CHAPTER III
Compliance Audit Paragraphs relating to PSUs

CHAPTER-III:
COMPLIANCE AUDIT PARAGRAPHS RELATING TO PSUs

Section 5: Compliance Audit Paragraphs relating to Power Sector PSUs

Important audit findings emerging from test check during the audit of the power sector PSUs are included in this section.

Assam Power Distribution Company Limited

3.5.1 Undue benefit

The Company extended an undue benefit of ₹ 1.87 crore to the contractor by making payment (₹ 0.60 crore) against undelivered materials and releasing the LD amount (₹ 1.27 crore) despite delay in completion of work.

Assam Power Distribution Company Limited (Company) issued (April 2013) a Letter of Award (LoA) to N.K Power infrastructure[115] (contractor) for execution of strengthening and upgradation of sub-transmission and distribution works of project areas under Tezpur Electrical Circle (TEC) at a contract value of ₹ 12.86 crore (including ₹ 6.07 crore for Tezpur project area) under the R-APDRP scheme. The work was to be completed by September 2014 (subsequently extended up to 30 June 2016). The Company declared the work as completed on 20 June 2016.

Audit observed that:

The work in the Tezpur project area included the supply and erection of Automatic Power Factor Controller (APFC) at 10 MVA power Transformer and also construction of UG cable at railway track crossing with the supply value of materials being ₹ 1.06 crore[116] and 0.19 crore[117] respectively. The Company released (December 2015) a payment of ₹ 5.64 crore to the contractor, which included ₹ 1.25 crore against supply of materials relating to APFC and railway crossing.

It was however seen that although the Company declared the work as completed on 20 June 2016, the Nodal Officer, R-APDRP of the Company directed (September 2017) the contractor to complete the erection and commissioning of APFC and railway track crossings within 31 December 2017. The Assistant General Manager, Tezpur Electrical Division intimated (January 2020) the Chief Executive Officer, TEC with a copy to the Nodal Officer, R-APDRP that the contractor delivered materials relating to APFC valuing ₹ 0.65 crore against the total ordered (paid) value of ₹ 1.06 crore. The AGM further intimated that no record of any material supplied by the contractor against materials relating to railway crossing valuing ₹ 0.19 crore could be found or traced.

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[115] Previously known as M/s Power and Infrastructure

[116] ₹ 1,01,67,904.76 + ₹ 5,08,395.24 (being work contract tax of 5 *per cent* x ₹ 1,01,67,904.76)

[117] ₹ 17,71,314.30 + ₹ 88,565.72 (being work contract tax of 5 *per cent* x ₹ 17,71,314.30)

Thus, the Company had irregularly released an amount of ₹ 0.60 crore to the contractor, although the materials against the same was not received by the Company (as of September 2021).

(ii) The decision of the Company to declare the project as completed in June 2016 was not correct, which has also been accepted (September 2016) by the Company and was further corroborated from the internal communications within the Company. Moreover, it was seen that the Company deducted (March 2018) an amount of ₹ 1.27 crore as liquidated damage (LD) on the basis of submission by TEC that the project was completed in June 2017. The LD was however, released (November 2018) to the contractor citing that the project was completed within the scheduled completion period *i.e.* in June 2016 and not June 2017 as mentioned by TEC. The fact however, remained that the project was not completed even in September 2021. As there were incomplete works, the release of LD amount of ₹ 1.27 crore to the contractor by mentioning incorrect completion date (June 2016) was also irregular.

Thus, the Company extended undue benefit to the contractor by releasing payment of ₹ 0.60 crore[118] without receipt of materials. Further, the decision of the Company to declare an ongoing project as completed (June 2016) and release of LD amount of ₹ 1.27 crore there against to the contractor was irregular and lacks justification.

The Government/Company in its reply accepted (December 2021) that no records of supply of materials relating to APFC and railway crossing is traceable and the work on installation of the APFC and the railway crossing is still pending. The Company further stated that it has appraised the matter to the contractor regarding recovery of LD, while the Government has directed the Company to constitute a committee to enquire into the anomalies.

Recommendation: The Company may take necessary steps against the contractor to complete the work and fix responsibility for the lapse and ensure effective monitoring of scheme implementation according to guidelines to avoid recurrence of such irregularities.

[118] Supply of materials: ₹ 1.25 crore - ₹ 0.65 crore= ₹ 0.60 crore

Assam Electricity Grid Corporation Limited

3.5.2 Lack of policy for investment of surplus funds

In absence of prescribed investment policy, the Company invested its surplus funds in STDRs without analysing the different rates of interest offered by the bank and thereby sustained loss of potential revenue of ₹ 0.48 crore.

