

CHAPTER – VII

Government Commercial And Trading Activities

7.1 Overview of Government companies and Statutory corporation

Introduction

7.1.1 As on 31 March 2005, there were 15 Government companies (all working companies) and one Statutory corporation (working) as against 14 working Government companies and one working Statutory corporation as on 31 March 2004 under the control of the State Government. The audit of one new company viz. Goa State Scheduled Tribes Finance and Development Corporation Limited (incorporated in March 2004) was entrusted in September 2005. The accounts of Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 of the Companies Act, 1956. The audit arrangement of the Statutory corporation is as shown below:

Name of the corporation	Authority for audit by the CAG	Audit arrangement
Goa Industrial Development Corporation	Section 25(2) of the Goa Industrial Development Corporation Act, 1965 and Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit up to the period 31 March 2007 has been entrusted to the CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.2 The total investment[‡] in 15 working PSUs (14 Government companies and one Statutory corporation) and 16 working PSUs (15 Government companies and one Statutory corporation) at the end of March 2004 and March 2005, respectively, was as follows:

(Amount: Rupees in crore)

Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loans*	Total
2003-04	15	130.71	26.65	448.67	606.03
2004-05	16	144.14	28.36	442.66	615.16

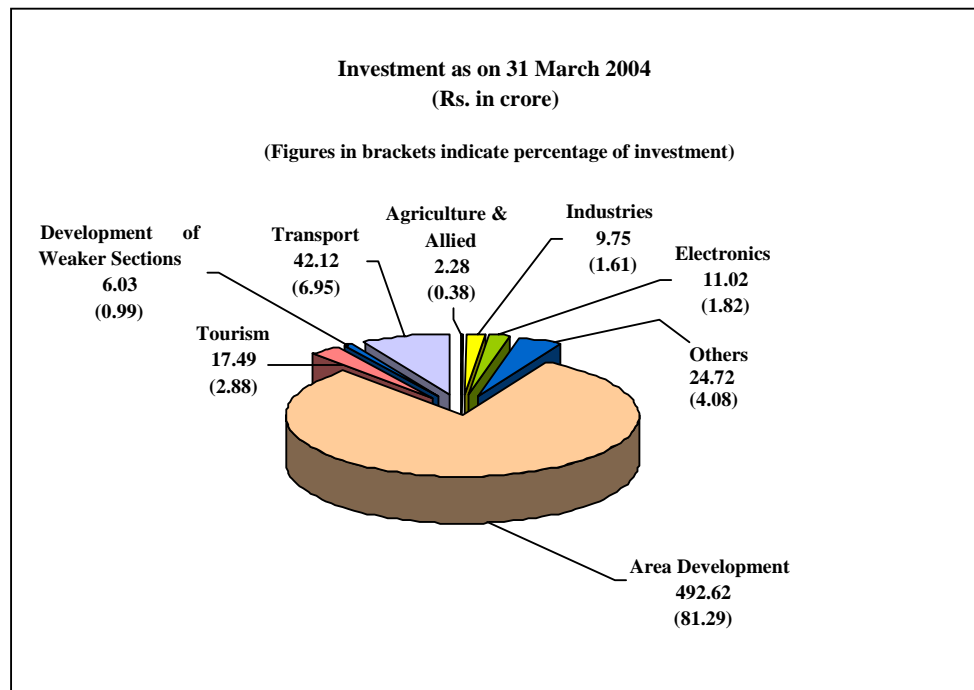
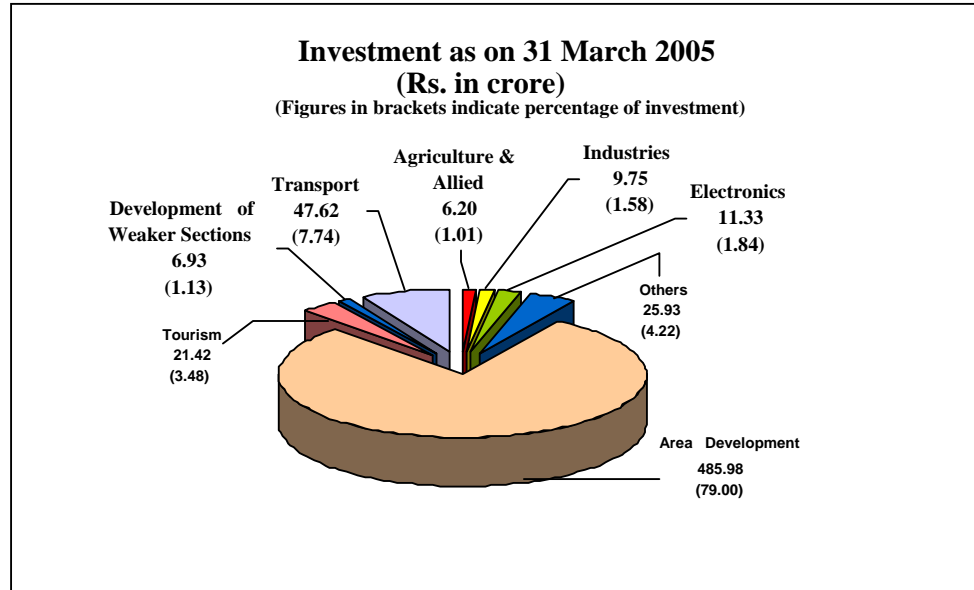
[‡] The figures of investment by Government as furnished by the PSUs are under reconciliation with figures in the Finance Accounts.

* Long-term loans mentioned in Para 7.1.2 and 7.1.3 are excluding interest accrued and due on such loans.

An analysis of investment in working PSUs is given in the following paragraphs.

Sector wise investment in working Government companies and Statutory corporation

The investment (equity and long term loans) in various sectors and percentages thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the following pie charts:



Working Government companies

7.1.3 The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

(Amount: Rupees in crore)

Year	Number of working Government companies	Investment in working Government companies			
		Equity	Share application money	Loans	Total
2003-04	14	103.07	26.65	448.67	578.39
2004-05	15	116.12	28.36	442.66	587.14

The summarised statement of Government investment in working Government companies in the form of equity and loans is given in **Appendix-7.1**.

As on 31 March 2005, the total investment in working Government companies comprised 24.61 *per cent* of equity capital and 75.39 *per cent* of loans as compared to 22.16 and 77.84 *per cent* respectively, as on 31 March 2004. The increase in investment in equity capital of Rs.14.76 crore was due to additional investment by the State Government in seven[#] companies during the year.

