Chapter - II

Performance Audit

Information Technology, Electronics and Communications Department

2.1 Development of Information Technology and Communications infrastructure by ITE&C Department

Executive Summary

Telangana State accounted for around 13 *per cent* (₹40 thousand crore) of total software exports from India. T-Hub innovation centre under phase-I was completed, in which 250 start-ups were incubated. Out of these, 50 start-up ventures had graduated so far. Firms incubated/partnered with T-Hub have won prestigious awards.

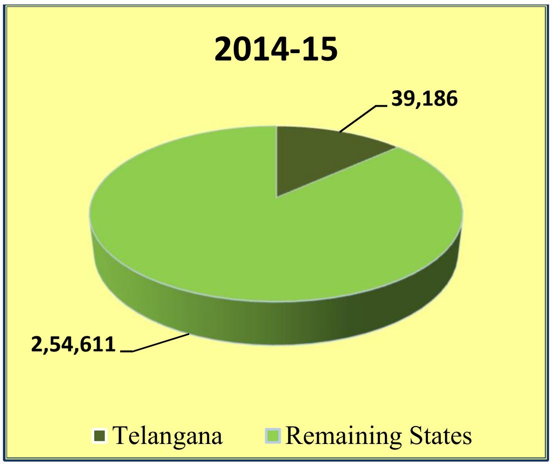
There was persistent mismatch between budget allocations and expenditure under "subsidies" head. Planning for Information Technology Investment Region (ITIR) was deficient. The ITIR remained a non-starter. Two firms, which were to play key role in development of semi-conductor industry in 'Fab City' project failed to promote the industry. Consequently, out of 1075 acres earmarked to Fab City**,** 712 acres remained unutilised. Department / Telangana State Industrial Infrastructure Corporation (TSIIC) did not ensure minimum contribution from constituent units as per Electronic Manufacture Cluster Scheme guidelines. There were deficiencies in selection of consultants for construction of T-Hub and Innovation in Multimedia, Animation, Gaming and Entertainment (IMAGE) tower, leading to extra financial burden. Changes in payment clause in agreements with consultant resulted in additional financial commitment. Construction agency of T-Hub (Phase II) got undue benefit due to post agreement changes. No land allotments were made in last five years as the Department did not ensure basic amenities before offering land to IT firms. The Department did not ensure commitment / capability of IT firms to invest and complete the projects by IT firms. Monitoring of use of land for IT activities and development as per time schedule was poor. The Department was yet to make provision of State Wide Area Network facilities to the newly formed Districts and Mandals.

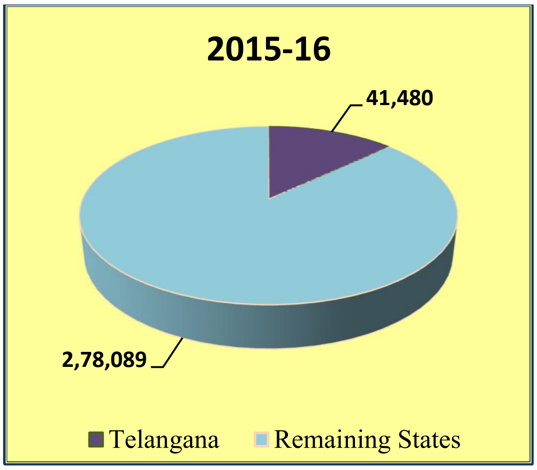
2.1.1 Introduction

In Telangana, Information Technology (IT) sector is viewed as a growth engine that could usher in rapid socio-economic development. The State ranked third in software exports in 2014-16[1], accounting for around 13 *per cent* of total software exports from the country (***Chart 2.1***). Growth rate of IT related exports from Telangana stood at 13.85 *per cent*[2], higher than average growth rate in the country (10 *per cent)*[3]. IT sector provided direct employment to 4.31 lakh, besides indirect employment to about 7 lakh persons.

Chart 2.1: Share of Telangana in software exports in comparison to all the remaining States

(Figure - ₹in crore)





***(Source**: Annual reports of Software Technology Parks of India)*

Information Technology, Electronics and Communications Department (ITE&CD) played a crucial role as shown in ***Chart 2.2***:

[1] Annual Reports of Software Technology Parks of India, an autonomous society set up by Ministry of Electronics and Information Technology, Government of India

[2] Annual Report of Information Technology, Electronics and Communications (ITE&C) Department (2017)

[3] Estimated by NASSCOM, a non-profit organisation involved in building an eco-system to bring fruition-technology for good

Chart 2.2: Roles of Information Technology, Electronics and Communications Department

- *Policy formulation for Information Technology (IT) and Electronic System Design and Manufacture (ESDM)*
- *Conceptualizing and initiating various e-Governance Projects*
- *Promoting investments in IT, IT Enabled Services (ITES) and ESDM and other emerging technologies through proactive measures*
- *Creating a congenial environment for IT and ESDM companies to set up / expand their operations in the State*
- *Monitor the benefits of IT percolating to the last mile of State*
- *Providing strong communications backbone in the State*

*(**Source**: Annual Reports of ITE&C Department)*

Two policies[4] formed the basis of framework for development of IT sector in the State during 2012-16. After formation of Telangana as a separate State, the Government pronounced a new set of policies[5] in April 2016.

2.1.2 Organisational setup

ITE&C Department functioned under overall control of a Principal Secretary. He was assisted by Commissioner/Director (Mee Seva), one Public Sector Undertaking (PSU)[6], two joint venture Companies[7] and two registered societies[8].

2.1.3 Scope and methodology of Audit

Performance Audit was conducted during February to June 2017, covering the period from April 2012 to March 2017. Audit procedures included scrutiny of records, issue of audit enquiries, obtaining information and replies and consultation with the Departmental officers. The offices visited included the

[4] Information and Communication Technology (ICT) Policy - 2010 and Electronic Hardware (EH) Policy – 2012

[5] (1) ICT Policy Frame work 2016, (2) Incentives for Expansion of IT / ITES, (3) Electronics Policy, (4) Image Policy, (5) Rural Technology Centres Policy, (6) Innovation Policy (7) Open data Policy, (8) Data Centre Policy and (9) Cyber Security Policy

[6] Telangana State Technology Service Limited (TSTS) formed from Andhra Pradesh Technology Service Limited (APTS) consequent to Andhra Pradesh re-organisation Act, 2014 and provides technical consultancy services to Government Departments and assists in purchases of modern equipment etc.

[7] T-Hub Foundation and Photonics Valley Corporation

[8] Society for Telangana Network (SOFTNET) and Telangana Academy for Skill and Knowledge (TASK)

ITE&CD, Telangana State Industrial Infrastructure Corporation (TSIIC)[9] and Telangana State Technological Services (TSTS).

Audit informed the ITE&CD about Audit objectives, scope, criteria and methodology in an Entry Conference held on 21 April 2017. Audit opinions in this Report are based on information and replies furnished to audit enquiries as well as opinion expressed by Government during the Exit Conference held on 9 November 2017.

2.1.4 Audit Objectives

The objectives of this Performance Audit were to assess whether:

- The IT initiatives were comprehensive and in accordance with policies of the Department;
- Infrastructure projects and IT initiatives were implemented as planned and were serving the intended objectives in a sustainable manner;
- Co-ordination was achieved to meet the needs of other Departments; and
- Initiatives were directed towards building resilient infrastructure, promoting inclusive and sustainable industrialisation and fostering innovation.

2.1.5 Audit Criteria

The findings were benchmarked against criteria, which were sourced from:

(i) Information and Communication Technology (ICT) policies (2005-10, 2010-15, 2016), Electronic Hardware (EH) policy (2012-17);

(ii) Land allotment policy;

(iii) Information Technology Investment Region (ITIR) policy of Government of India;

(iv) Regulations of APIIC / TSIIC for land allotment;

(v) State Finance Code;

(vi) Government Orders issued by State Government from time to time;

(vii) Techno economic feasibility Reports, Detailed project reports;

(viii) Annual budget and expenditure statements;

(ix) Manual of policies and procedures of employment of Consultant issued by Government of India; and

(x) Conditions of RFP / Bids /Agreements for respective packages of projects concerned.