As a part of a prudent financial management system, it is essential that there is a well devised investment policy in any organisation to manage its surplus funds. Government of Assam, however, did not have any policy on investment of surplus funds by the State PSUs. This is unlike the case of Government of India, where the Department of Public Enterprises (DPE) periodically issues detailed guidelines on investment of surplus funds by the Central Public Sector Enterprises (CPSE).

As per the DPE guidelines (May 2017), decisions on investment of surplus funds shall be taken by the Board of Directors of the CPSE. However, decisions involving investing short-term surplus funds up to one year maturity may be delegated up to prescribed limits of investment, to a designated group of Directors, which should invariably include Chairman cum Managing Director and Director (Finance)/Head of Finance internally. Where such delegation is exercised, there should be a proper system of automatic internal reporting to the Board at its next meeting in all cases.

The investment policy of the CPSEs generally focuses on (i) Responsibility and Authority (ii) Criteria for obtaining bank interest card rates (iii) Procedure for determination of surplus fund and date of investment (iv) Functions of the Investment Cell (v) Procedure for recommending Investment Proposal (vi) Approval for release of payments *etc*.

Audit observed that Assam Electricity Grid Corporation Limited (Company) did not have any investment policy or any designated committee to decide on the investments. The decision on short term deposits (STDs) were taken by the officials in the Finance and Accounts wing of the Company with the approval of the Managing Director. The amount of investment in STDs, which was ₹ 415.56 crore in 2017-18 increased to ₹ 898.23 crore in 2020-21. An instance of loss of interest income during 2017-20 owing to lapse in decision making on investments is highlighted below:

The summary of investments by the Company in the State Bank of India (SBI), which was invested for the first time on 31 March 2018, is as given in **Table *3.4.1.***

Table 3.4.1: Details of investments by the Company

Particulars	2017-18	Rate of Interest	2018-19	Rate of Interest	2019-20	Rate of Interest
Lumpsum investment of ₹ 10 crore (closed on 03 April 2021)	10,00,00,000	7.00	10,64,65,285	6.70	11,30,48,249	3.70
Investment by splitting the amount to 46 STDs	40,50,20,000	6.40	42,89,07,494	6.80	45,58,25,123	5.70

Following deficiencies in the system of investment of funds in STDs were noticed while placing the STDs with SBI, which had resulted in loss of significant interest income:

(i) The Company had invested (31 March 2018) an amount of ₹ 10 crore in STDs with SBI bearing an interest of 7 *per cent*, while it invested another ₹ 40.50 crore[119] with SBI, which was split to 46 STDs of below ₹ 1 crore bearing an interest of 6.40 *per cent*, with a maturity period of one year (31 March 2019). Had the Company invested the entire amount in lump sum, it could have earned the higher interest rate of 7 *per cent*. Consequently, the Company lost the opportunity of earning additional interest income amounting to ₹ 0.24 crore during 2017-18 on the said 46 STDs of below ₹ 1 crore.

(ii) Subsequently, the above investments on maturity were re-invested (31 March 2019) for one year period (31 March 2020) but from here on, the rate of interest underwent a change, with decrease in rate of interest for investments above ₹ 2 crore from 7 per cent to 6.70 per cent and an increase in the rate of interest at the lower slab from 6.40 per cent to 6.80 per cent, making the lower denomination STDs as higher yielding. This trend continued in 2019-20, when the gap in the rate of interest further widened with investments above ₹ 2 crore now carrying a low rate of 3.70 *per cent* as against 5.70 *per cent* in case of investments below ₹ 2 crore. As such, during 2018-19 and 2019-20, the Company could have earned higher interest if it had split its single high value STD into denominations of less than ₹ 2 crore at the time of renewal. Consequently, the Company again lost the opportunity of earning additional interest income amounting to ₹ 0.24 crore[120] during 2018-20.

Thus, due to investing surplus funds in STDRs without analysing the rate of interest offered by SBI, the Company sustained loss of potential additional revenue of ₹ 0.48 crore during 2017-20.

The Government/Company stated (December 2021) that the funds were parked temporarily at retail deposit rate instead of bulk deposit rate during 2018-19 as they have to make payments regularly to different contractors and other liabilities for ongoing projects as and when required and the amount was parked in smaller denomination in order to minimize premature penalty. The Company further stated that

[119] ₹ 90,00,000 x 44 + ₹ 70,00,000 x 1 + ₹ 20,20,000 x1 = ₹ 40,50,20,000
[120] ₹ 10,64,65,285 x 0.10 *per cent* + ₹ 11,30,48,249 x 2 *per cent* = ₹ 0.24 crore

it did not have any pre-plans regarding renewal of ₹ 10 crore along with accumulated interest and STDRs were automatically renewed from bank side during 2019-20.

