

Chapter III

3. COMPLIANCE AUDIT OBSERVATIONS

GOVERNMENT COMPANIES

Andhra Pradesh Power Generation Corporation Limited

3.1 Deviation from the terms and conditions of tender

After awarding the contract, Company awarded a supplemental item of extra lead with an additional financial burden of ₹ 7.10 crore despite terms and conditions in the tender stipulated that no extra lead would be payable under any circumstances.

Andhra Pradesh Power Generation Corporation Limited (Company) invited a tender for the work of strengthening of Ash Pond Bund No.II, at its Thermal Power Station⁹⁸. The tender contained *inter-alia* the following terms and conditions:

- Clause 29.00: Collection, supply and stacking of gravel material including cost and conveyance of all materials including taxes with all leads and lifts etc., complete for finished item of work as directed by Engineer-in-Charge;
- Clause 29.01: Payment should be made on the basis of cubic meters for finished items of works;
- Schedule C (Lead Statement) of tender specified that gravel should be obtained from Donabanda with a lead of 16 KMs and stipulated that no extra lead would be payable under any circumstances.

The Company awarded (February 2015) the work to M/s. AMR-KCL-RVR Joint Venture (Contractor) for ₹ 30.21 crore⁹⁹ based on bids received. The Company issued (February 2015) letter of intent to the Contractor. The Contractor entered into agreement with the Company in May 2015. The agreement contained the following terms and conditions:

- Clause 3: Contractor should obtain gravel from Donabanda with a lead of 16 KMs;
- Clause 16: Contractor should complete 10 *per cent* of work within one month, 40 *per cent* of work within six months, 75 *per cent* within 12 months and entire work within 18 months.

The Contractor, however, requested (December 2015) the Company for obtaining gravel from Polavaram Right Bank Canal (Polavaram) with a lead of

⁹⁸ Dr.Narla Tata Rao Thermal Power Station (Dr.NTPPS), Ibrahimpatnam, Krishna District, Andhra Pradesh.

⁹⁹ Quoted amount was 4.09 *per cent* excess on estimated cost of ₹ 29.02 crore.

42 KMs. The Contractor requested for extra lead of 26 KMs¹⁰⁰ on the plea that (i) cost of land in Donabanda for supply of gravel increased due to bifurcation of State and (ii) sample of the soil at gottimukkala site panchayat (in Donabanda) failed in the relevant tests. The request of Contractor was accepted and a supplemental agreement (June 2016) was executed for additional item with the Contractor.

Audit observed that the Company approved the supplemental item for additional lead involving additional costs, despite the terms and conditions of the tender and agreement which clearly stipulated that no extra lead would be payable under any circumstances. Thus, the action of Company in awarding supplemental item was not justified as it disregarded the impact of the delay and slow progress caused by the Contractor.

Audit further observed that the bund was to be completed before monsoon season of 2016 to ensure its safety. It was noticed that the bund embankment was necessary as the ash slurry may flow into the surrounding fields and nearby villages. As per the agreement the Contractor was to complete the work by October 2016. The Contractor, not only delayed in entering into agreement and also had not achieved the milestone as per the agreement as shown in the Table No. 3.1:

Table 3.1: Statement showing the details of milestones vis-à-vis actuals

Sl. No.	Period after date of commencement, i.e. May 2015.	Cumulative <i>per cent</i> of the work to be completed based on contract amount	Actual achievement in <i>per cent</i> (July 2016)
1	At the end of 1 st month	10	0.58 (May/ June 2015)
2	At the end of 6 th month	40	4.18 (October 2015)
3	At the end of 12 th month	75	12.68 (April 2016)
4	At the end of 18 th month	100	22.46 (July 2016)

Source: Agreement with contractor and statement of progress of work

The contractor had completed only 5.05 *per cent* of the work at the time of his request for obtaining gravel from polavaram in December 2015.

The Company awarded supplemental item valuing ₹ 7.10 crore to the Contractor contrary to the tender provisions even though the Contractor delayed the work. Award of supplemental item resulted in an additional financial burden of ₹ 5.09 crore¹⁰¹ (upto July 2017) to the Company.