[9] TSIIC is a company formed from Andhra Pradesh Industrial Infrastructure Corporation (APIIC) consequent to Andhra Pradesh re-organisation Act, 2014 and executes infrastructure projects on behalf of Government

2.1.6 Acknowledgement

Audit acknowledges the cooperation received from ITE&CD, TSIIC, TSTS and Photonic Valley Corporation in conducting this Performance Audit.

Audit Findings

2.1.7 Utilisation of Budget

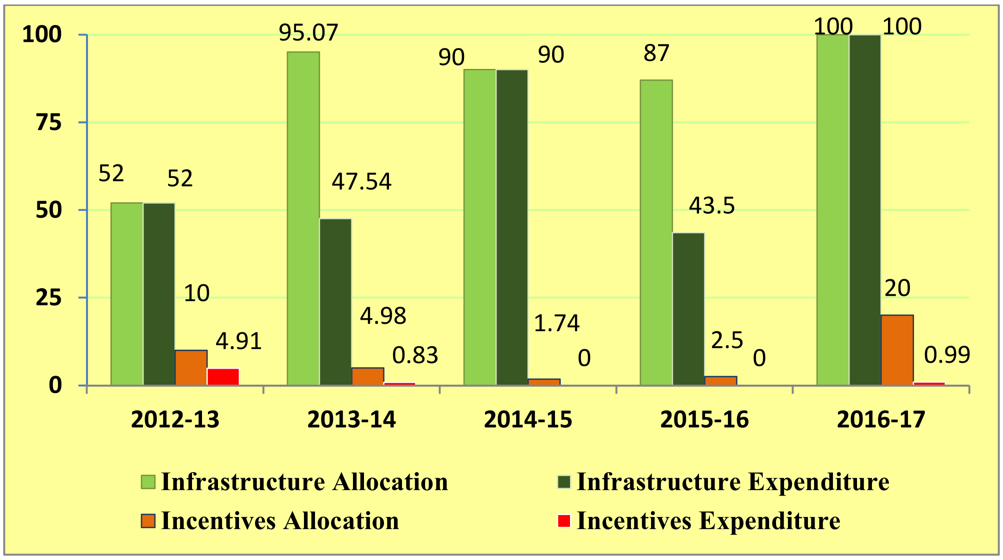
The Department received allocations totaling ₹ 982.05 crore during 2012-17. Out of these, ₹ 463.29 crore pertained to infrastructure development under the following heads of accounts:

- Infrastructure facilities for development of IT: ₹ 424.07 crore (43 *per cent*); and
- subsidies[10]: ₹ 39.22 crore (four *per cent*).

The Departmental focus was on creation of infrastructure with utilisation of 79 *per cent* of the budget (₹ 333.04 crore). Utilisation on subsidies, i.e., disbursement of incentives was only 17 *per cent* (₹ 6.73 crore) as shown in ***Chart 2.3***:

Chart 2.3: Budget allocated and actual expenditure on infrastructure and subsidies

(₹ in crore)



(Source: Information furnished by ITE&C Department)

Further analysis revealed the following:

- The Government took up construction of T-Hub[11] in Hyderabad after formation of Telangana State. It was noticed that 60 *per cent* of the

[10] The head "Subsidies" include incentives for development of infrastructure such as conversion of power tariff, subsidy in power tariff, reimbursement of rent, stamp duty, registration fee etc

expenditure on infrastructure during 2015-16 and 2016-17 was on construction of T-Hub. Other initiatives to provide spurt in IT investments, like development of basic amenities on the land parcels to be offered to IT firms, took a back seat.

- Information and Communication Technology (ICT) and Electronic Hardware (EH) policies provided a wide range of incentives to IT firms for development of IT infrastructure. However, there was no expenditure under subsidies head of account in 2014-15 and 2015-16.

- The Department granted incentives in 34 instances in the last five years. Out of these, 24 cases[12] were in the shape of permissions for conversion of power tariff from Commercial category to Industrial category. Such conversion did not require any budgetary support from the Department as bills would be generated based on the category of power connection.

  There was no expenditure on the following other incentives:

  - special and upfront negotiated packages for mega projects;
  - reimbursement of patent filing costs;
  - reimbursement of 20 *per cent* of expenditure incurred for obtaining quality certifications;
  - contribution of ₹10 lakh per annum for creation of library; and
  - recruitment assistance for recruiting IT professionals etc.

The Government attributed the low utilisation of funds under "subsidies" (November 2017) to poor demand from IT firms. The low demand was due to uncertainties during State bifurcation. Thereafter, the firms were waiting for a new ICT policy, which was declared in April 2016. The Government stated that some time was required for new ICT policy to percolate to the industry.

However, even during 2016-17, the expenditure on incentives was only ₹ 0.99 crore as against budget allocation of ₹ 20 crore. The persistent mismatch between budget allocations and expenditure under "subsidies" head calls for a review by the Department.

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[11] T-Hub is an innovation centre intended to provide a central location (i) for local start up community to network, learn and share and (ii) for investors and start-ups to network, communicate and make deals.

[12] The remaining 10 cases pertained to (i) lease rental refund / subsidy, (ii) investment subsidy, (iii) stamp duty and transfer duty and (iv) power subsidy

2.1.8 Policy formulation and Project planning

2.1.8.1 Planning for Information Technology Investment Region (ITIR)

The Government of India (GoI) pronounced ITIR policy in May 2009. GoI sought to promote investments in IT Enabled Services (ITES) and Electronic Hardware Manufacture (EHM) units through this policy. GoI approved (November 2013) setting up of an ITIR on 202 square kilometres (sqkm). Hyderabad ITIR (HITIR) was to be developed in two phases viz., Phase I during 2013-18 and Phase II during 2018-2038. The ITIR was to generate employment to 68 lakh persons. Development of ITIR required internal infrastructure[13] costing ₹ 13,093 crore and external infrastructure[14] involving a cost of ₹ 4,863 crore. ITIR policy prescribed that the State Government would play a lead role in the following:

- Forming Management Board;
- Identifying and notifying suitable area;
- Selecting the developer,
- Forming a separate urban local body for development and creation of infrastructure[15].

Audit observed the following deficiencies in planning development of ITIR:

(i) ***Projection of investments*:** Techno-Economic feasibility Report prepared by a consultant[16] projected investments of ₹ 2,19,440 crore towards ITIR, for which no details were made available to Audit. However, the project proposal submitted by the Department to GoI indicated (December 2013) a few investment proposals. Audit noticed that some of these proposals were not workable for the reasons mentioned in ***Table 2.1***:

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13 Infrastructure like Roads, Power, Water and sewerage facilities to be developed by the State Government

14 Infrastructure like Railways, National Highways to be developed with the support of GoI

15 Physical infrastructure -power, water, road connectivity, sewerage and effluent treatment linkages; and Social infrastructure - Residential facilities, Educational and Health facilities, local commercial facilities, recreation facilities and socio – cultural facilities

16 M/s Price Water Coopers

Table 2.1: Details of non-workable investments proposed in ITIR

(₹in crore)

Sl. No.	Firm	Investment projected in Project Proposal	Remarks
1	M/s Sem India Fab[17]	13,838	The MoU ran into legal disputes with Andhra Pradesh Industrial Infrastructure Corporation (February 2010).
2	M/s Nanotech Silicon[18]	9,590	Failed to bring in investment and Chairman of the firm was not traceable (September 2011).
3	M/s Brahmani Infratech Private Limited[19]	1,500	Surrendered land in January 2013 itself.
	Total	**24,928**	

***(Source**: Project proposal for ITIR, MoUs with respective firms as furnished by ITE&C Department)*

The analysis showed that the investment projections were unrealistic and could not bear fruit. The Government replied (November 2017) that the investment projections were for a combined State and for a cumulative period of 25 years.