The reply is not tenable as the amount of ₹ 10 crore invested in 2017-18 was encashed only on 03 April 2021 and the entire amount of ₹ 40.50 crore invested in 2017-18 remained deposited in STDRs. As such the contention relating to payments regularly to different contractors and other liabilities is not valid. Further, the acceptance by the Company about its absence of pre-plan for investments during 2019-20 only highlights the lack of an investment policy to maximize returns.

Recommendation: Considering the huge amount of surplus funds lying at the disposal of the Company, the Company should ensure that a well-defined investment policy and a committee to decide on the investments is put up in place to maximise returns on investment of surplus funds.

Section 6: Compliance Audit Paragraphs relating to PSUs (other than power sector)

Important audit findings emerging from test check during the audit of the PSUs (other than power sector) are included in this section.

Assam Industrial Development Corporation Limited

3.6.1 Undue benefit

Lapses in tendering and contract management of the EoDB project enabled the Vendor to submit invoices of ₹ 43.73 crore against an original work order of ₹ 2 crore, with payment of ₹ 18.51 crore already being made, despite doubts being raised on the reasonableness of the rates and the claims.

The Chief Secretary to the Government of Assam (GoA), in a meeting (4 April 2015) discussed the roll-out of Ease of Doing Business (EoDB) as per the Action Plan circulated by Government of India (GoI) and decided that a single window system should be introduced along with e-governance portals. The Industries & Commerce Department (I&CD) would be the nodal department, with the Commissioner, I&CD being the nodal officer for this purpose. The Information Technology Department, GoA (IT Department) would assist I&CD in preparing a proposal for e-governance, and I&CD in turn would move for funds to the Department of Industrial Policy & Promotion, GoI for the e-governance project.

On the very same day (4 April 2015) as the meeting above, Commissioner, I&CD, in his capacity as MD, Assam Industrial Development Corporation Limited (Company), floated an expression of interest (EoI) through the Company to select a vendor for the design, development and hosting of single window clearance system web portal for different departments of GoA for EoDB, comprising 20 Modules covering different functionalities and departments.

Against this, the Company received (April 2015) three bids. The bid of M/s Avantika Innovations Private Limited (Vendor) was accepted and the work awarded in February 2016, ten months after receipt of initial bids, at an amount of ₹ 2 crore[121]. As per the bid of the Vendor, the scope of work in 20 modules entailed development of 42 forms involving 5,939 man-days at ₹ 3,220 per man-day.

The Vendor completed the work in April 2021. As against the original work order of ₹ 2 crore, the Vendor submitted 14 bills in four batches between 3 March 2016 and 9 April 2021 amounting to ₹ 43.73 crore covering additional scope of work, against which a payment of ₹ 18.51 crore has been made by the Company as shown in ***Table 3.5.1***.

[121] Excluding Annual Maintenance Contract cost (₹ 0.12 crore) and other ancillary costs (₹ 0.03 crore).

Table 3.5.1: Details of bills paid by the Company

Figures in columns 3 & 4 are Rupees in crore

Batch	Invoice Date	Invoiced Amount	Amount Paid	Payment Date
1	2	3	4	5
Batch-1 (2 Invoices)	03.03.2016	2.14	2.00	31.03.2016
Batch-2 (4 Invoices)	20.02.2017	10.35	2.46	05.04.2017
Batch-3 (6 Invoices)	10.08.2017	24.91	7.72	16.11.2018
Batch-4 (2 Invoices)	09.04.2021	6.33	6.33	13.04.2021
Total (14 Invoices)		**43.73**	**18.51**	

Audit observed that:

1. The Commissioner, I&CD was designated as the nodal officer for the EoDB e-governance project. However, the work was tendered by him in his capacity as MD of the Company, and without preparing any detailed proposal scoping the e-governance project with the assistance of IT Department, as had been decided in the meeting (4 April 2015) chaired by the Chief Secretary, GoA.

2. The EoI floated (April 2015) by the MD of the Company provided the bare minimum project details (in 2 pages) and asked the bidders to quote for 20 modules covering the project. There was no requirement for bidders to submit Security Deposit or Performance Guarantee, nor were the payment terms and conditions specified in the EoI. The EoI also did not provide any format or template in which the bids were to be submitted. However, all the three bidders quoted in a similar manner, specifying the number of forms to be developed in each module, the man-days required along with man-day rate to arrive at the final bid amount.