The Government in reply (October 2017) stated that during execution of work, Chief Engineer/ O&M informed that gravel at Donabanda was not available. The land owners/ farmers were unwilling to give gravel from their land even though they were approached through Revenue Department. The soil test of the land of the only land owner willing to provide gravel was not suitable. It further stated that the reason for non-availability of gravel at the source was beyond the reach of APGENCO/ Contractor. If the bund is not strengthened there would be damage/ slips thereby all the Units would be forced to shut

¹⁰⁰ 42 KMs lead for Polavaram minus Original lead of 16 KMs for Donabanda.

¹⁰¹ Value of supplemental work done is calculated based on gravel obtained and used in the bund.

down due to non-availability of ash pond. In view of the above the supplemental item was considered as per Clause 24 of the tender.

The Government's reply was not tenable as the Contractor had submitted the bid for the contract considering all the provisions of the tender. The Contractor not only delayed entering into agreement but also had not completed the work as per milestones even though reminded by the Company several times. Thus, it was evident that the delay in execution of work resulted in a situation where the Company had to award supplemental item considering the importance of work. Further, the additional lead awarded was contrary to the terms and conditions of contract. The Company should consider taking punitive action against the Contractor.

STATUTORY CORPORATION

Andhra Pradesh State Road Transport Corporation

3.2 Non-Operating Revenue in Andhra Pradesh State Road Transport Corporation

3.2.1 Introduction

The Andhra Pradesh State Road Transport Corporation (Corporation) is a Statutory Corporation established¹⁰² under The Road Transport Corporations Act, 1950. The Corporation had maintained separate records from 3 June 2015 after bifurcation of State. It is under the administrative control of Transport, Roads and Buildings Department of Government of Andhra Pradesh (GoAP).

It provides transportation services to commuters within and outside the State through 11,799 buses¹⁰³ held as of 31 March 2017. The Corporation also has non-operating revenue, which mainly includes:

- **Rent:** From leasing out of stalls, shops, canteens, open spaces etc, in the bus stations;
- **Advertisements:** By sale of advertising rights for advertisements in the premises of bus stations, on/in buses;
- **Others:** By sale of scrap (vehicles and materials), interest on bank deposits, dividends, interest on advances to employees.

The non-operating revenue accounted for 3.28 *per cent* during 2016-17 and the average for last three years worked out to 2.84 *per cent* of the total revenue. Non-operating Revenue (NOR) showed a growth of 64.76 *per cent* over the three years 2014-17.

¹⁰² Established on 11 January 1958 by the State Government under Section 3 of the Road Transport Corporations Act, 1950 as its wholly owned Corporation.

¹⁰³ Includes 2,707 hired buses.

3.2.2 Organisational set up

The Management of the Corporation is vested with Board of Directors (Board) headed by a Vice-Chairman & Managing Director.

3.2.3 Methodology and sampling

Audit was conducted from 31 March 2017 to 31 May 2017. The objective was to seek an assurance that the policies and practices for maximizing the non-operating revenue from rent and advertisement were effective. The Corporation had 12 Regional Offices, out of which records at five¹⁰⁴ Regional Offices and Head Office were reviewed.

3.2.4 Audit Findings

The deficiencies noticed in audit are as under:

3.2.4.1 Irregular allotment of stall in Krishna Region

As per the instructions issued (July 2012) by the Corporation, the tender committee should assess the prevailing market price before inviting tenders.

The Corporation allotted (August 2015) on nomination basis an open space¹⁰⁵ admeasuring 4,356 sqft. in Pandit Nehru Bus Station (PNBS), Vijayawada, to an entrepreneur¹⁰⁶ on lease for setting up of two mini digital theatres. The space was allotted at a license fee of ₹ 3,53,185 (@ ₹ 81.08 per sqft.) per month for a period of five years¹⁰⁷. The entrepreneur had requested (December 2015) for allotment of an additional space of 3,773¹⁰⁸sqft. in the same premises for setting up of food court and installing generator, bore etc. The Corporation had allotted the additional space at the same rate of license fee for a period of 15 years¹⁰⁹.

The Corporation had allotted (March and July 2014) another two open spaces¹¹⁰ for running bakery in the same premises through open tenders @ ₹ 246 and ₹ 253/per sqft., which were much higher than that of allotment on nomination basis.

Thus, the allotment on nomination basis led to loss of revenue of ₹ 0.91 crore¹¹¹ (upto September 2017) in respect of additional space of 2,640 sqft. allotted for use in food court. The Corporation had also to suffer loss of revenue for the remaining agreement period.