The reply was not acceptable as the Government should have reviewed the investment projections after formation of Telangana State.

(ii) ***Preparation of Master Plan:*** ITIR policy stipulated preparation of a Master Plan (Para 28) followed by notification and freezing of ITIR area (Para 11). Para 32 prescribed the procedure for selection of developer, who was to prepare a Detailed Project Report (DPR).

The State Government decided (November 2014) to prepare a unified Master Plan for the entire Hyderabad Metropolitan Development Authority (HMDA) region. However, no progress was on record regarding preparation of Master Plan (March 2017).

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[17] paragraph 2.1.9.1 also refers

[18] paragraph 2.1.9.1 also refers

[19] paragraph 2.1.11.2 (i) also refers

Without a Master Plan, notification and freezing of ITIR area, selection of developer and preparation of DPR could not take place though Phase I of ITIR was to be completed by 2018.

The Government replied (November 2017) that there was no response to the Request for Proposal for preparation of Master Plan and it was decided to prepare a unified Master Plan. However, the Government did not furnish any reasons for non-preparation of Master Plan.

(iii) ***Formation of ITIR Development authority (ITIRDA):*** Para 12 of the ITIR Policy proposed constitution of a separate urban local body for ITIR. The broad functions of the ITIRDA would be to plan enforcement and monitoring of ITIR, development of infrastructure, management of operations and promotion of investments.

Audit observed that ITIRDA was not formed as the HMDA Act, which governs Hyderabad metropolitan region, did not contain a provision for constitution of such special authority. In the absence of an empowered functional authority, implementation of ITIR could not be initiated, despite a lapse of three years after approval.

The Government replied (November 2017) that formation of the functional authority got delayed due to delay in implementation of GoI projects. The reply was not acceptable as the State Government was to play a lead role as per the ITIR policy. The support from GoI was only for two projects with ₹165 crore[20] as against ₹4,518 crore required for external and internal infrastructure. The remaining development activities were to be planned by the Department itself.

The Government also stated that GoI was reviewing the ITIR policy itself and was planning to come up with a better scheme. However, Audit observed that there was no communication from GoI withdrawing ITIR policy.

Hence, Audit noted that ITIR was a non-starter.

2.1.9 Implementation of projects

2.1.9.1 Development of Fab city

The Government planned to attract semi conductor units into the State by formation of a project (Fab City). The Fab City project envisaged employment to 5.17 lakh persons. Government entered (December 2004 and February 2006) into memoranda of understanding (MoU)[21] with two firms. The firms were to play key role in development of semi conductor

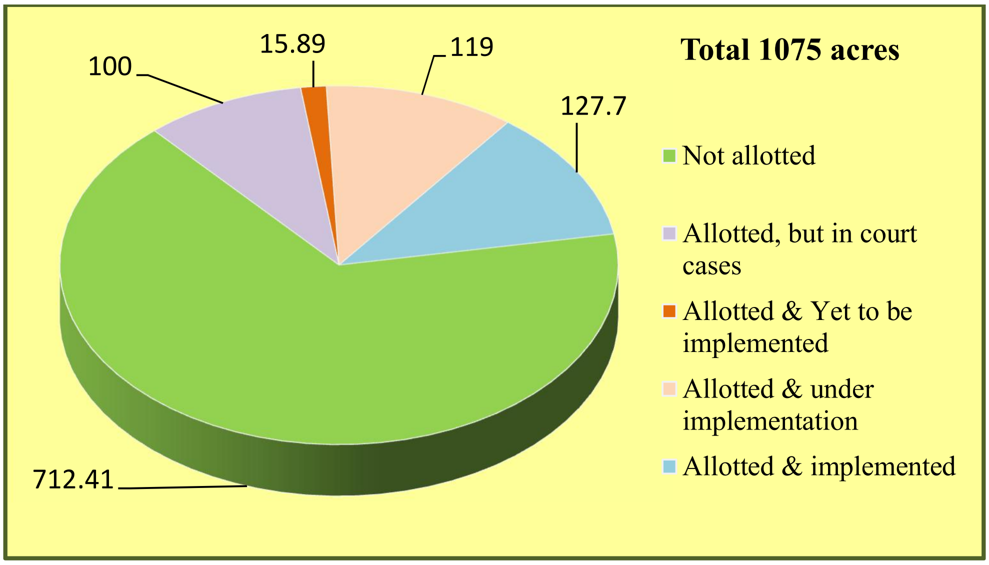
[20] (i) Extension of Multi Model Transport System (MMTS) to Airport with ₹ 85 crore and (ii) Upgradation of Radial Road No.8 connecting Moosapet to BHEL junction with ₹ 80 crore

[21] MoU with (i) Chairman of M/s Intellect Inc., A South Korean firm and (ii) Sem India Inc., USA

manufacturing industry in Fab City by bringing investments. The two firms viz., Sem India and M/s Intellect Inc., were to bring in investment of US$3 billion and US$370 million[22] respectively. APIIC had allotted (August 2006, July 2007) land of 1075 acres for development of Fab City. However, both the firms failed to bring investments as agreed. As a result, majority of the land (66 *per cent*) remained unutilised as shown in ***Chart 2.4***. Employment opportunity was created for only 3016 persons against 5.17 lakh persons. (Details are in ***Appendix 2.1***.)

Chart 2.4 :Land utilisation in Fab City area

(in acres)



*(**Source**: Information furnished by TSIIC)*

Audit observed the following:

- There was no record to show that the potential for semi-conductor industry was assessed before earmarking 1075 acres. This led to non-utilisation of 712 acres for the past ten years.
- The Department did not ensure capability and commitment of the two firms (M/s Intellect Inc., and Sem India Inc., USA) to bring in investments. Both the firms failed to bring in investments.
- There was no record to show that the department made efforts to select alternative firms for development of Fab City as the two firms could not bring investments.

The Government replied (November 2017) that there was huge demand initially. However, the key firms failed to promote the industry. As a result, there were no applications for land allotments and the Fab City remained with

[22] (i) arrange US$80 million of foreign equity component from overseas finance institutes, (ii) finance US$70 million of non-debt financing from captive customers and (iii) US$220 million of debt financing from multinational finance institutes

eight units in 184 acres. It further stated that efforts were being made to use the land for Electronic Hardware Manufacture cluster (EHM) viz., e-City in 603.52 acres.

However, reply of the Government was silent about development of semi conductor industry.

2.1.9.2 Development of e-City and Maheswaram Hardware Park as Electronic Hardware Manufacture Clusters

Government planned (July 2012) the following two Electronic Hardware Manufacturing (EHM) clusters to create employment for 2.5 lakh persons:

(a) e-City in 603.52 acres in the area earmarked for Fab City earlier; and

(b) Maheswaram Hardware Park (MHP) in 310.70 acres

APIIC (TSIIC after formation of Telangana State) was the chief promoter for both EHM clusters. GoI included (April 2017) these two EHM clusters under Electronic Manufacture Cluster (EMC) scheme. The cost approved for these two projects by GoI was ₹ 550.53 crore and ₹ 363.36 crore respectively. Both the projects consisted of seven firms as constituent units each.