3. The Company issued (February 2016) the work order on the lowest bidder, M/s Avantika Innovations Private Limited (Vendor), following the same format in which the bid was received, specifying the number of forms, the man-days, and the rate per man-day. Further, the work order included a clause that the selected firm should inform the additional work done and the same would be paid as per the approved rates of application development. Thus, while the work was by nature a lumpsum/fixed-price contract for design, development and hosting of a Single Window Web Portal covering 20 modules, the work order, by including the above clause, and specifying the man-day rate, opened the possibility for treating this as an agreement in the nature of a rate-contract for development of various modules under the project, as per the quoted man-day rate.

4. The intending bidders were allowed (4 April 2015) only 15 days (upto 20 April 2015) to submit their quotations while CVC guidelines prescribe four to six weeks with a view to have wider, fair and adequate competition. It was subsequently observed (May 2018) by an external expert[122] that the bid had not seen participation

[122] Director, Indian Institute of Information Technology (IIIT), Guwahati

by any leading software development firms of Guwahati. This was also evident from the fact that two of the three bidders did not have the required work experience of having undertaken similar projects in the past and were deemed as disqualified by the Tender Evaluation Committee.

5. Available records indicate that it had already been decided (4 April 2015) to award the work to the said Vendor as evidenced by the fact that I&CD entrusted the Vendor (4 April 2015) the duties of preparing the Master website for executing the policy of EoDB on the same day as the EoI was invited by Company. This, combined with the non-competitive nature of the bids received and the similarity of the bids by different vendors, raises doubts on the sanctity of the bidding process.

6. The EoI was issued in April 2015 with the defined scope covering 20 modules for 13 departments. Though shortly thereafter, in June 2015, the Company had come to know of the revised requirement stated by GoI for EoDB to cover 23 departments, yet the Company issued the work order in February 2016 against the original scope at the tendered amount of ₹ 2 crore. Subsequently, this additional work was done by the Vendor, treating this as an extension of the earlier contract at the man-day rate stated at the time of bid submission. This exposed the Company to the risk of arbitrary financial demands of the Vendor for the development of additional scope of work without being subject to the process of fair price discovery through open bidding or through pre-negotiated rates after undergoing evaluation by experts.

7. Finally, the Vendor submitted (March 2016 to April 2021) 14 invoices in all for the project amounting to ₹ 43.73 crore, with no mechanism available to assess the actual man-days required or utilised by the Vendor for development of these components. For instance, against the initially quoted amount of ₹ 2 crore for 20 modules covering 13 departments which included ₹ 12.40 lakh for Pollution Control Board, the Vendor went on to submit invoices in the three subsequent batches of ₹ 2.35 crore for Pollution Control Board itself. Similarly, the final cost invoiced by the Vendor for Town and Country Planning Directorate was of ₹ 1.91 crore against the initially quoted amount of ₹ 12.75 lakh. Another instance of this egregious invoicing is for the item – 'Backend Departmental and Process Management' for which a total of ₹ 5.46 crore was invoiced by the Vendor against the initially quoted amount of ₹ 44.05 lakh. Thus, there was no justification for the Company to treat the original order as a rate contract permitting the Vendor to charge any desired amount– instead, it should have gone for a re-tender of the additional work to get a fair and competitive price for the same.

8. While the Company was executing the work on behalf of GoA, the approval of GoA for the enhanced financial outlay from the initial ₹ 2 crore to the revised ₹ 30.52 crore for the additional work was sought in September 2016, when much of the commitment for the same had already been incurred through development by the

Vendor. There was inadequate independent oversight on the work of Company being done on behalf of GoA.

9. For a long period, the Commissioner, I&CD sanctioning the funds for this project on behalf of GoA was also the MD of the Company executing the work and authorising release of payments to the Vendor. During the six-year period from April 2015 to April 2021 between the floating of EoI and completion of the project, the same person on four occasions[123] had held the charge of both MD of the Company and Commissioner, I&CD for almost two and a half years. With such dual and split responsibility, there was confusion regarding the ownership of Company over the project to the extent that the new MD of the Company in March 2018 had to write to the GoA protesting the huge bill submitted by the Vendor for EoDB work, and his ignorance of the affairs relating to the project, despite him already having spent five months as MD. When he took up this issue (April 2018) with the Board of Directors (Board) of the Company, the Board acknowledged the financial liability created by the Vendor, and decided that no further development work should be got done by the Vendor.