¹⁰⁴ Ananthapuramu, Chittoor, Krishna, Kurnool and Visakhapatnam.

¹⁰⁵ The ground floor of PNBS.

¹⁰⁶ M/s.Aditya Pranava Infra & Management Services India Private Limited, Vijayawada.

¹⁰⁷ From 12 September 2015 to 11 September 2020.

¹⁰⁸ 2,640 sqft. (food court) + 1,133 sqft. (generator, bore, etc).

¹⁰⁹ Upto 11 September 2030.

¹¹⁰ Stall Nos. A-47 and A-52.

¹¹¹ 2,640 sqft. x (₹ 246 - ₹ 81.08) x 21 months (January 2016 to September 2017) = ₹ 0.91 crore.

Government replied (October 2017) that for lesser areas of occupation, license fee will be more whereas for larger area the license fee will be less.

Reply of Government was not acceptable as the Corporation had not analysed the prevailing market rates as instructed in July 2012. However, the stall was allotted on nomination basis without inviting the tenders.

3.2.4.2 Cancellation of stalls at Tirupathi Bus Depot

With a view to developing an ‘Elegant Corporate Structure’ at Tirupathi Bus Depot, Corporation terminated (November/ December 2016) the agreements with licensees of eight allotted stalls¹¹² in the Depot. Subsequently, Corporation re-allotted (October 2016) a total space of 32,280 sqft including the space of these eight stalls, to a new licensee¹¹³ for 25 years on nomination basis. The license fee fixed was ₹ 8.15 lakh per month. The Corporation, again cancelled this allotment (March 2017) within a short span of five months.

Audit observed that the Corporation had terminated the agreements without any firm planning for development of the depot. It cancelled the subsequent allotment also without any justification. Therefore, the eight stalls, which were already allotted, remained vacant from December 2016 to September 2017, due to premature termination of agreements and not taking up any developmental activity. Thus, due to lack of firm planning for development of the Depot caused loss of revenue of ₹ 22.65 lakh¹¹⁴ to the Corporation.

Government replied (October 2017) that the firm was awarded contract under Public Private Partnership for 25 years with an objective to realise more commercial revenues. It further, replied that subsequently the Corporation called for tenders for four shops and excluded the remaining four shops because they are obstructing the passenger entry to the Bus Station.

Government’s reply was not acceptable as the Corporation cancelled the existing licensees of eight stalls without having a proper plan in place for developing the area.

3.2.4.3 Non-recovery of dues from Build Operate and Transfer agencies

The Corporation had awarded contracts to two agencies¹¹⁵ for development of vacant lands at two locations¹¹⁶ under Build Operate and Transfer basis for a period of 33 years. However, the lease deed in respect of both the agencies was not registered with the concerned Government Authority. As per terms

¹¹² March 2016 to March 2020 (Stall No.SH-2), March 2014 to March 2019 (Stall No.SH-41), October 2012 to October 2017 (Stall No.SH-42), July 2012 to July 2017 (Stall No.SH-44 & 45), March 2016 to March 2021 (Stall No.SH-62), March 2014 to March 2019 (Stall No.SH-64), January 2016 to January 2021 (Stall No.SH-65). The total area was admeasuring 4,424 sqft.

¹¹³ M/s.Bioscope Films.

¹¹⁴ From November/ December 2016 to September 2017.

¹¹⁵ (1) M/s Greenwood Malls and Multiplexes Private Limited & M/s.Prathyasha Resources & Infra Private Limited from 2.12.2013 to 1.12.2046 for Annual Premium of ₹ 30,29,000 (2) M/s.S.S.Paramtej Infrastructure Private Limited & M/s.Visishta Constructions from 8.03.2015 to 7.03.2048 for Annual Premium of ₹ 24,23,000.

¹¹⁶ (1) Visakhapatnam (7,573 sq. yards) (2) Rajahmundry (2,423 sq.yrds).

and conditions of the agreements, the agencies had to pay annual premium fee from the date of agreement and additional development premium (after three years from the date of agreement). In case of delay in payment, penalty @ 18 per cent per annum would be collected from the agencies.