Working Statutory corporation

7.1.4 The total investment in one working Statutory corporation at the end of March 2004 and March 2005 was as follows:

(Amount: Rupees in crore)

Name of the corporation	2003-04		2004-05	
	Capital	Loan	Capital*	Loan
Goa Industrial Development Corporation	27.64	-	28.02	-

A summarised statement of Government investment in the working Statutory corporation in the form of equity and loans is given in **Appendix-7.1**.

Budgetary outgo, grants/subsidies, guarantees issued and waiver of dues and conversion of loans into equity

7.1.5 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies and the working Statutory corporation are given in **Appendix-7.1** and **Appendix-7.3**.

[#] Sl. No. A-2,6,7,10,11,12 and 15 of Appendix-7.1

* Amount payable to the State Government is treated as capital from State Government.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and the working Statutory Corporation during the years 2002-03 to 2004-05 is given below:

(Amount: Rupees in crore)

Particulars	2002-03				2003-04				2004-05			
	Companies		Corporation		Companies		Corporation		Companies		Corporation	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	4	5.05	1	0.05	3	7.69	1	1.62	7	14.76	1	0.38
Loans given from budget	-	-	-	-	-	-	-	-	2	0.87	-	-
Grants/subsidies	4	11.11	-	-	5	15.63	-	-	6	14.70	-	-
Total Outgo	7[@]	16.16	1	0.05	7[@]	23.32	1	1.62	8[@]	30.33	1	0.38

During 2004-05, the Government had guaranteed loans aggregating Rs.115 crore obtained by two working Government companies. At the end of the year, guarantees of Rs.495.06 crore obtained by three Government companies were outstanding as against the outstanding guarantees of Rs.426.65 crore as on 31 March 2004. There was no case of default by the State Government companies/corporation in repayment of guaranteed loan during the year.

Finalisation of accounts by working PSUs

7.1.6 The accounts of the companies for each financial year are required to be finalised within six months from the end of the relevant financial year, under Sections 166, 210, 619 and 619-B of the Companies Act, 1956. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations their accounts are finalised, audited and presented to the State Legislature as per the provisions of the respective Acts.

It would be seen from *Appendix-7.2* that the 15 working Government companies and the Statutory corporation had not finalised their accounts for 2004-05 within the stipulated period. During October 2004 to September 2005, eight working Government companies finalised eight accounts for previous years.

The accounts of all the 15 working Government companies involving 24 accounts were in arrears for periods ranging from one to five years as on 30 September 2005, as detailed below.

[@] Actual number of companies/corporations which have received budgetary support from the State Government in the form of equity, loans, grants and subsidy.
 • Sr. Nos. A-5, 6, 7, 8, 12, 13, 14 and 15 of Appendix-7.2.

Sl. No.	Number of working companies	Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Appendix-7.2
1.	1	2000-01 to 2004-05	5	A-10
2.	2	2002-03 to 2004-05	3	A-5 and 9
3.	1	2003-04 to 2004-05	2	A-2
4.	11	2004-05	1	1, 3, 4, 6, 7, 8, 11, 12, 13, 14 and 15
Total	15			

Besides, accounts of the Statutory corporation (B-1) were also in arrears for two years i.e., 2003-04 and 2004-05.

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though Audit apprised the concerned administrative departments and the officials of the Government regarding arrears in finalisation of accounts, no effective measures have been taken by the Government. As a result, the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

7.1.7 The summarised financial results of the working PSUs (Government companies and Statutory corporation) as per their latest finalised accounts are given in **Appendix-7.2**. Besides, the financial position and working results of the working Statutory corporation are given in **Appendix-7.4**.

Out of 15 working Government companies, one company viz. Goa State Scheduled Tribes Finance and Development Corporation Limited had not finalised its first accounts. According to the latest finalised accounts of 14 working Government companies and one working Statutory corporation, nine companies had incurred an aggregate loss of Rs.45.55 crore, four companies earned an aggregate profit of Rs.1.47 crore and one company, viz., Sewage and Infrastructural Development Corporation Limited had not started commercial activities. The Statutory corporation incurred a loss of Rs.2.89 crore.

Working Government companies

Profit earning working companies and dividend

7.1.8 Out of eight working Government companies, which finalised their accounts for previous years during October 2004 to September 2005, only two Companies (Sl.No. A - 6 and 8 of **Appendix-7.2**) earned profit aggregating Rs.93.30 lakh and only one[⊗] company declared a dividend of Rs.15.50 lakh

⊗ Sl. No. A-8 of Appendix 7.2

which represents 0.16 *per cent* of total investment of Rs.99.36 crore of the State Government in Government companies. The State Government has not formulated any policy for payment of minimum dividend by the companies/corporation.

Loss incurring Government companies

7.1.9 Out of the nine loss incurring working Government companies, five[#] companies had accumulated losses aggregating Rs.199.95 crore which exceeded their aggregate paid-up capital of Rs.75.29 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of subsidy *etc.* According to available information, total financial support so provided by the State Government to two^{*} such companies was Rs.12.96 crore by way of subsidy / grants during 2004-05.

Working Statutory corporation

Loss incurring Statutory corporation

7.1.10 The Statutory corporation, which finalised its accounts for 2002-03, incurred a loss of Rs.2.89 crore during the year. It had an accumulated surplus of Rs.9.14 crore.

Return on capital employed

7.1.11 As per the latest finalised accounts (up to September 2005) the capital employed[⊕] in 13 working Government companies worked out to Rs. 619.48 crore and total return^{*} thereon amounted to Rs.10.88 crore which was 1.76 *per cent*, as compared to total return of Rs. 35.95 crore (5.78 *per cent*) in the previous year (accounts finalised up to September 2004). Similarly, the capital employed and total return thereon in case of the working Statutory corporation as per the latest finalised accounts worked out to Rs.61.77 crore and (-) Rs.2.89 crore respectively. The details of capital employed and total return on capital employed in case of working Government companies and the Statutory corporation are given in ***Appendix-7.2***.

[#] Sl. Nos. A-3,5,7, 13 and 15 of Appendix 7.2

^{*} EDC Limited and Kadamba Transport Corporation Limited.(Appendix 7.3).

[⊕] Capital employed represents net fixed assets (including capital works-in-progress) *plus* working capital except in finance companies and corporations where it represents the mean of aggregate of opening and closing balances of paid-up capital, free-reserves, bonds, deposits and borrowing (including refinance).

^{*} For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the Profit and Loss Account.

Status of placement of Separate Audit Report of Statutory corporation in the Legislature

7.1.12 The following table gives the status of placement of Separate Audit Reports (SARs) on the accounts of the Statutory corporation issued by the CAG in the Legislature by the Government.