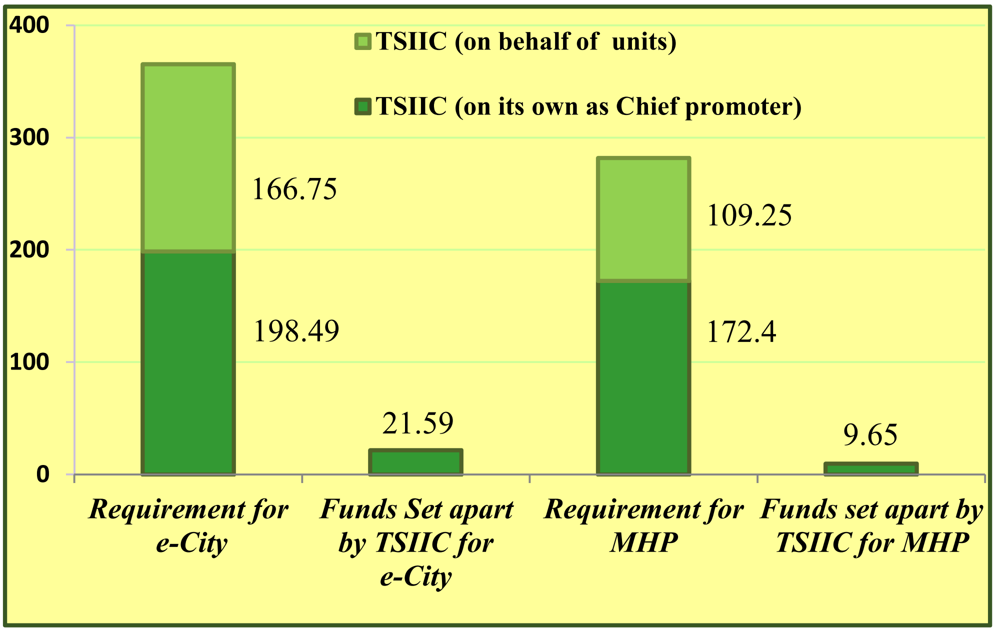
Para 5.6 of EMC guidelines stipulated that the assistance from GoI shall be up to 50 *per cent* of the project cost. The remaining project costs shall be financed by other stakeholders with minimum contribution of 25 *per cent* of the project cost from the units within EMC.

Audit observed that none of the units committed any contribution in both the projects. GoI approved (April 2017) both the projects on the undertaking of the TSIIC to infuse funds on behalf of these units. However, TSIIC kept aside[23] only 6 *per cent* and 3 *per cent* of the total required funds for e-City and MHP respectively (***Chart 2.5***):

[23] amounts kept separately in fixed deposits for these two projects

Chart 2.5 : Requirement of funds to EHMCs and resources set apart

(₹ in crore)



(***Source***: *Records of TSIIC*)

During the Exit Conference (November 2017), the Government stated that it would not be possible to keep entire amounts required for the projects upfront separately. The revenues generated out of allotment to units would be utilised for further development activities. It also stated that administrative sanction was accorded (October 2017) for an amount of ₹83.04 crore and ₹59.68 crore for e-City and Maheswaram Hardware Park respectively.

The reply was not acceptable as it was mandatory for the constituent units to provide a minimum of 25 *per cent* of the project cost as per guidelines, which was not done.

2.1.10 Creating the IT environment - Construction of IT hubs and Centers

2.1.10.1 Establishment of T-Hub in Hyderabad

Government approved (July 2014) setting up of a non-profitable joint venture by the name of "T-Hub Foundation[24]" that was to build India's largest incubator. For this purpose, the Government decided to partner three premier institutes[25]. T-Hub was temporarily set up (November 2015) at a cost of ₹48.47 crore through TSIIC. It was housed in the premises of International

[24] T-Hub was to provide a central location (i) for local start up community to network, learn and share and (ii) for investors and start-ups to network, communicate and make deals.

[25] (i) Indian Institute of Information Technology (Hyderabad) (IIITH), (ii) International School of Business (ISB) and (iii) National Academy of Legal Studies and Research (NALSAR)

Institute of Information Technology, Hyderabad (IIITH) in order to accommodate 200 start-up companies in Phase I. T-Hub was proposed to be shifted later to its own building to be constructed in Game Park Layout at Raidurg in Phase II, which was in progress (April 2017).

T-Hub had so far incubated 250 start-ups[26]. Out of these 50 start-up ventures had graduated so far. The cumulative turnover of these ventures was estimated at ₹ 100 crore. The incubated and graduated ventures generated employment to around 1000 persons. Firms incubated in T-Hub had also won various prestigious awards such as Innovate for Digital India 2.0, Global social venture competition 2017, Khoj 2017 and Innovation and Entrepreneurship competition.

2.1.10.2 Setting up of T-Hub (Phase I) in IIITH campus

The Government felt that construction design of T- Hub was an innovative one in which conventional methods of contracting could not be superimposed. Hence an innovative approach was followed and relaxations were extended for selection of Consultant Architect. As a result, the construction included items outside the Standard Schedule of Rates (SSR). However, even before estimates for non-SSR items were prepared, execution of SSR items in respect of civil and interiors works was entrusted (February 2015 and March 2015) to two firms[27] for ₹ 5.64 crore and ₹ 6.41 crore respectively. Subsequently, non-SSR items were entrusted to the existing agencies without any tender process.

There were no instructions for addition of contractor's profit and VAT to estimates, when rates were obtained from the vendors through quotations or market rates (non-SSR items).

While entrusting non-SSR items to the existing agencies, TSIIC added contractor's profit of 14 *per cent* additionally on the rates obtained from market. Value added tax (VAT) at 3.5 *per cent* was also added though rates quoted by vendors were inclusive of taxes. This resulted in undue benefit of ₹ 93.39 lakh[28] to contractors in 55 sampled items for which quotations were obtained from market.

The TSIIC replied (June 2017) that non-SSR items were routed through the agreement and hence contractor's profit and VAT were added**.** The reply of TSIIC was not acceptable as the rates obtained through quotations from vendors were market rates which were inclusive of Contractor's profit and VAT.

[26] As per annual report of ITE&CD for the year 2016-17

[27] (i) M/s Chabbara Associates (Civil works) and (ii) M/s KCP Projects (Interiors and furniture)

[28] ₹ 72.68 lakh towards Contractor's profit and ₹ 20.71 lakh towards VAT

2.1.10.3 Permanent building for T-Hub in Raidurg (Phase II)

Administrative approval for construction of permanent T-Hub (Phase II) building at Raidurg was accorded (May 2016) for ₹ 222.32 crore. The work was entrusted to M/s KPC Project Limited (KPCL) on tender for ₹ 168.37 crore and was in progress (March 2017).

(i) Selection of Consultant Architect in Phase II

- Article 51 (b) of Finance Code prohibited entering into contract with indefinite liability. Further, para 5.4 of Manual[29] which was followed for selection of Consultant Architect specified that "*Percentage Contract*" was to be adopted only in cases of "*Fixed Target Cost*".

  However, TSIIC agreed (January 2016) for payments to Consultant Architect[30] on *"Percentage contract*" basis, i.e., he would be paid a percentage (3.78 *per cent)* of the construction cost. The cost of construction of T-Hub at Raidurg, was not fixed. Audit observed that the cost of the work had already escalated by ₹ 16.43 crore (Details are given in ***Table 2.3*** as discussed in ***paragraph 2.1.10.3 (ii)***). As a result, the consultant's receivables increased by ₹62.10 lakh.

  Hence adopting percentage contract was not in the financial interest of the Department / TSIIC. Thus, the procedure adopted by TSIIC created an indefinite liability.

  The TSIIC replied that in the absence of the detailed plans and designs of the proposed building of T-Hub, the estimated cost could not be arrived. Since fixed cost could not be arrived, percentage contract basis was adopted.

  The reply confirmed the audit observation that percentage contract was adopted though target cost was not fixed. It may be noted that TSIIC had earlier rightly engaged an Architect Consultant on lump sum contract basis in respect of Phase I of T-Hub at IIIT campus. There was no reason for adoption of this method in this case.

- As per para 3.8.6 of the manual, minimum qualifying marks or relative qualifying method for quality of technical proposal were to be prescribed in the Request for proposal (RFP). **Minimum qualifying marks were not specified in the RFP. A potential bidder requested for clarifications on the eligibility criteria and procedure for technical evaluation. However, TSIIC did not take any corrective action to issue clarifications to prospective bidders.** No reasons were on record for such deviation despite being raised by a bidder.