Scrutiny of the details of amounts to be collected from the agencies revealed that an amount of ₹ 2.67 crore was outstanding from the agencies as on March 2017. The details are in Table No.3.2:

Table 3.2: Statement showing details of amounts collected from agencies

Sl. No.	Agency	Dues outstanding as on March 2017 (₹)	Security Deposit collected from the agency (₹)	Dues outstanding over and above Security Deposit (₹)
1.	Agency-1	1,62,37,190	71,25,000	91,12,190
2.	Agency-2	1,04,26,086	20,01,000	84,25,086
Total		2,66,63,276	91,26,000	1,75,37,276

Source: Information furnished by the Corporation.

Audit observed that Corporation accepted part payments from the agency on several occasions though the terms of agreement stipulated for payment of full license fee. Due to acceptance of part payments, the short payments accumulated to ₹ 2.67 crore as on March 2017. Audit further observed that though Corporation issued termination notices to the agencies, it would not be able to proceed legally to recover the dues due to non-registration of lease deeds.

Government replied (October 2017) that the action would be taken to terminate the contract of the Agency-II after forfeiting the SD and Bank Guarantee (BG). It further stated that for Agency-I, the Corporation had BG for ₹ 71.25 lakh. It also stated the Agency-II had submitted the lease deed to concerned authority for registration.

Reply of Government was not acceptable as the Corporation was to collect the dues regularly but failed to do so. Further, it also had to get the lease deed registered by the agencies within four months of execution of agreement. The Corporation failed to get the lease deeds registered so far (October 2017). The Corporation had accepted part payments from the agencies, which resulted in accumulation of dues and interest of ₹ 2.67 crore.

3.2.4.4 Non-collection of pro-rata license fee for the encroached area

As per terms and conditions of the agreements entered into with the licensees in respect of stalls/open space allotted in bus stations, the licensees were to be levied a penalty of ₹ 1,000 for any breach of condition in the agreement. Test check revealed that the 74 licensees had encroached upon open space, measuring a total of 15,000 sqft. The encroachment was in excess of the area allotted. Corporation had collected an amount of ₹ 0.61 lakh from the licensees towards encroached area. In 49 cases, Corporation collected penalty

of ₹ 1,000 from each licensee, in 2 cases proportionate license fee was levied and in remaining 23 cases no penalty was collected for the encroached area.

Audit observed that the agreements with the licensees had penal clause of ₹ 1,000 for each encroachment instead of collecting pro-rata license fee for the encroached area. The license fees for the encroachment works out to ₹ 2.15 crore (*Annexure 3.1*) on pro-rata basis for the period April 2013 to February 2015 whereas the penalty ₹ 0.61 lakh only was levied during the period. This had resulted in loss of revenue of ₹ 2.15 crore.

Government accepted the audit observation and replied (October 2017) that action would be taken to incorporate a suitable clause in the agreements for charging license fee on pro-rata basis for area encroached by the licensee.

3.2.4.5 Non-recovery of Service Tax from the licensees

Rental income from immovable property was taxable under Section 66B of Finance Act, 1994 as per the Government of India Notification No.30/2012 dated 20 June 2012 of Service Tax. However, after a delay of 21 months, the Corporation issued a ‘circular’ (April 2014) for mandatory collection of ‘Service Tax’ on the license fee, in respect of the agreements entered after April 2014.

Further, in respect of agreements entered before April 2014, the Corporation had considered the license fee received as inclusive of Service Tax. However, as per the agreements, the license fee was exclusive of taxes and the licensee had to pay all applicable taxes.

Audit observed that the circular (April 2014) for collection of Service Tax was issued two years later from issue of Notification (No.30, dated 20 June 2012) by the Government of India. Thus, the Corporation could not collect ST in respect of the licensees with whom Corporation entered into agreements between June 2012 and April 2014. The reasons for delay in issuance of circular were not available.

Thus the Corporation had to pay ST of ₹ 9.83¹¹⁷ crore out of its own resources. The Corporation had paid of ₹ 7.46 crore to the tax authorities as of date (March 2017) and balance ₹ 2.37 crore was yet to be paid. Thus the payment of taxes out of its own resources was loss to the Corporation and undue benefit to the licensees.

Government replied (October 2017) that in all the existing contracts entered prior to the issuance of circular, ST clause was not included in the respective agreements and it would not be ethical on the part of the Corporation to levy ST on these contracts. It further stated the burden of ST was borne by the Corporation duly reducing the license fee.

¹¹⁷ ₹ 7.46 crore from July 2012 to March 2014 and ₹ 2.37 crore from April 2014 to March 2017.