Sl. No.	Name of Statutory corporation	Years up to which SARs placed in Legislature	Years for which SARs not placed in the Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1.	Goa Industrial Development Corporation	2001-02	2002-03	02 May 2005	-----

Disinvestment, privatisation and restructuring of Public Sector Undertakings

7.1.13 The State Government did not undertake any disinvestment, privatisation and restructuring of any of its PSUs during 2004-05.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

7.1.14 During October 2004 to September 2005, the accounts of seven working Government companies were selected for audit. The net impact of the important audit observations as a result of review of accounts of these PSUs was as follows:

Sl. No.	Details	Number of accounts of		Amount (Rupees in lakh)	
		Government companies	Statutory Corporation	Government companies	Statutory Corporation
i)	Increase in loss	3	--	2039.40	--
ii)	Non-disclosure of material facts	2	--	--	--
iii)	Errors of classification	3	--	35.79	--

Some of the major errors and omissions noticed in the course of review of annual accounts of the PSUs are as under:

Errors and omissions noticed in case of Government companies

EDC Limited (2003-04)

7.1.15 Non-provision for doubtful investments in two loss making subsidiaries had resulted in overstatement of investments and understatement of loss for the year by Rs.19.95 crore.

7.1.16 Inclusion of subsidy amounts receivable from the State Government without preferring any claim had resulted in overstatement of receivables by Rs.81.41 lakh.

Goa Tourism Development Corporation Limited (2003-04)

7.1.17 Non-accounting of liabilities towards completed capital works for which bills were received had resulted in understatement of fixed assets and Current liabilities & provisions by Rs.35.79 lakh.

Goa Antibiotics and Pharmaceuticals Limited (2003-04)

7.1.18 Non-provision of Sales Tax / Penalty demanded by the Commercial Tax Officer, Hyderabad in respect of sales made in Andhra Pradesh had resulted in understatement of liabilities and loss for the year by Rs.10.83 lakh.

Kadamba Transport Corporation Limited (2003-04)

7.1.19 Accounting of subsidy as income for the year instead of deducting from the cost of fixed assets had resulted in overstatement of income and fixed assets by Rs.31.50 lakh, depreciation by Rs.2.49 lakh and understatement of loss by Rs.29.01 lakh.

Internal Audit/Internal Control

7.1.20 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the Internal Control/Internal Audit Systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India under Section 619(3)(a) of the Companies Act, 1956 and to identify the areas which need improvement.

An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvements in the Internal Audit System in respect of State Government companies is indicated below:

- Non-maintenance of proper records of inventory and the procedure followed for physical verification of inventory not being reasonable and adequate in relation to the size of the Company and nature of business (Goa State Horticultural Corporation Limited).
- Scope of work entrusted to Internal Audit needs to be enlarged and strengthened and the compliance mechanism for Internal Audit reports is inadequate (Goa Auto Accessories Limited).
- Accounting of delayed payment charges on realisation basis and non-determination of amount of debts doubtful of recovery though there were old debtors of Rs.56.32 lakh (Goa Forest Development Corporation Limited).

Recommendation for closure of PSUs

7.1.21 Even after completion of five years of their existence, the turnover of five working Government companies (Sl. No.A-1, 2, 6, 10 and 13 of *Appendix-7.2*) has been less than rupees five crore in each of the preceding five years of their latest finalised accounts. Similarly, two working Government companies (Sl. No.A-12 and 14 of *Appendix-7.2*) had been incurring losses for five consecutive years as per their latest finalised accounts leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of the above seven Government companies or consider their closure. The Government stated that action regarding Goa State Scheduled Caste and Other Backward Classes Development Corporation Limited would be taken in consultation with the Government of India, Ministry of Social Justice and Empowerment. Information about progress made was awaited (September 2005).

Response to inspection reports, draft paras and reviews

7.1.22 Observations made during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative Departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of Departments within a period of six weeks. Inspection Reports issued up to March 2005 pertaining to 15 PSUs disclosed that 136 paragraphs relating to 29 Inspection Reports remained outstanding at the end of September 2005. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2005 is given in *Appendix-7.5*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the concerned administrative department seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that three draft paragraphs and two reviews forwarded to Finance, Electricity and Industries Departments during September-October 2005 have not been replied to so far (December 2005). It is recommended that the Government should ensure that

- (a) procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews and ATNs on the recommendations of COPU, as per the prescribed time schedule;
- (b) action is taken to recover loss/outstanding advances/overpayment in a time bound manner; and
- (c) the system of responding to audit observations is revamped.

Position of discussion of Audit Reports (Civil) by the Committee on Public Undertakings (COPU)

7.1.23 The position of reviews and paras on Commercial and Trading Activities included in Audit Reports (Civil) – Government of Goa and reviews and paragraphs pending for discussion by COPU at the end of March 2005 is given below:

Period of Audit Report	Number of reviews and paragraphs appeared in the Commercial Chapter of Audit Report		Number of reviews and paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1992-93	1	--	1	--
1993-94	1	--	1	--
1995-96	1	--	1	--
1998-99	1	2	1	2
2000-01	--	1	--	1
2001-02	1	--	1	--
2002-03	1	1	1	1
Total	6	4	6	4

619-B companies

7.1.24 There was only one working company coming under the purview of Section 619-B of the Companies Act, 1956. *Appendix-7.6* gives the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of this company based on its latest available accounts.

Departmentally managed Government commercial / quasi commercial undertakings

7.1.25 There were two departmentally managed Government commercial/quasi commercial undertakings viz. the Electricity Department and the River Navigation Department in the State as on 31 March 2005.

The *pro forma* accounts of both the Electricity Department and the River Navigation Department were in arrears for the year 2004-05 (December 2005).

The summarised financial results of both the Electricity Department and the River Navigation Department for 2001-02 to 2003-04 are given in *Appendix-7.7*.

SECTION A – REVIEWS

GOA STATE INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

7.2 Creation of facilities and infrastructure development relating to the International Film Festival of India at Goa

Highlights

Despite the Company knowing the major design parameters, the Company failed to invite separate technical and financial bids. The Company awarded the multiplex contract rejecting the lowest offer although it conformed to the notified requirements.

(Paragraph 7.2.6)

The Company awarded the contract for multiplex with four screens at the cost of Rs.21.24 crore quoted for six screens and renovation work resulting in undue benefit to the contractor.

(Paragraph 7.2.7)

The Company incurred extra expenditure of Rs.3.11 crore due to change in design of the multiplex and to match the concept of the lead consultant. The road works were awarded at 19.9 per cent above estimates which was much higher than the rates for similar works executed by the State Public Works Department. The Company also approved 19.9 per cent tender excess for some items which were estimated at market rates resulting in avoidable extra cost of Rs.1.34 crore.