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29 Manual of policies and procedures of employment of Consultant

30 M/s Space Group Consortium (later formed a Joint Venture Group and termed as Space Form JV) for preparation of conceptual plans, detailed architectural plans, structural designs, detailed designs and specifications etc

The TSIIC stated (June 2017) that the Government had formed a committee to evaluate technical bids. The Committee decided to select consultant based on Quality cum Cost Based Selection (QCBS) method, duly considering technical and financial scores in 80:20 ratio. The same procedure was informed to all the bidders at the time of presentation. The reply was not acceptable as minimum qualifying marks were not prescribed in the RFP, affecting the fairness of tender process.

- Para 3.9.3 of manual relating to QCBS method stipulated that all the firms which meet the minimum qualifying standards / criteria would stand technically qualified for consideration of financial bids.

  Financial bid of M/s W Design Studio Pvt. Ltd., which secured 71 marks in technical evaluation, was opened, while financial bids of two other firms[31] which secured higher (75) marks were not opened.

  The TSIIC replied that firms which scored 75 marks or more were shortlisted and M/s W Design Studio Pvt. Ltd. was given exemption based on the services rendered for setting up T-Hub in IIITH.

  The reply was not acceptable as (i) financial bids of all firms which secured more (75) marks were not opened for reasons not on record; (ii) opening the financial bid of a firm without getting minimum marks in technical evaluation, gives scope to favoritism; and (iii) appointment of M/s W Design Studio Private Limited in setting up T-Hub in Phase I itself was without tenders.

- Para 3.9.3 of manual stipulated that no further ranking of firms amongst the qualified firms was required and the least cost proposal (L1) was to be considered.

  However, **TSIIC adopted a weightage method for technical and financial scores in 80:20 ratio in contravention to the provision of the Manual. As a result, fourth lowest (L4) firm[32] which quoted 4 *per cent* (negotiated to 3.78 *per cent*) of the construction cost got selected instead of L1 firm[33] which quoted 0.74 *per cent*. This led to extra financial burden of ₹ 4.88 crore[34] at agreement stage itself.** No reasons for such deviation were on record.

  The TSIIC stated (June 2017) that the criteria of 80:20 was informed to all the bidders at the time of presentation.

31 M/s Edifice Architects Pvt. Ltd. and M/s Murthy & Manyam Associates

32 M/s Space Group and Form Studio

33 M/s W Design Studio Pvt. Ltd.

34 Calculated on estimated contract value of ₹ 160.46 crore at *percentage* difference between the negotiated percentage of 3.78 *per cent* of selected bidder and the lowest bid of 0.74 *per cent* i.e., ₹ 160.46 crore X 3.78/ 100 (–) ₹ 160.46 crore 0.74/100 = ₹ 6.07 crore – ₹ 1.19 crore

The reply was not acceptable as (i) the procedure adopted was in contravention of procedure prescribed and (ii) no evidence in support of informing the firms about the 80:20 criteria was furnished to audit.

Audit noticed similar serious irregularities in selection of consultant architect in construction of Innovation in Multimedia, Animation, Gaming and Entertainment (IMAGE) tower. The lowest bidder quoted 2.30 *per cent*. However, TSIIC selected another firm which quoted 3.55 *per cent* by adopting criteria of 80:20. This resulted in extra financial burden of ₹ 11.82[35] crore on the estimated contract value (₹946 crore) of construction of IMAGE tower.

The above indicate that the entire process of selection of Consultant Architects for T-Hub and IMAGE towers was irregular and violative of Manual provisions. The tender process lacked transparency and fairness. This needs to be probed for fixing the responsibility.

(ii) Construction of T-Hub at Raidurg under Phase II

The bidders were requested to quote tender percentage either in excess or less, on the total estimated contract value (ECV) of ₹ 160.46 crore for construction of T-Hub at Raidurg under Phase II. M/s KPC Project Limited (KPCPL), which quoted 4.93 *per cent* excess on ECV, was entrusted with the work for ₹ 168.37 crore. Schedule 'A' of the agreement indicated quantity and rate for each item of work to be executed.

However, during execution, TSIIC accorded approval for enhancement of rates at the request of the agency with a cost impact of ₹ 16.43 crore (*Table 2.2*).

Table 2.2: Revision of rates by TSIIC after agreement and during execution

(₹in crore)

Sl. No.	Description of item	Reason for revision	Cost impact of revision	Executed and paid up to March 2017
1	Earth work excavation for building foundations in Hard Rock (blasting prohibited) etc.	Considering the working area as "restricted area" after conclusion of agreement	14.77	12.65
2	Supplying, fitting and placing HYSD bar reinforcement steel for bars	Revising the labour data upwards due to increase in labour rate	1.66	0.46
	TOTAL		**16.43**	**13.11**

(***Source***: *calculations based on files and information furnished by TSIIC*)

[35] calculated on estimated contract value of construction Image tower as follows : 3.55 *per cent* (quoted by M/s Arcop Associates) of ₹ 946.00 crore (-) 2.30 *per cent* (quoted by M/s Tamsheek Engineering) of ₹ 946 crore = ₹ 33.58 crore – ₹ 21.76 crore = ₹ 11.82 crore.

In respect of the restricted area, TSIIC replied (November 2017) that the site was an open area when the tenders were floated. However, during execution high raised buildings had come up in vicinity. Hence, restricted area allowance was permitted after agreement. The reply was not acceptable as the time lag between tenders (August 2016) and agreement (October 2016) was only two months.

In respect of revision of labour data, TSIIC replied (July 2017) that amended building standard data was not available in the Department at the time of preparing estimate. Hence rate was revised as per amended data. The reply was not acceptable as the amended building standard data was in existence from August 2011. Post-agreement upward changes to the rates quoted by the bidder had a cost impact on the public exchequer apart from affecting fair play in tender process. The matter needs to be investigated and responsibility fixed.

2.1.10.4 Allotment of land to IT firms for development through investment

Information and Communication Technology (ICT) and Electronic Hardware (EH) policies provided for allotment of land to IT / EH firms. This was subject to availability and fulfillment of eligibility criteria. A Consultative Committee on IT Industry (CCITI) was to recommend land allotment for IT firms after scrutiny of applications. Consultative Committee on Electronic System Design and Manufacturing (CCESDM) was to recommend allotment of land for EH firms. Based on the recommendations, Department was to enter into a Memorandum of Understanding (MoU) with the IT firms. This was to be forwarded to APIIC / TSIIC for allotment of land. APIIC / TSIIC was to enter into an agreement with IT /EH firms with a stipulation to execute the sale deed after fulfillment of certain criteria[36], within the stipulated time schedule.

The CCITI and CCESDM received 67 and 31 applications respectively, out of which 28 and 7 firms were recommended for allotment. However, no land allotments were made in the last five years.

Government replied (April 2017) that there was resistance from IT firms to accept land parcels offered due to lack of basic amenities and distance from City or existing IT cluster. The reply indicated that the basic amenities were not ensured before offering land parcels.

Audit observed the following deficiencies in land allotment procedures:

- Land allotments were recommended based on applications by the firms. However, no method was prescribed to assess the extent of land actually required by the firms. **As a result, IT firms retained / held allotted land without full development / utilisation. For instance, M/s Infosys**

[36] like built up space, employment generation, investments etc.

Technologies Limited did not take up development in 296 acres (Phase II and III) out of 446 acres of land allotted in May 2007. M/s Wipro utilised only 9 out of 101.03 acres of land at Gopanapally allotted in June 2007, leaving 92 acres of the land idle without any development (*paragraph 2.1.11.2 (ii) also refers*).

Commitment /Financial capability of IT firms for development to bring in required investment was also not assessed. As a result, development on allotted lands was not ensured.