The reply was not acceptable, as the license fee was exclusive of taxes and thus it was mandatory to pay Service Tax as per the Finance Act, 2012.

3.2.4.6 Non-allotment of advertisement rights

As per instructions issued by the Corporation, tenders were to be invited within three months before expiry of the existing agreements. In case the tenders were not invited for any reason, the existing contracts were to continue till fresh contracts were awarded.

In three Regions¹¹⁸, Corporation had awarded contracts to advertisement agencies for display of advertisements on three types¹¹⁹ of buses. The contracts expired in September 2016.

Audit observed that the Corporation had neither awarded fresh contracts even after lapse of six months nor extended the existing contract to ensure continuous flow of advertisement revenue. As a result, Corporation lost revenue of ₹ 77.26 lakh (September 2016 to March 2017). The details are in Table No. 3.3:

Table 3.3: Statement showing details of buses not awarded after lapse of contract

Name of the Region	No. of buses	Date of expiry of the agreement	Period lapsed from date of expiry (upto March 2017)	License fee per month (in ₹)	Loss of revenue (₹ in lakhs)
Krishna	763	September 2016	6 months	916	41.93
Guntur	730	September 2016	6 months	503	22.03
West Godavari	398	September 2016	6 months	557	13.30
Total					77.26

Source: Information furnished by the Corporation.

The Government replied (October 2017) that Corporation had not allotted fresh tenders after expiry of the existing contracts as it approached Information & Public Relations Department (I&PRD), GoAP to obtain Government related advertisements directly.

The reply of the Government was not acceptable as Corporation neither initiated action to invite tenders nor extended the existing contracts to ensure continuous flow of revenue.

3.2.4.7 Irregular refund of license fee of advertisement contract for display of advertisements on hired buses

The Corporation entered into 12 agreements (between August 2013 and June 2014) with three licensees¹²⁰ for display of advertisements in and outside

¹¹⁸ Krishna, Guntur and West Godavari.

¹¹⁹ Express, City Ordinary, Palle Velugu buses.

¹²⁰ M/s.Koushik Group (one agreement), M/s.UNI Ads (nine agreements), M/s.Valayam Creations (two agreements).

buses¹²¹ hired by it. The terms of agreements with both the owners of hired buses and advertisement agencies provided the right to the Corporation to utilise the hired buses for advertisements.

The advertisement licensees paid monthly license fee in respect of both owned and hired buses against their respective advertisement contracts till April 2014. Subsequently, one advertisement licensee¹²² (which had 9 out of 12 agreements) had not paid the license fee in respect of hired buses allotted to it for displaying advertisements. The licensee requested (April 2014) the Corporation to exclude the hired buses from the purview of advertisement contract, as the owners of hired buses did not permit advertisements on their buses. The licensee also requested the Corporation to refund the license fee already paid in respect of these hired buses. Accordingly, the Corporation excluded (December 2015) the hired buses retrospectively (March 2014) from the purview of advertisement contract. Subsequently, based on similar requests from other two licensees¹²³, the Corporation excluded the hired buses from the purview of advertisement contracts retrospectively. The Corporation adjusted license fee of ₹ 0.79 crore, already paid by the above three licensees against the license fee payable in respect of display of advertisement on its own buses for the subsequent period till March 2017.

Audit observed that the Corporation had not enforced the terms of agreement to insist the advertisement agencies for display of advertisement on hired buses though the Corporation had already entered into agreements with hired bus owners, which included advertisement rights. Thus, withdrawing the hired buses from the purview of advertisement contract on the request of the advertisement agencies and refunding the license fee was contrary to the terms of agreements with advertisement agencies. **This resulted in loss of revenue of ₹ 5.27 crore for the period upto September 2017 (including ₹ 0.79 crore).**

The Government replied (October 2017) that most of the hired buses were new and the owners were worried about the appearance of the buses after defacing of advertisements. It also stated that to solve the problem amicably without penalizing the parties, it had excluded the hire buses retrospectively and license fee already paid was refunded.

The reply of Government was not acceptable as the hired bus owners had agreed to allow the Corporation to display advertisements on their buses as per the terms and conditions of agreements. Thus, the withdrawal of advertisement rights was contrary to the agreement terms and conditions.

3.2.4.8 *Non-recovery of license fee from the advertisement agencies*

As per Clause 8 of agreement, if the advertisement agency (licensee) fails to pay the monthly license fee for three consecutive months or fails to pay

¹²¹ Pallelugu and Express.