(Paragraphs 7.2.7 and 7.2.16)

Though the contractor failed to achieve substantial completion within the stipulated time for completion, the Company paid Rs.60 lakh as substantial completion bonus.

(Paragraph 7.2.9)

The estimates prepared by the consultants were unrealistic. Various items of works suffered huge variations, upto 170 times of the estimated quantities, amounting to Rs.10.75 crore. This not only indicated incorrect estimates but also had the effect of awarding the works to that extent without inviting tenders.

(Paragraphs 7.2.13 and 7.2.23)

The Company awarded all the four road package works to a single contractor defeating the objectives of splitting of works for early completion. This also resulted in non-completion of all the works. The Company did not levy liquidated damages of Rs.30.87 crore (June 2005)

for non-completion of road works, despite enabling provisions in the agreement.

(Paragraphs 7.2.15 and 7.2.17)

Consultant's fee of Rs.1.67 crore for restoration and facility upgradation of existing Kala Academy without any structural/design change was not justified. The Company also incurred wasteful expenditure of Rs.58.65 lakh towards consultancy fee for projects which did not take off.

(Paragraphs 7.2.26 and 7.2.28)

Introduction

7.2.1. Goa State Infrastructure Development Corporation Limited (Company) was declared (October 2003) by the Government of Goa as the nodal agency for development of the facilities required for hosting of the International Film Festival of India (IFFI) to be held in 2004. The Company estimated the total infrastructure project cost for IFFI 2004 at Rs.140 crore. The Company took up construction of a multiplex theatre, upgradation and restoration of facilities at the existing State owned Kala Academy (main festival theatre) and improvement of roads and other related projects including beautification works.

As per statement of expenditure (June 2005) the total expenditure incurred for the implementation of various projects undertaken by the Company upto the film festival (December 2004) and thereafter for completion of balance works was Rs.75.76 crore (June 2005). In addition, the Company also had liabilities of Rs.21.21 crore as on 30 June 2005 on account of works done / contracts executed. The project cost was met by the Company from funds borrowed from the Housing and Urban Development Corporation Limited (HUDCO) / commercial banks, which were guaranteed by the Government of Goa. During the year 2004-05 the Company raised market loan of Rs 93 crore. The expenditure incurred by the Company on all these projects was to be reimbursed by the State Government. During 2004-05, the Company received a contribution of Rs.32.50 crore only from the State Government.

The day-to-day affairs of the Company are carried out by the Managing Director under the general supervision and guidance of the Board of Directors (BOD). The Chairman of the Company during the IFFI period (November–December 2004) was the then Chief Minister of Goa and Additional Secretary, Budget was holding additional charge as Managing Director.

A Core Committee* empowered for taking all policy decisions for holding the IFFI was formed by the State Government (October 2003). The Company had also appointed a lead consultant to advise and assist in development and planning for the infrastructure necessary for IFFI.

* The Core Committee comprised the Chief Minister, Ministers for Urban Development, Health, Town and Country Planning, Revenue, Tourism and Art & Culture, Shri H. Zantye, MLA and Government Officials being the Chief Secretary, Secretary to the Chief Minister, Principal Director Information, Publicity & Films and the Managing Director, GSIDC. All other Ministers and the Chairman Kala Academy were special invitees.

Scope of audit

7.2.2. The review was conducted during July 2005. It covers the audit of expenditure incurred by the Company on the major infrastructure facilities* developed during October 2003 to December 2004 when the IFFI was held and the residual work taken up thereafter till March 2005.

Audit objective

7.2.3. The objective of the review was to ascertain whether:

- the project was taken up after detailed planning, surveys and sequencing of activities as per their criticality;
- the Company took steps to ensure economy and efficiency in execution of the various components of the project through adequate management controls;
- the Company had put in place a dependable system to assess comparability and reasonableness of estimated and actual quantities/ costs of work factoring in the relevant specifications;
- the system of tendering, evaluation and award of works was transparent so as to afford credibility and quality assurance; and
- the Company's oversight was adequate with regard to the efficient performance of the consultants and others involved in the projects.

Audit criteria

7.2.4. The following audit criteria were adopted to assess / evaluate the mandate of the Company with regard to project planning and feasibility analysis:

- rules, procedures and directives with regard to estimates for works and their execution in accordance with laid down tendering procedures;
- reasonableness of project cost; and
- timely execution of contracts within awarded cost.

Audit methodology

7.2.5. The following methodologies were adopted :

- review of minutes of the BOD, Core Committee and Sub-committee meetings;
- scrutiny of projects files, tender files and other connected files;
- scrutiny of bills and related correspondence;
- analysis of data collected by Audit; and
- interaction/ meetings with the officials of the Company/Government.

* Construction of multiplex, landscaping and external development of multiplex courtyard, restoration of Kala Academy (main festival theatre), improvement, beautification of roads and the allied works including dredging.

Audit findings

The major audit findings as a result of the review are discussed below. Although Government was requested to convene an ARCPSE meeting to discuss these findings, the meeting was not held. The views of the Government/ Company as contained in their replies to the Inspection Report paras and to the review have, however, been taken into account before finalising the review.

Construction of Multiplex

Defective/non transparent bidding process and evaluation.

7.2.6 The Company appoints a consultant for preparation of techno feasibility study, estimates, and tender documents etc. for works decided to be undertaken. Works estimates are prepared based on the Goa Schedule of Rates (GSR) wherever available and at market rates in other cases. The tenders are invited, bids are evaluated and works are awarded based on evaluated bid price method (i.e 20 *per cent* weightage for technical competency and 80 *per cent* for the financial bid). The Company has been appointing Project Management Consultants (PMC) for monitoring the progress of works, measurement of works and certification of bills. As a practice, the Company appoints the same consultant for the techno feasibility studies, tender management and project management for each work.

The Company invited (February 2004) Expression Of Interest (EOI) from leaders in the multiplex industry for development of entertainment facilities comprising construction of a multiplex for the IFFI with minimum of three screens and total capacity of about 1250 seats alongwith other supporting amenities required for the profitable operations of the proposed facility. The Terms of Reference (TOR) for the EOI contained a general description of the work, method of selection of the contractor, general conditions of the contract, prescribed forms, financial competency, previous experience, work plan and methodology and terms of payment.

The Company received five applications of which only one application viz. PVR Cinema satisfied the minimum eligibility criteria of experience and turnover. The Company relaxed the eligibility requirements and with this two more applications viz ADLABS Films Limited and INOX Leisure Limited were also considered for further evaluation.