The Government accepted (November 2017) the audit observation and replied that it was done in order to attract multinational companies. Government also stated that M/s Infosys had submitted building plans for approval. M/s Wipro was being served with a show cause notice to submit implementation schedule.

- As per ICT policy 2005-10, 60 *per cent* of allotted land was to be utilised for IT activities and 40 *per cent* for support activities. **However, this stipulation was not specified either in MsoU or in agreements, in seven [37] out of eight test-checked cases [38]. Consequently, the Department/ TSIIC could not enforce stipulated utilisation of land** (Details of land allotted, investment proposals and generation of employment in test checked cases[39] are at ***Appendix 2.2***).

  The stipulation of 60 *per cent* land utilisation for IT activities was discontinued in subsequent ICT policies of 2010 and 2016 making it difficult for the Department to ensure land utilisation primarily for IT activities.

  The Government stated (November 2017) that in the subsequent policies (2010 and 2016) built up space and generation of employment per acre were taken as criteria. Hence, the criterion of 60:40 was not relevant. However, it was not clarified as to how the Government would ensure that the land was utilised for IT purposes.

- **No investments were stipulated in respect of four firms[40]. M/s Wipro did not invest the amounts proposed by it, indicating lack of commitment. M/s Nanotech failed to bring in any investment.**

[37] except in case of M/s Brahmani Infratech Private Limited (BIPL)

[38] Audit test checked the cases of land allotment which have come up extensions of time as no allotments were made during last five years.

[39] (i) M/s Infosys, (ii) M/s Brahmani Infratech Private Limited, (iii) M/s Wipro Technologies, (iv) M/s JT Holdings Private Limited, (v) M/s Honeywell Technogy, (vi) M/s Taksheel Solutions, (vii) M/s Linus Infotec (India) Private limited (viii) M/s Sifi Technologies

[40] (i) M/s Brahmani Infratech Private Limited, (ii) M/s Honeywell Technology, (iii) M/s Taksheel Solutions, (iv) M/s Linus Infotec (India) Private limited

Thus, utilisation of land allotted and investment by IT firms was not ensured. As a result, the objectives of development through IT firms and employment generation could not be achieved.

2.1.10.5 Creation of external and internal infrastructure for ITIR

As mentioned in paragraph 2.1.8.1, GoI approved (November 2013) setting up of an ITIR in Hyderabad in 202 square kilometres in two phases. Phase I was to be completed with internal infrastructure at a cost of ₹ 3,576 crore and external infrastructure at a cost of ₹ 942 crore by 2018. ITIR was to generate a turnover of ₹ 3,10,849 crore with employment to 68 lakh persons.

(i) ***Projects by State Departments/ Organisations/ Bodies*****:** ITE&C Department could not furnish any information regarding details or progress of infrastructure projects[41].

(ii) ***Projects with assistance from GoI:*** Out of the proposed external infrastructure projects of ₹ 942 crore, GoI approved (November 2013) two projects for assistance viz., (a) *Extension of Multi Model Transport System (MMTS) to Airport* with ₹ 85 crore and (b) *Upgradation of Radial Road No.8 connecting Moosapet to BHEL junction* with ₹ 80 crore in Phase I.

However, both the projects did not commence so far (March 2017) for the following reasons:

- **Extension of MMTS was held up due to lack of consensus between Railways and Airport authorities on termination point for MMTS;** and
- **Radial Road No. 8 was not taken up for the reason that it was not under the purview of Ministry of Road, Transport and Highways (MoRTH).**

Thus, the ITIR, which was expected to generate turnover of ₹ 3,10,849 crore with employment to 68 lakh persons, remained a non-starter.

2.1.10.6 Construction of IMAGE tower in Gaming City

Animation and gaming industry was seen as a sun rise vertical in ITES sector. The Department proposed to build a Game tower (now termed as IMAGE[42] tower) to facilitate building up of incubation space, shared studios, processing labs, media centre.

Architectural and design consultancy services for construction of IMAGE tower at Hyderabad Knowledge City, Raidurg (HKC) was entrusted

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[41] (i) Road works, (ii) sewerage network, (iii) Solid waste management, (iv) Water supply, (v) electrical works, (vi) telecom network, (vii) rainwater harvesting and (viii) land development cost

[42] Innovation in Multimedia, Animation, Gaming and Entertainment

(November 2012) to M/s CR Narayana Rao, LLP. The location of the tower at HKC was changed to another place i.e., Game City, Raidurg as the originally earmarked land was allotted to another firm viz., M/s DLF Developers Private Limited (M/s DLF). In this connection, Audit observed the following:

- **After changing the site from HKC to Game City, TSIIC closed the contract with M/s CR Narayana Rao, LLP for reasons not on record and appointed a new consultant. This resulted in extra commitment of ₹ 15.14 crore[43] at agreement stage.**
- TSIIC paid ₹ 63.80 lakh to M/s CR Narayana Rao, LLP towards preliminary architectural designs, statutory approvals, structural designs etc., for Game tower at first location at HKC. Change in the location rendered this expenditure wasteful.

Government replied (November 2017) that construction in the site allotted to M/s DLF Developers Private Limited (DLF) could not be taken up due to presence of heritage structure nearby. Therefore, the land earmarked to IMAGE tower was allotted to DLF.

However, the fact remained that an amount of ₹63.80 lakh spent on designs etc., became wasteful for which the Government did not furnish any reply.

- **As per clause 5 of bid document for selection of second consultant, the bids submitted by consultant firms were inclusive of all taxes. After finalisation of tenders, TSIIC changed the clause 5 by including the words "*excluding service tax*" in the agreement. This resulted in undue commitment of ₹ 5.04 crore[44] at the agreement stage itself.**

The Government stated (November 2017) that the Service Tax of ₹2.58 lakh already paid (September 2016) to the agency was recovered (August 2017) by TSIIC.

However, no supplemental agreement was concluded by TSIIC to ensure regulation of future payments as per original bid document.

In a similar instance with respect of selection of Architect Consultant for T-Hub (Phase II) also, TSIIC included the words 'excluding service tax' after tendering and at the time of agreement. However, on this being pointed out by audit, TSIIC concluded a supplemental agreement duly rectifying the change.

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[43] calculated based on the difference of percentage between the original consultant firm (M/s CR Narayana Rao at 1.95 *per cent*) and new consultant firm (M/s Aarcop associates at 3.55 *per cent*) on the estimated cost of Image tower i.e, ₹ 946.00 crore (civil works)

[44] calculated at a rate of 15 *per cent* service tax on consultancy fee of ₹ 33.58 crore (i.e, 3.55 *per cent* of estimated project cost of ₹ 946 crore as per RFP (September 2017)

2.1.11 Monitoring of implementation

2.1.11.1 Monitoring of funds released to TSIIC / TSTS

Department was releasing funds to Telangana State Industrial Infrastructure Corporation (TSIIC) and Telangana State Technological Services Limited (TSTS) for taking up different infrastructure development activities:

(i) ***Telangana State Industrial Infrastructure Corporation (TSIIC)*****:** Audit observed the following lapses in respect of monitoring of funds released to TSIIC:

- **The unspent amount of ₹ 88.50 crore was available with TSIIC at the end of financial year 2016-17. Neither TSIIC informed the Department regarding the available balance with it at the end of year nor did the Department obtain the same.**

  Further, the procedure of submission of Utilisation Certificates (UCs), indicating total funds received from the Department and total expenditure incurred by TSIIC was discontinued after 2015-16. This gave scope for diversion / non-utilisation of funds meant for IT infrastructure development.
- **Utilisation Certificates (UCs) were furnished to the Department by TSIIC at the time of release of funds itself instead of after incurring expenditure on the specified purposes.** The Department was not monitoring utilisation of funds thereafter.
- The Department released funds/grants to TSIIC for development of infrastructure. However, TSIIC released (October 2015) ₹ 3.29 crore to T-Hub foundation towards operational activities of T-Hub.