¹²² M/s.UNI Ads.

¹²³ M/s.Koushik Group and M/s.Valayam Creations.

monthly instalment within stipulated period thrice during the course of a calendar year, the Corporation shall have the right to terminate the contract. Corporation entered (September 2011) into agreement with a licensee¹²⁴ for ‘display of advertisements on the buses¹²⁵ under Krishna Region. The period of agreement was for five years from September 2011 to September 2016.

Corporation terminated (14 September 2016) the agreement as the licensee was not regular in payment of license fee as per the agreement. The Corporation terminated the agreement in September 2016 just one day before the normal expiry date of the agreement. The accumulated dues of license fee as on date of termination of agreement were ₹ 138.04 lakh.

Audit observed that Corporation accepted part payments from the agency on several occasions though clause 7 of the agreement with advertisement agencies stipulated for payment of full monthly license fee. Due to acceptance of part payments, the short payments accumulated during the agreement period. Audit further observed that Corporation had not initiated any action for recovery of outstanding dues. These outstanding dues exceeded the Security Deposit in June 2015. Corporation had forfeited Security Deposit of ₹ 47.33 lakh against the dues of ₹ 138.04 lakh. Thus, Corporation had suffered a loss of ₹ 90.71 lakh due to non-pursuance of dues.

Government replied (October 2017) that a Civil Suit was filed (March 2017) to recover the outstanding license fee.

Reply was not acceptable as the Corporation failed to recover the dues as per agreement.

Conclusion

The Corporation had not followed open tender and allotted open spaces at lower rates than the prevailing market rates. The Corporation allowed accumulation of license fees, lease premium over and above the available Security Deposit resulting non-safeguarding of its financial interest. The agreement with the licensee in respect of shops/open spaces did not include stipulation for collection of pro-rata license fee in respect of the encroached area in addition to the allotted space. The Corporation did not collect the Service Tax from the licensees, though the agreements provided for collection of all taxes, resulting in liability on the Corporation. The Corporation did not enforce the terms and conditions of hired bus/ advertisement agreements and excluded and refunded the license fee in respect of advertisement contract, thereby losing an opportunity to revenue.

¹²⁴ M/s.Shubakurthi Ads.

¹²⁵ Pallevelugu buses, Express buses, City buses of above two years old and all buses purchased under JNNURM.

3.3 Avoidable interest

Failure to draw term loan funds on need basis for procurement of buses led to parking of funds in short deposits resulting in avoidable interest burden to the tune of ₹ 4.52 crore.

The Andhra Pradesh State Road Transport Corporation (Corporation) approached State Bank of India (SBI), Hyderabad (October 2015) and Housing and Urban Development Company Limited (HUDCO) Vijayawada (January 2016) for term loan of ₹ 400 crore for purchase of buses. SBI and HUDCO sanctioned ₹ 100 crore (interest @ 10.80 *per cent* per annum) (February 2016) and ₹ 300 crore (interest @ 10.65 *per cent* per annum) (March 2016) respectively.

The terms and conditions (Clause 2.5) of loan agreement with HUDCO provided for disbursement of loan in one lumpsum or in suitable number of installments to be decided by the HUDCO with reference to the need or progress of implementation of project. Further, as per the sanction letter/ terms and conditions of agreements with SBI/ HUDCO the loan fund should be used only for the purpose for which the funds were sanctioned.

As per the schedule of payment for purchase of buses, the Corporation was to make payments from June 2016 to June 2017. The payment schedule was based on the number of buses supplied by the suppliers.

Scrutiny of the details of drawal and utilization of loan amounts by the Corporation, revealed that the Corporation drew ₹ 100 crore (February/ March 2016) from SBI. Out of this, the Corporation utilized (February to May 2016) ₹ 57 crore for purchase of buses. The balance loan of ₹ 43 crore was deposited (March 2016) in short-term deposits at interest rate of 7.30/6.75 *per cent* per annum in other Banks till 30 October 2016. The Corporation earned interest of ₹ 1.86 crore on these deposits during the period and paid interest of ₹ 2.81 crore for the same period. Similarly, out of the loan of ₹ 300 crore drawn (March/ May 2016) from HUDCO, the Corporation utilised ₹ 23 crore for purchase of buses (during July & August 2016), and spent ₹ 6 crore on other activities. The Corporation had deposited the remaining ₹ 271 crore in short term deposits (interest @ 6.50 to 9.03 *per cent* per annum) in other banks. The Corporation had earned interest of ₹ 7.47 crore on deposits from March 2016 to November 2016 and paid interest of ₹ 11.04 crore for the same period.