The financial bids of these three applicants were opened by the Committee formed for the purpose and subsequently the bidders were asked to make a presentation as prescribed in the terms of reference of the EOI. The details of the financial bids received were as under:

Name of the firm	Description	Quoted Cost (Amount: Rupees in crore)
ADLABS Films Limited (ADLABS)	3 screens (1286 seats)	16.50
INOX Leisures Limited (INOX)	6 screens (1250 seats)	21.23
PVR Cinemas Limited (PVR)	4 screens (1014 seats)	34.20

Based on the lead consultant HOK Canada Inc's (HOK) recommendation the Company found the proposal of INOX as the most acceptable. HOK also observed that the presentation made by ADLABS (lowest bidder) did have a merit in configuration, but their proposed design would require significant amount of renovation of the existing structure of the old Goa Medical College Complex (GMC). HOK also believed that an undertaking such as ADLABS would jeopardize the completion of the multiplex for the IFFI and also opined that the viability of the design proposed for period beyond the film festival had to be evaluated.

After negotiations, the Company issued letter of intent (LOI) to INOX on 28 February, 2004 and entered into an agreement with them on 21 April 2004 at the agreed contract price of Rs.18.65 crore plus other costs aggregating Rs.2.59 crore making the total contract cost at Rs.21.24 crore for construction of four screens multiplex theatre.

Audit scrutiny revealed the following:

- The Company had invited EOI from leaders in the multiplex industry for formulating the design for the multiplex. Even after viewing the presentation made by the bidders neither the lead consultant nor the Company themselves decided upon the kind of structure they required for the Multiplex. Resultantly, the Company did not formulate any budget/ upper limit for the multiplex cost. Besides the economic viability of the project post IFFI 2004 was also not studied.
- The multiplex construction does not involve any specialised or complicated technology as it is already available in other cities. For a project of such a nature, when the Company had decided on the minimum requirements regarding the number of screens and seating capacity, they should have finalized the technical parameters and then invited the bids. The Company, however failed to invite separate technical and financial bids despite the design parameters being broadly known. As a result, the bid values varied with the number of screens and seating capacity and were thus not comparable with each other.
- The financial bid of ADLABS was rejected based on the recommendation of the lead consultant who expressed a doubt about the design submitted by them and an apprehension about timely delivery of the multiplex. The basis of this doubt and apprehension was not on record nor was supported by any documentation. Rejection of their offer, which otherwise conformed to the notified requirements with regard to number of screens/seating capacity etc. and was also lower by Rs.4.74 crore was, therefore, not justified.

Rejection of offer of ADLABS resulted in avoidable expenditure of Rs.4.74 crore.

The Government stated (December 2005) that as time was the constraint, it was felt appropriate to call for turnkey proposals for the project and therefore the financial and technical bids were combined. The emphasis was given basically on the expertise in construction of multiplex and their ability to move fast so as to complete the multiplex within the time frame available. ADLABS failed miserably during their presentation which created doubts about their capability of delivering within the time frame. The quoted costs, which were basically block estimates* were evaluated to ensure the reasonability and that for maintaining financial propriety tendering process for individual item was envisaged at the time of execution of the project.

The reply is not tenable as the Company did not decide the final technical parameters/design before inviting the financial bids. As a result the bids were not comparable depriving the company of getting the best price. The rejection of the offer of ADLABS which was done at the behest of the consultant without assigning reasons even though it conformed to the notified requirements was also not justified.

Award of contract at higher cost

Finalisation of the contract without considering reduction in number of screens and renovation work resulted in non-availment of saving of Rs.3.11 crore.

7.2.7 INOX had originally quoted Rs.21.23 crore (Rs.19.13 crore for the multiplex proper with six screens and 1,250 seats and Rs.2.10 crore for renovation of the existing buildings in the complex). The design finally approved was for a multiplex with four screens without any change in the number of seats. INOX agreed to reduce the cost by rupees one crore for reduction in the number of screens. The renovation of the existing old GMC buildings in the complex proposed by INOX was specifically excluded from the agreement. Despite the change in the original financial quote the Company finalised the contract at Rs.21.24 crore without availing the benefit of savings of Rs.3.11 crore[@].

The Government stated (December 2005) that the project cost was reworked due to modified requirements as suggested by the lead consultant for IFFI to match the overall concept of the multiplex project, such as superstructure was changed to structural steel instead of RCC to ensure faster construction, higher requirement of acoustic treatment due to change in alignment of theatres, shifting of multiplex away from the old GMC building, increasing the auditorium size to accommodate the required number of seats etc.

The reply is not tenable as the time frame of the project as also the required number of seats was known to INOX when they submitted the financial bids. The contract was awarded to them for four screens at the price quoted by them for six screens and renovation work, resulting in undue benefit to the contractor.

7.2.8 Audit analysis revealed that the Company awarded the multiplex contract to INOX on the recommendation of the lead consultant. The Company had not done any analysis regarding the comparative cost of multiplexes which were

* Block estimates refer to estimates within a range instead of a specific figure.

@ Difference of Rs.0.01 crore in contract value plus Rupees one crore for reduction of one screen and Rs.2.10 crore for reduced scope of work.

already built up/operational in other cities. It was also noticed in audit that during the second meeting of the IFFI Infrastructure Committee held on 13 November 2003, ICICI Bank, who were special invitees for giving their professional advice on the cost of multiplexes financed by them, had informed the Company that the cost of a world class multiplex would be around Rs.2,000 per square feet. Accordingly, the cost of a multiplex of 30,000 square feet would be around rupees six crore. It was also seen in audit that similar multiplexes in metros with built up area ranging from 30,000 to 35,000 square feet and seating capacity 1000-1250 had been constructed at cost of Rs.8.5 crore to Rs.11 crore. The Company/Core Committee, however, did not deliberate upon this aspect. It is thus evident that award of contract to INOX at Rs.21.24 crore was on higher side.

Though the multiplex was made operational in November 2004 the final measurements were submitted only in April 2005. The contractor had been paid Rs.16.29 crore (June 2005) against the total claims of Rs 20.90 crore.

The Government stated (December 2005) that the cost appeared to be on higher side as it was decided to provide world standard facility and that comparison needs to account various factors such as seating capacity, number of screens, specification and the quality of sound and projection system, facilities and equipments provided, location and the time frame in which the work was to be completed. Further, the basis on which the ICICI had given the information was not clear as the cost per square feet of a normal interior of any office was in that range.

The reply is not acceptable as the main requirements for the multiplex i.e. minimum three screens and 1250 seats had already been specified and the Company had not added any other concrete component to justify higher cost. The reply with regard to ICICI is also not acceptable as it was the Government which had invited ICICI for their professional advice on the cost of multiplex and that nothing prevented the Government/ Company from seeking further clarifications from them with regard to the basis of the costing of the multiplex.

