹ 0.49 crore, Pipe lines from borewells - ₹ 1.33 crore and Borewell Pump - ₹ 0.36 crore.)

¹⁹ FTL area is water body zone where no building activity other than recreational use shall be carried out. Such area around water bodies shall be maintained as recreational/green buffer zone as per GoAP notification.

FTL land to make the project financially viable as the total land i.e. 7,710.12 Square yards was allotted to Developer. The Company decided (December 2013) to charge concessional rent for FTL area and intimated (March 2014) the Department of the decision to charge lease rental on FTL land at the rate of 1.5 per cent of basic market value and requested for inclusion of the same in the tripartite agreement which was entered into (May 2014) among the Department, the Company and the Consortium.

Audit noticed that there was no mention in the tripartite agreement of lease rent on FTL (1.5 per cent) land. Omission of separate clause for collection of lease rent resulted in non-recovery of ₹ 31.45 lakh (May 2014 to January 2016) and the Company foregoing a revenue of ₹ 11.98 crore over the remaining period of lease.

Management, while accepting the omission pointed out by audit, replied (November 2015) that they had addressed the Department for amendment of the lease agreement. The Management further stated that the agreement was not registered and was also time barred. Hence a fresh agreement needed to be entered into.

Thus non-inclusion of rental clause for FTL land in lease agreement tantamounts to undue favour to the Developer and resulted in non-recovery of ₹ 31.45 lakh. Company will forgo revenue of ₹ 11.98 crore over the remaining lease period, in case the rent clause for FTL area is not included in the lease agreement.

STATUTORY CORPORATION

Andhra Pradesh State Road Transport Corporation

3.3 Commercial exploitation of vacant lands in State of Telangana

Non registered BOT licenses as per the terms of the agreement resulting in loss to exchequer in the form of Stamp duty. Service tax of ₹ 65.82 lakh was not billed and collected from BOT/DOT licensees and remitted to appropriate authorities.

Andhra Pradesh State Road Transportation 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 the schemes, the land/constructed shop would be given on long term lease i.e. 20 and 30/33 years respectively.

On review of both the schemes, the following were observed:

3.3.1. BOT Scheme:

Under BOT scheme, tenders for leasing the land are floated, finalised and agreements are entered into with the licensees, at Corporate office level. License deeds are to be registered by the licensee, who has 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, 4 projects²⁰ were awarded in the Telangana area of erstwhile composite State of Andhra Pradesh between years 2006 to 2013. Out of these 4 projects, 3 projects²¹ were reviewed in audit and the remaining 1 project was under litigation (March 2015). Audit observed as follows:

3.3.1.1 Non registration of BOT license agreement

It was noticed that in two²² 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 Government replied (December 2015) that efforts would be made to get the license deed registered as per the terms of agreement.

3.3.1.2 Non recovery of service tax in BOT Projects

In respect of two²³ BOT projects, it was observed that contrary to the terms and conditions of agreement, service tax of ₹ 55.47 lakh was not billed and collected during the periods 2007 to 2015 from the licensees and remitted to the appropriate authorities.

The Government replied (December 2015) 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 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 only and not to the projects awarded under BOT scheme. Thus, non-adherence to the terms of the agreement and non-compliance of statutory laws resulted in non-realisation of service tax and loss of revenue to the exchequer.

3.3.2. DOT scheme:

Under DOT scheme, approval on proposals received from different regions for construction of shops would be accorded by the Corporate Office. The

²⁰ M/s Pratima Multiplex Pvt. Ltd, Hyderabad; M/s Kanaka Durga Complex, Mahbubnagar; M/s Soma, Hyderabad City Center Pvt.Ltd; M/s Viishnujith Infra Developers Pvt. Ltd, Armoor

²¹ M/s Pratima Multiplex Pvt. Ltd, Hyderabad; M/s Kanaka Durga Complex, Mahbubnagar; M/s Viishnujith Infra Developers Pvt. Ltd, Armoor

²² M/s Kanaka Durga Complex, Mahbubnagar, M/s Prathima Multiplex Private Ltd, Hyderabad,

²³ M/s Kanaka Durga Complex, Mahbubnagar, M/s Prathima Multiplex Private Ltd, Hyderabad

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. A review of agreements entered into for the shops constructed under DOT scheme in two Divisions viz. Karimnagar and Hyderabad out of five Divisions in Telangana revealed the following:

3.3.2.1 Non realization of service tax for shops leased under DOT Scheme

It was noticed in audit that service tax amounting to ₹ 10.35 lakh was not collected from the DOT licensees, for the period 1 July 2012 to 31 March 2014 in Karimnagar Division (Karimnagar).

The Government stated (December 2015) that "service tax is being realized by incorporating necessary clauses in subsequent agreements".

The reply was not tenable as the terms of agreement have to be adhered to. The service tax was to be collected from the lessees.

Hyderabad

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