10. There was no record of any estimate provided by the Vendor to Company in terms of man-days/amount for development of subsequent modules, nor was any formal work-order placed by the Company on the Vendor for such development. The Vendor exploited this ambiguity by undertaking development of modules without providing a prior estimate or formal approval for the work, and then presenting the invoice in three subsequent batches. Despite lack of any formal order or agreement between the Company and the Vendor, the Company did not contest the validity of these invoices, and instead of outrightly rejecting the same, tried to moderate these rates by evaluation through departmentally constituted committees. This was done on two separate occasions (February 2017 and November 2017) by the same committee[124] for the invoices submitted in the second batch and third batch. However, this approach of setting rates for work already done has limited legal validity as it was not provided for in any contract/agreement with the Company, nor did the Vendor formally give acceptance to the revised rates recommended by the committee.

11. While the committee had recommended that the man-day rate be brought down from ₹ 3,220 to ₹ 1,500 per man-day along with affecting some other deductions[125]

[123] Shri Swapnanil Baruah from 17.11.2014 to 23.02.2016 (one year and four months); Shri K.K. Dwivedi from 07.04.2018 to 23.09.2018 (five and a half months); Shri Puru Gupta from 19.01.2019 to 03.04.2019 (two and a half months) and Shri Oinam Saran Kr Singh from 20.11.2020 to 30.01.2021 (two months and a half months).

[124] The committee included the Director, National Informatic Centre, Additional Director, Industries & Commerce Department, Financial Advisor, Industries & Commerce Department, General Manager, Assam Industrial Development Corporation Limited.

[125] Apart from reduction of reduction of man-day rate to ₹ 1,500, following additional reductions were recommended by the Committee: Second batch: Interim payment to be made for 50 *per cent* of the man-days, Third Batch: Payment to be made after deduction one-third of the man-days invoiced.

in the submitted bills, this approach was followed by the Company in case of invoices in second and third batch alone. It may be noted that invoices in the fourth batch of ₹ 6.33 crore were paid in full as per the originally stated rate of ₹ 3,220 per man-day.

Thus, it could be concluded from the above that:

i. Through lapses in tendering and contract management, the Company along with the parent department *viz.* I&CD, has shown lack of financial prudence in managing the development of the EoDB project, leading to the project cost escalating from an initial ₹ 2 crore to ₹ 43.73 crore[126], of which ₹ 18.51 crore has already been paid, without any assurance of this being the final payment[127]. This has caused loss to the GoA amounting to multiple crores. The extent of mismanagement is indicative of intent for favouring the Vendor, rather than lack of knowledge or capacity.

ii. Though software development was not a core activity of the Company and another PSU of the GoA *viz.* Assam Electronics Development Corporation Limited (AEDCL) was specifically entrusted with the development of IT infrastructure, software services and has also undertaken the National e-Governance project of the GoA, the work was executed through the Company. At the same time, along with the Company, the parent department *viz.* I&CD continued to play a role in the management of the project leading to sharing of responsibility between the two with no clear project owner, enabling the favour being given to the Vendor while avoiding direct responsibility for the decisions.

The Government/Company in its reply stated that the escalation in the project cost was mainly due to the constantly evolving reform action plan and that the EoDB project was not entirely IT in nature as it involved a significant quantum of consultancy efforts in studying the reform points, applicable acts, rules, notifications, office orders and subsequently implementing the reforms in the digital environment.

The reply is however silent on the lapses pointed out above in relation to execution of work without following due processes and release of huge amounts to the vendor without ascertaining the volume of work being done but simply based on bills submitted by the vendor. Further, revised work orders were not issued even though the Company was aware of the increase in scope of work, as the work was by nature a lumpsum/fixed-price contract but by accepting the demands of the vendor converted the work to a rate-contract without any reasoned justification for the same. Being a PSU having independent Board of Directors and a professionally managed organization, the Company management should have done due diligence in following laid down

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[126] As payments were released without measurement of the works and the total value of work was not computed by the Company, Audit worked out the value at on the basis of bills submitted by the vendor.
[127] As the total value of work was not computed by the Company and in absence of any documents showing the quantum of work done, the entire payment of ₹ 18.51 crore is questionable.

procedures which is followed during implementation of similar projects before releasing the payments. As such the genuineness of the claims remained doubtful and the motive to give undue benefit to the vendor being apparent in the entire process.

Recommendation: GoA may consider fixing accountability for such poor management of the EoDB single window clearance system project, which appears almost deliberate in nature, and designed to benefit the Vendor at the cost of the public exchequer.

Guwahati **(K. S. GOPINATH NARAYAN)**
The: 26 July 2022 **Principal Accountant General (Audit), Assam**

Countersigned

New Delhi **(GIRISH CHANDRA MURMU)**
The: 29 July 2022 **Comptroller and Auditor General of India**