Payment of bonus

7.2.9 The agreement with INOX stipulated the date of substantial completion as on or before 9 November 2004. Clause 32 of the agreement provided for substantial completion bonus of Rs.60 lakh or three *per cent* of actual contract price excluding consultancy charges, bonus and pre-operative expenses, whichever was higher, as incentive if substantial completion of the work was achieved on or before 8 November, 2004. Substantial completion had been defined as the state of work of the multiplex which was reasonably ready with fittings, interior and exterior finishes in a state fit for its intended use as certified by the engineer appointed by the Company. It was clarified, among other things, that for assessing whether the multiplex was reasonably ready the engineer would take into consideration whether the building was complete, the screens, seats, air conditioning, lighting and projection equipments were in place so as to have a non commercial dummy run of a film. The works were not to be considered as substantially completed until they were in a state of being put to use.

Bonus clause was not mentioned in the terms of reference. Though the contractor failed to achieve substantial completion with in the stipulated time the Company paid Rs.60 lakh as substantial completion bonus

It was noticed in audit that the terms of reference of EOI had mentioned that the project was required to be completed in the first week of November 2004 itself. Therefore agreeing to pay bonus for completion of the project on the stipulated date of completion lacked justification and was an undue favour to the contractor.

Further, INOX claimed that the substantial completion of the multiplex was achieved on 1 November, 2004. The Company's consultant, Frischmann Prabhu (India) Private Limited (FPPL), who was responsible for certifying substantial completion visited the site on 6 November and 7 November 2004 and submitted (9 November 2004) a list of 59 items pending to be executed as on that date, which included erection of all screens also, without which it could not be considered to be in a state of being put to use making it clear that the contractor was not eligible for bonus.

The Government while accepting that the bonus clause was not part of the EOI, however, justified the payment of the bonus for completion of the project within the time frame. The reply is not tenable as the TOR should have indicated the provision of bonus to all the intending bidders who could have quoted lower rates. Thus, non inclusion of this clause in the TOR and subsequent inclusion of the same in the Agreement with INOX vitiated the tendering process.

Further, when the Company had clearly defined substantial completion in their agreement with INOX; the Company's consultant should have been capable of giving an independent opinion on the physical completion of the works. Therefore, their action in asking the contractor to clarify about substantial completion, was not proper, indicating that the work had not been adequately monitored by the consultant.

The Government in their reply had also agreed that the contractor had not achieved substantial completion by the stipulated date and was therefore not eligible for the bonus payment. The inadmissible payment therefore needs to be recovered.

Defective clause in the agreement

7.2.10 The matter was compounded by providing even further benefit to INOX by including a clause (Clause 75) in the agreement (April 2004) which provided that the Company shall float a tender for development of land, operation, maintenance and management of the multiplex. This clause further provided that in case the tender was not floated within six months of the completion or if the operation was not given to INOX the Company would pay five *per cent* of the net[⊗] contract price to INOX as know-how fee. Under the agreement, INOX was also eligible to bid and was entitled to a price preference (reduction) of five *per cent* of bid price to match the highest bid. In case INOX was unable to meet the highest bid even with price preference the winning bidder shall have to pay to INOX a sum of 10 *per cent* of actual contract price towards know-how fee.

[⊗] Actual contract price less consultancy, bonus and pre-operation expenses

This clause had the effect that either the Company or whoever was awarded the running of the multiplex would necessarily compensate INOX again for its know-how. These provisions were detrimental to the financial interest of the State Government and favoured the contractor who had already been paid (Rs. 1.50 crore as design and consultancy charges) for know-how in construction of the multiplex.

It was noticed in audit that the Company did not invite tenders for running the multiplex and the same was being run and managed by INOX since 13 November 2004 without any formal agreement with the Company for a lease rent of Rs 72 lakh per annum payable by INOX to the Government.

The Government stated (December 2005) that the know-how fee/compensation to a developer/advisor was a normal industry practice. Further, the role of INOX was much greater than that of a contractor and therefore the know-how was factored in the MOU.

The reply is not tenable as INOX had already been compensated for its know-how by payment of design and consultancy charges included in their contract. It would thus appear that the entire contract was of considerable benefit to INOX.

Avoidable expenditure on INOX appointed consultant

7.2.11 It is a standard practice of the Company to appoint for each project a Project Management Consultant (PMC) who is responsible for monitoring the progress of work, quality and quantity and also for measuring the work and certifying the bills. The Company appointed FPPL as a consultant at a fee of rupees five lakh plus 2.5 per cent of the contract cost (Rs.46.63 lakh) for services for implementation of tender management and independent technical auditor and cost auditor for multiplex. The work included review of design and project management and certification of substantial completion for the multiplex.

The work of measuring and certifying the bills was entrusted to the consultant appointed by the contractor at an extra cost of Rs.45 lakh

In addition to this the Company, as part of the agreement with INOX entrusted the responsibility of monitoring the progress of work, quality and quantity of the work and also measuring and certifying the bills to a consultant appointed by INOX at a cost of Rs.45 lakh (included in design and consultancy charges). Entrusting the responsibility of monitoring the quality and quantity of work and also measuring and certifying the bills to the consultant appointed by the contractor was not in order and was in deviation from the standard practice followed by the Company for its other projects. As the Company appointed FPPL for monitoring the works, payment to INOX for the same purpose resulted in avoidable cost of Rs.45 lakh.

The Government stated (December 2005) that it accepted the suggestion of INOX to have their own project management consultant in the interest of better coordination.

The reply is not tenable as the Company had appointed FPPL, as their consultant to monitor and review all aspects relating to design and project management. By accepting the suggestion of INOX to have their own consultants at the Company's cost the Company not only incurred extra cost of Rs.45 lakh but also compromised on the independence of the work measurement and quality certification.

Undue favour to a contractor

Contractor for civil works was appointed without following the tendering procedure.

7.2.12 The agreement with INOX contained a specific clause (clause 2) to appoint RBS Candiaparcar as a civil contractor for the multiplex civil works on the same rates at which the work of Panaji Municipal Market was being executed for the Company. As this clause was included at the behest of the Company it was irregular as it favoured a particular contractor whose expertise in multiplex works was not on record. The civil contract awarded to them was to the tune of Rs.3.06 crore and a sum of Rs.3.35 crore had already been paid (June 2005).

The Government stated (December 2005) that the civil contractor was identified locally for faster delivery of civil works.

The reply is not tenable as INOX was contractually bound to complete the work within the stipulated date.