(ii) ***Telangana State Technological Services Limited (TSTS)*****: Neither the Department nor TSTS furnished information regarding expenditure incurred by TSTS from out of the funds (₹150.49 crore[45]) released to TSTS.** However, UCs were promptly submitted in respect of funds released under National e-Governance Plan (NeGP).

Thus, there was no mechanism in place to monitor the utilisation of funds by TSIIC/TSTS. As a result, the Department was not in a position to ascertain availability or utilisation of funds either with TSIIC or TSTS provided for Infrastructure development. This affected further releases and monitoring of proper utilisation of funds already released.

The Government accepted the audit observation regarding UCs. It stated (November 2017) that it was being done to raise invoices to Finance Department for the release of Quarterly Budget. However, it was assured that

[45] 2014-15:₹52.68 crore, 2015-16: ₹24.25 crore and 2016-17: ₹73.56 crore

statements of account to monitor the utilisation of funds would be obtained from TSIIC and TSTS.

2.1.11.2 Monitoring of projects in the lands allotted

Audit observed the following deficiencies in monitoring the progress of development of infrastructure by IT firms on the land allotted.

Regular returns / reports were not prescribed from the firms for obtaining information on progress of land utilisation, built up space, investments, employment generation etc. As a result, the Department could not keep a watch on the progress of development.

The Government replied (November 2017) that it was obtaining updates through TSIIC on the construction activities. However, the fact remained that no returns / reports were prescribed by the Department / TSIIC to monitor the progress. Therefore, it was not clear as to how the updates could be obtained from TSIIC. Further, Department was not insisting on revised implementation schedules while according extensions of time. Reasons for allowing the firms to continue to hold land without development as per agreement were also not on record.

Audit test-checked eight cases and found that in none of the cases, (a) IT infrastructure projects were completed in time (***Appendix 2.2***); (b) investments were made as proposed (except by M/s Infosys Technologies Limited in Phase I, where investment made was ₹ 1677 crore much higher than the stipulated ₹ 400 crore); and (c) employment was generated as stipulated / agreed upon. Four cases are discussed below:

(i) M/s Brahmani Infratech Private Limited (BIPL)

Land allotted	:	250 acres
Memorandum of Understanding and handing over	:	July 2006
Cost of allotment	:	₹ 50 crore
Agreement of Sale and Sale deed execution	:	November 2006 and February 2009
Stipulated time for completion	:	Five years (i.e., by 2011)
Employment generation	:	Target – 45000; Achievement - Nil
Built up space	:	Target - 4.5 million sft; Achievements - Nil
Surrender of land and Amount of refund	:	January 2013 and ₹ 49.75 crore

Key findings:

- **The APIIC issued a notice (30 January 2009) to BIPL for not showing interest in the project. However, within two days of the notice, APIIC transferred (2 February 2009) the title deeds of 150 acres to BIPL, reasons for which were not on record. This was in contravention of agreement of sale[46].**

  The Government replied (November 2017) that the title deed was transferred to facilitate financing from lenders and address concerns of firm's clients. The reply was not acceptable as there was no provision for such facilitation in the agreement.

- **Clause 30 (j) stipulated cancellation of agreement with penalties in case of failure by the BIPL to fulfill its obligations. However, APIIC allowed BIPL to surrender the land as per clause 30 (b) of the agreement.** Further, APIIC did not even obtain legal opinion sought by it earlier in June 2012, before accepting the offer (October 2012) of BIPL to surrender of land.

  Agreement as well as APIIC regulations stipulated refund of amounts to BIPL at the option of APIIC with deduction of certain amounts after cancellation / surrender of land. **Against ₹ 14 crore of deductible amount (in terms of agreement of sale), APIIC deducted only ₹ 25 lakh ignoring other deductions and refunded ₹ 49.75 crore (January 2013). This resulted in undue benefit of ₹ 13.75 crore to BIPL and loss to APIIC.**

  The Government replied (November 2017) that the offer of surrender made by BIPL was accepted by APIIC Board to avoid litigations by BIPL. The refund of amounts was examined and made as per clause 30 (b).

  The reply was not acceptable as (i) APIIC did not wait for legal opinion and (ii) clause 30 (j) was to be invoked in case BIPL did not fulfill its obligations.

- Cost of structures constructed by the firm was to be paid by APIIC at its option, only on realising the cost of structure after re-allotment[47] of the land. **However, APIIC paid (May 2014) ₹ 2.30 crore to BIPL towards cost of structures without even re-allotment (as of March 2017). This resulted in payment of ₹ 2.30 crore to BIPL without re-allotment**.

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[46] Clause 15 of the agreement of sale which stipulated title of land shall be conveyed to BIPL only after construction of 4.5 msft and generation of employment to 45000 IT / ITES personnel within five years.

[47] clause 24.14/17.3 of APIIC regulations 2012 / 1998 for allotment and clause 30 (j) of agreement

The Government replied that BIPL had claimed ₹4.60 crore for structures. However, the decision to refund ₹2.30 crore (50 *per cent* of the structure cost) was taken duly evaluating the cost of structure and based on their possible demands in future. The reply was not acceptable as it was against APIIC regulations, which stipulated refund of cost of structures would be made on realising cost after re-allotment.

The objectives of creation of 4.5 million sft built up space and employment generation to 45000 IT / ITES personnel remained unachieved. In addition, APIIC allowed BIPL to exit without enforcing the penalties envisaged in the agreement.

(ii) M/s Wipro Technologies at Gopanapally and Vattinagulapally

Land allotted	:	101.03 acres
Memorandum of Understanding and land handing over	:	October 2005 and June 2007
Cost of allotment	:	₹40.41 crore
Agreement of Sale and stipulated time of completion	:	June 2007 and June 2012
Present status	:	Not completed; utilised 9 out 101.03 acres (May 2016)
Employment generation – Target and achievement	:	Target – 10000; Achievement - 700

Key findings:

- The suggestion of Industries and Commerce (I&C) Department (July and August 2005) to allot only 50 acres, instead of entire land at a time was ignored. I&C Department's opinion was vindicated as more than 90 acres remained unutilised for more than ten years.
- Out of 101.03 acres allotted, development in 49.61 acres of land in Vattinagulapally was not feasible due to environment reasons (as per orders[48] of Municipal Administration and Urban Development (MA&UD) Department). ITE&CD was aware of this, however, it went ahead with allotment.

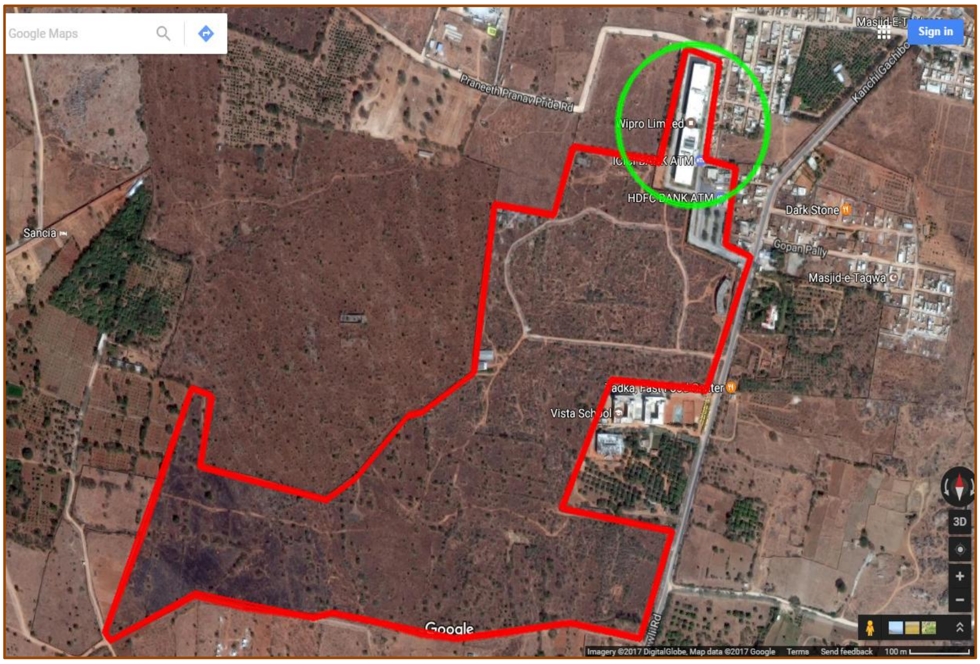
  The Government replied (April 2017) that the intention was to develop and make the area as next IT destination, which otherwise did not have any growth potential due to non-development regulations. The reply confirmed that the land was not useful for development purposes. Hence, allotment of

[48] G.O.Ms. No.111, dated 8.3.1996 lays down restrictions on lay outs and constructions around 10 km radius of Osman sagar and Himayat sagar lakes as per orders of Municipal Administration and Urban Development Department

such land did not serve the purpose of objective of development of IT infrastructure.