Audit observed that the purpose of the loan taken from the Bank/ HUDCO was not fulfilled. It was a clear deviation of the terms & conditions of sanction/ agreement with Bank/HUDCO.

Further the Corporation had to bear an unavoidable interest of ₹ 4.52 crore on the unutilised loan amount. This liability would have been avoided were the loans drawn as per need.

Government replied (August 2017) that the SBI and HUDCO used to

continuously request the Corporation to avail term loans. The Corporation had withdrawn the same as it felt that if the loans were not drawn immediately, the banks might withdraw the sanction. The Government, however, stated that Corporation was instructed to avail loan on need basis only.

3.4 Avoidable extra expenditure

Corporation procured medicines from the Distributor at higher rates instead of following the established system of procuring from drug manufacturers by inviting tenders, thus incurring an extra expenditure of ₹ 1.75 crore.

The erstwhile Andhra Pradesh State Road Transport Corporation (APSRTC) established a Hospital at Hyderabad in 1978 to cater to the medical needs of all its employees and had 34 dispensaries. Consequent upon Reorganisation of Andhra Pradesh State, the residuary Andhra Pradesh State Road Transport Corporation (Corporation) started functioning separately from 3 June 2015. The Corporation shifted its administrative machinery to Vijayawada, with effect from 27 June 2016. After bifurcation of APSRTC, the hospital and 14 dispensaries came under the control of Telangana State Road Transport Corporation (TSRTC). The Corporation was left with 20 dispensaries to provide medical facilities to its employees in the residual state of Andhra Pradesh.

As per the system in vogue before bifurcation, APSRTC (Contract Cell) procured the medicines from identified/ approved drug manufacturers registered with it, by inviting limited tenders. The procurement was based on the indents received from the Chief Medical Officer/Hospital and Dispensary Doctors. After bifurcation, the Corporation continued to meet the requirements of medicines for its dispensaries through the Hospital (TSRTC) till April 2016. As such the medicines required by the Corporation were also procured by TSRTC from the drug manufacturers as per the existing system of inviting tenders.

However, as the supply of medicines from the Hospital to its dispensaries was poor, the Corporation decided (April 2016) to procure medicines from M/s Apollo Pharmacy Limited (Distributor). As per procurement order, the Distributor will supply the medicines/ surgical items/ IV fluids/ consumables¹²⁶ to the dispensaries. Further, the Distributor had to supply branded admissible life-saving medicines to the beneficiaries¹²⁷ of the Corporation through its outlets from May 2016 onwards. The Corporation procured medicines costing ₹ 2.30 crore (at a discount of 17.50 per cent) from the Distributor during the period May 2016 to March 2017.

Audit observed that the Corporation had not followed the system of procuring medicines by inviting limited tenders from the drug manufacturers, as was done by APSRTC before bifurcation. The TSRTC had continued the past practice after bifurcation. However, the Corporation procured the medicines

¹²⁶ As per the requirement of Dispensaries against the separate monthly indents made by the Dispensaries.

¹²⁷ To the employees at the outlets of the Distributor against separate prescriptions issued by the Dispensary Doctors.

from the Distributor at higher rates. Audit further observed that the manufacturers were offering discounts from 50 to 90 *per cent* on MRP. The Corporation procured medicines of ₹ 2.30 crore from the Distributor during the period May 2016 to March 2017. The cost of the medicine worked out to ₹ 0.55 crore (*Annexure 3.2*), if procured from manufacturers directly. Thus, by procuring the medicines from Distributor at rates much higher than the rates of manufacturers, the Corporation had to incur an extra expenditure of ₹ 1.75 crore.

Government replied (August 2017) that necessary manpower and infrastructure is being acquired and procurement of medicines will be taken-up by restoring the earlier system.

Hyderabad
The 21.03.2018

(L. TOCHHAWNG)
Principal Accountant General (Audit)
Andhra Pradesh

Countersigned

New Delhi
The 22.03.2018

(RAJIV MEHRISHI)
Comptroller and Auditor General of India