Restoration and upgradation of facilities at Kala Academy

Abnormal variations

7.2.13 The Kala Academy, a twenty year old structure designed by the renowned architect Charles Correa was identified as the main venue for the IFFI. It was proposed to suitably restore and upgrade the existing facilities in the Kala Academy at a contract cost of Rs.24.18 crore. The estimate for the work of restoration and facilities upgradations of existing Kala Academy was prepared by Uttam C Jain, a consultant for project planning and preparation. The work scheduled to be completed by the end of October 2004 was completed to the extent of 95 *per cent* before the festival at a cost of Rs.24.91 crore. The contract cost of Rs.24.18 crore turned out to be unrealistic with huge cost increase of Rs.9.89 crore (41 *per cent*) due to deviation. The execution of work value of Rs.9.89 crore as deviated/substituted/extra items had the effect of awarding the work to that extent without inviting tenders. Thus the Company could not take advantage of competitive offers to that extent.

The Government accepted (December 2005) that as the project was for restoration of an existing structure and that the exact quantities could be ascertained only after dismantling and, therefore, the estimates could not be accurately worked out. The reply is not acceptable because the deviations of such a magnitude should not have occurred in a work where a consultant was engaged by the Company at a huge fee of Rs.1.67 crore.

Extra expenditure of Rs.53.01 lakh due to abnormal increase in quantity of works relating to Kala Academy.

7.2.14 It was seen that the estimate for the work of Kala Academy included landscaping work in which one of the items was for supply and stacking of local sand dump manure, estimated by the Company at Rs.156 per square metre (market rate) for 4,000 square metre. In the tenders received Unity Infraprojects Limited (UIL) had quoted Rs.650 per square metre which was abnormally high in comparison with the rate of Rs.60 offered by the second lowest bidder for the same item. While accepting the offer of UIL being overall the lowest the Company had not sought justification for such an exorbitant rate. It was noticed in audit that the quantity of the item when executed also increased by over 200 *per cent* to 12,155.94 square metre from the estimated quantity of 4,000 square

metre. The abnormal increase in quantity coupled with the exorbitant rate resulted in extra expenditure of Rs.53.01* lakh on this item.

The Government stated (December 2005) that though the items with freak rates (abnormally high or low rates when compared to estimate rates) were identified and negotiated, the contractor sought to increase the rates where he had quoted low rates if lowering of these rates were agreed. Therefore, an overall percentage rebate of one *per cent* was allowed on the BOQ items. Further, the quantity was increased based on suggestion of the lead consultant. It was further stated that it would not be appropriate to compare the rates/ quantities of individual items executed, in isolation.

The reply is not acceptable as the Company, while accepting the offer of UIL, had neither sought any justification for the exorbitant rate nor contained the quantity within the estimated limits during execution in view of the abnormally high cost.

Further, the Kala Academy had ordered (June 2005) an 'engineering audit' of the works which reported (December 2005) that the work was far from expected high class and appeared that the product available was not commensurate with the rates/prices given vindicating audit stand.

Improvement and beautification of roads and allied works

7.2.15 The Company tendered (December 2003) the work of improvement and beautification of roads from Patto to Dona Paula, a length of 13 kilometre, dividing the work in four stretches. The tendered cost of each stretch (package I to IV) was Rs.8.84 crore, Rs.10.51 crore, Rs.4.55 crore and Rs.9.26 crore respectively. The work of all the four packages was awarded to Simplex Concrete Piles Limited at 19.9 *per cent* above the estimates. The total contract cost aggregated Rs.39.77 crore.

Audit analysis revealed the following:

- Simplex Concrete Piles Limited, which was awarded the above work was not the lowest financial bidder for any of the road packages. The works were awarded to them based on evaluated bid price i.e. by giving 20 *per cent* weightage to the post qualification marks and 80 *per cent* to the financial bid. Thus, the Company mixed up the technical and financial bids which was not in conformity with the standard tendering procedures. The technical capability should have been decided first and once the bidders were short-listed for technical qualifications financial competitiveness should have been the only criterion for deciding the financial bid.
- Based on the evaluated bid price, Simplex was the lowest in the I, II and III package. M. Venkata Rao was the lowest bidder for Package IV. All four works were, however, awarded to Simplex accepting their conditional offer at 19.9 *per cent* above the estimated cost for all the packages together. Awarding the work of all the four packages to a single contractor defeated the objectives of splitting the work for timely completion.

* 8,155.94 square metre (12,155.94 square metre – 4,000 square metre) x Rs.650.

The Government stated (December 2005) that they have followed the two bids system and technical bids were evaluated to short list the best bidders by allotting marks to their credentials and past performance.

The reply is not tenable as two bids system envisaged evaluation of technical competency before opening of the financial bids, and financial competitiveness alone should have been the criteria for awarding the work thereafter. The fact also remains that all the four stretches of the work remained incomplete and the objective of splitting works for timely completion was also defeated.

Award of work at rates higher than market rates

7.2.16 The estimates prepared by the consultant for the works of improvement and beautification of roads were based on the Goa Schedule of rates (GSR) wherever available or market rates wherever GSR was not available. For similar road works in Panaji and adjoining areas in 2004 it was noticed in audit that the State PWD had awarded works at 4.43 *per cent* above estimated costs. When compared to this, awarding the works at 19.9 *per cent* above the estimates was on the higher side. Test check revealed that the Company awarded the work at a higher cost of Rs.1.34 crore by allowing rates above market rates for specially designed material for pavements, beautification, lighting/ luminaries works etc.

The Government stated (December 2005) that the acceptance of the tender at 19.9 *per cent* above the cost put to tender (based on GSR 2000) had to be seen in the light of the fact that there was an average increase in price index of 26 *per cent* in 2004 over rates of 2000. The tender excess of 19.9 *per cent* on the market rate items was also justified due to the fact that the contractor had to provide site offices to the PMCs along with other facilities which was not present in the tenders floated by the PWD.

The reply is not tenable as the works carried out by the PWD were also executed during the same period and the cost of providing minor facilities like provision of sheds for site office to the PMCs would be negligible compared to the tender excess.

Deficient contract management

Non-levy of liquidated damages

7.2.17 The works of improvement and beautification of roads were to be completed within eight months ending 15 October 2004, which was extended up to 12 December 2004. The contractor, however, failed to complete any of the packages in time even during the extended period. The work of package III was not taken up at all (June 2005). The details of the works, the contract cost, stage of completion and progress of works are given in **Appendix-7.8**. The expenditure incurred was Rs.12.02 crore till December 2004 and there were pending bills to the tune of Rs.6.94 crore. All the agreements with Simplex for the four packages of improvement and beautification of roads provided for levy of liquidated damages at the rate of rupees three lakh per day of delay. Though none of the packages was completed in time and one package was not commenced at all, the Company did not levy liquidated damages of Rs.30.87 crore (June 2005) despite enabling provisions in the agreement.