Even out of the remaining 51.42 acres at Gopanapally, Wipro utilised only 9 acres. The total area of 101.03 acres allotted to Wipro and area utilised can be seen from ***picture 2.1*** below:

Picture 2.1: Land allotted to M/s Wipro Technologies and area utilised



(***Source***: Annexure to agreement of sale embossed on Google Maps (area allotted to M/s Wipro is bordered in red colour and area utilized is marked in green colour circle))

The investment stipulation in MoU itself was much less when compared to previous land allotment to the same firm, as shown in ***Table 2.3***.

Table 2.3 : Details of MoU, land allotted and investment stipulated to M/s Wipro Technologies

Sl. No.	Description	Month / Year of MoU	Land allotted in acres	Investment stipulated (₹ in crore)
1	MoU for land at Manikonda	January 2001	30.00	100
2	Second MoU for land at Gopanapally and Vattinagulapally	October 2005	100.00	100

*(**Source**: Respective MsoU with Wipro as furnished by IT, E and Department*

Thus the purpose of land allotment for development of IT through investment by IT firms was affected due to specification of lesser investment at MoU stage itself.

Audit also noticed that M/s Wipro made (March 2006) higher investment proposal of ₹450 crore in its application. It also proposed employment generation to 15000 persons. APIIC stipulated lower specifications for investment and employment in the agreement of sale (June 2007). It stipulated investment of ₹ 100 crore and employment to 10,000 persons. This allowed Wipro to invest lesser amount and generate less employment compared to its own proposals.

Memorandum of Understanding (MoU) with the Wipro stipulated an investment proposal of ₹ 100 crore without any mention about the land cost. However, at the time of agreement, the words *"which include fixed assets including land"* were included in the agreement of sale, which were not mentioned in MoU. Thus, Wipro was relieved of investing ₹ 40.41 crore (being cost of land) even before commencement of the project.

Wipro informed (November 2013) the Department that it had invested more than ₹ 111.69 crore. However, this included ₹ 40.41 crore towards land and the net investment actually was only ₹ 71.28 crore.

The Government replied (June 2017) that it still believed that Wipro would bring more value in creating Gopanpally as a next IT destination. The Government further stated (November 2017) that instead of withdrawing the unused land, extension of timeline was considered.

(iii) M/s JT Holdings Private Limited

Extent of Land allotted	:	70 acres
Memorandum of Understanding and land handed over	:	December 2004 and May 2005
Cost of allotment	:	₹ 3.47 crore
Agreement of Sale and sale deed	:	October 2005 and May 2009
Stipulated time of completion	:	Seven years (i.e., by October 2012)
Present status	:	Not completed *(March 2017)*
Employment generation	:	Target 14000; Achievement : Not available

Key findings:

- **Clause 8 of the agreement of sale stipulated that land would be transferred to the firm only on completion of the project by the firm. However, project, title of the land was transferred to the firm by executing a sale deed (May 2009) even before completion of the project. As result, the Department could not enforce compliance criteria by the firm after transfer of title deed.**

The Government replied (November 2017) that the title deeds were transferred to facilitate approval as SEZ.

The reply was not acceptable as (i) the title deed was transferred in May 2009, after SEZ status was obtained (February 2009); (ii) MoU / agreement did not provide for such transfer and (iii) transfer of title deeds was not resorted to in respect of other IT firm projects which also were approved as SEZ. Further, the firm built only 1.5 lakh square feet (sft) against stipulated 10 lakh sft. The Department did not comply with recommendation (November 2016) of the CCITI to obtain timelines for implementation from the firm.

(iv) M/s Honeywell Technology Solution Lab

M/s Honeywell Technology Solution Lab was allotted (August 2006) 10 acres of land with a stipulation to complete the project in five years and employ 2000 persons. Honeywell did not fulfill its obligations of completing the project and creating employment to 2000 persons. The Department did not take any action cancel the allotment (March 2017). A penalty of ₹ 2.62 crore along with interest of ₹ 0.96 crore paid (July 2014) by the firm for shortage of 1310 employees along with a request to execute a sale deed in its favour, was returned by APIIC as per direction of the Department on the ground that sale deed can only be executed after fulfillment of conditions / obligations. On the other hand, the firm informed (January 2017) the Department that it cannot commit definite timelines.

The Government replied (November 2017) that the firm was requested to surrender the unutilised land of 4 acres. However, the firm has shown interest in utilising the balance land for creating office space as per implementation plans and hence, considering its commitment the firm was granted opportunity.

The reply was not acceptable in view of the stand of the firm that it cannot commit any definite timelines.

2.1.12 State Wide Area Network (SWAN)

State Wide Area Network (SWAN) was the backbone network for Government applications, data, voice and video communication between departments and offices. SWAN was implemented from 1999 onwards and a new SWAN replaced it from May 2011 with assistance from GoI under National e-Governance Plan (NeGP). SWAN consisted of two components viz., (i) vertical component from State headquarters to the block level and (ii) horizontal component across various departments at each level.

Government re-organised (October 2016) the administrative framework of districts and mandals by increasing the number of districts from 10 to 31 and number of mandals from 464 to 584. However, services of the existing SWAN operator were extended (June 2017) up to November 2017 without including new District Headquarters (DHQs) and Mandal Headquarters (MHQs) in the list of point of presence (PoP).

The Government replied (November 2017) that proposals were submitted to Finance Department as it required some budgetary support.

2.1.13 Conclusion

No land allotments were made during the last five years despite recommendations of CCITI / CCESDM. The Department did not ensure basic amenities before offering land parcels. Minimum use of allotted land for IT activities was not stipulated. There was no mechanism to monitor the development by IT firms within the time schedules. Before completing the projects, the title deeds were transferred to the firms.

Requirement of land, commitment / capability of the IT firms to invest and to complete the projects were not ensured. As a result the intended objectives of IT projects were not achieved. Prescribed procedures were not followed in the selection of consultants for T-Hub and Image tower. Undue benefits were extended to the consultant and constructing agency in T-Hub.

However, setting up of T-Hub innovation centre under Phase I was completed, in which 250 start-ups were incubated with 50 graduated ventures. The firms incubated / partnered with T-Hub have won several prestigious awards in the field of innovation.

2.1.14 Recommendations

Audit recommends the following:

- ***The Department may consider reviewing budget allocations vis-a-vis expenditure on subsidies towards incentives to firms.***
- ***Requirement of land by IT firms be assessed, and commitment for investment and completion of projects in a time bound manner may be ensured before allotment.***
- ***Progress of land utilisation by firms may be reviewed and kept in line with global trends and development model of the Government.***
- ***Government may consider to extend SWAN facilities to all the newly constituted districts / mandals with required number of points of presence.***

The Government accepted the recommendations in the Exit Conference (November 2017).