The Government stated (December 2005) that during the IFFI all works were suspended temporarily in view of the event and it was decided to take up the balance works from February 2005. It also stated that the contractor, after initially responding, backed out and a notice (15 April 2005) informing termination of the contract was sent and that decision on the issue of liquidated damages was under process.

The reply is not tenable, as these works should have been completed in October 2004 before the festival as per the contract. In spite of the failure of the contractor to finish the work in time the Company neither levied liquidated damages as per the agreement nor did it take any action to get the work executed at the risk and cost of the contractor after the festival.

Non recovery of mobilisation advance

7.2.18 The Company paid (May 2004) mobilisation advance of Rs.27.30 lakh to Simplex for the work of improvement and upgradation of roads from St. Inez circle to Hotel Goa International and from Tonca Pillar to Miramar Circle (4 Kms – Package III), which did not commence. Non-recovery of mobilisation advance in view of non commencement of work was a lapse on the part of the Company.

Mobilisation advance of Rs.27.30 lakh was paid for works of Package III which was never commenced.

The Government stated (December 2005) that the advance was not recovered as substantial amount was payable to the contractor for the works done on other packages and a decision was awaited from the BOD.

The reply is not tenable as it was an independent agreement not linked with any other work. The Company also failed to invoke the bank guarantee in time and allowed extension of the same with the result that the contractor secured an injunction from the court.

Award of work without land acquisition

7.2.19 For timely completion of work, it is important to acquire the land before commencement of the work. It was noticed in audit that land measuring 11,548 square metre in Tiswadi Taluka was notified on 5 November 2004 whereas the scheduled date of completion of the road work as stipulated in the agreement was 15 October 2004. The Company deposited (September 2004) Rs.2.72 crore for the land acquisition with EDC Limited, a State Government Company (authorised agency for depositing compensation). The land required for improvement and beautification of roads under package III could not be acquired before awarding the work due to confusion regarding the agency for land acquisition.

The Government replied (December 2005) that land acquisition was a process which required three to four months if notified under urgency clause.

The reply is not tenable as though the consultant for the work was engaged as early as in December 2003 the process of acquisition of land was initiated only in April 2004. Deficient planning resulted in incorrect sequencing which led to non commencement of the road work and blocking of funds for compensation with resultant loss of interest of Rs.26.35 lakh (October 2004 to December 2005 at 7.75 per cent).

Idle charges

7.2.20 The dredging work on Panaji bank started (1 April 2004) and was stopped (24 April 2004) due to non-clearance by the Coastal Regulation Zone (CRZ) Committee and the work was resumed on 8 June 2004. The contractor claimed Rs.45.41 lakh towards idle charges from 24 April 2004 to 28 May 2004 duly recommended by the Project Management Consultant, which was pending before the Technical Advisory Committee (August 2005). There was no provision in the agreement to pay idle charges.

The Government accepted (December 2005) that it was not clear as to whether CRZ clearance was required or not for executing the work and that no provision for idle charges was made in the tender as conditions for idling were not foreseen.

The reply is not tenable as the Company was expected to know relevant notified requirements before taking up the work.

Incorrect estimation of quantity for dredging work

7.2.21 The Company decided (March 2004), as part of the river modification programme in connection with IFFI, to dredge the riverbed of Mandovi River from Patto Bridge to Miramar and to dredge the sand bar at the mouth of the river Chapora. The work of dredging at River Chapora which was to be done by the Captain of Ports Department (COPD), Government of Goa was transferred (March 2004) to the Company. The quantity to be dredged was originally estimated (December 2003) by COPD as 15,000 cubic metre. S N Bhohe & Associates, the consultants appointed by the Company for the work (at a fee of Rs.8.5 lakh), estimated the quantity to be dredged at 1,20,000 cubic metre. The estimate was later revised (March 2004) after conducting a survey to 1,80,000 cubic metre to achieve a depth of four metre. The work was awarded (March 2004) to Afcons Infrastructure Limited at their quoted price of Rs.4.92 crore. The time for completion was four months from April 2004.

Increase in the quantity to be dredged was not justified.

Audit scrutiny revealed that the quantity estimated by the consultant and tendered by the Company was without any justifiable basis for the following reasons:

The quantity to be dredged was estimated by COPD as 15,000 cubic metre for the length of 300 metre and width of 100 metre and the silt to be removed was assessed for a depth of 0.5[⊗] metre only. When the work was transferred to the Company in March 2004 no change in scope had been proposed by the COPD. As there was no specific proposal from the Government for deepening the channel apart from the proposed dredging of a shallow patch in the navigational channel, the necessity for dredging upto a depth of four metre in the Chapora river increasing the quantity to be dredged from 15,000 cubic metre to 1,80,000 cubic metre was without any justification. Further, as the depth at river mouth was only one metre, dredging beyond one metre would require deepening the channel for which no clearance was sought by the Company from the COPD. Prior approval of COPD was all the more important as according to National Institute of Oceanography (NIO), deepening the channel would allow high

[⊗] Depth = $\frac{15000 \text{ cum (total quantity)}}{300 \text{ m (length)} \times 100 \text{ m (width)}}$

waves to enter the creek and cause erosion of the bank close to the river mouth. Thus, the incorrect estimation resulted in awarding the work with excess quantity of 1,65,000 cubic metre. The quantity so far (June 2005) dredged at Chapora was 87,171.46 cubic metre, which was in excess by 72,171.46 cubic metre than that assessed by COPD resulting in extra expenditure of Rs.1.63 crore.

The Government stated (December 2005) that the depth required to be dredged was taken as four metre based on preliminary survey and the quantity estimated at 1,20,000 cubic metre which was later increased to 1,80,000 based on hydrographic survey. Further, as COPD officials were present during pre dredging survey it was deemed that four-metre minimum draft was acceptable to them.

The reply is not acceptable as in view of variation of such magnitude the estimated quantity should have been got approved by the specialised agencies, namely NIO and COPD.

Landscape and External Development Works in the Old GMC Complex

Irregular award of contract

***Irregular
Award of
contract.***

7.2.22 The Company invited (August 2004) item rate tenders for Landscaping and External Development Works on a total area of 19,528 square metre in the Old GMC Complex, Panaji i.e. multiplex court yard, at an estimated cost of rupees two crore. Of the total eight tenders received, three tenders namely, Unity Infra Projects Limited (UIL), Premier Builders (PB) and RBS Candiaparcar (RBS) were considered for technical evaluation. The Company, however, did not open the financial bid of UIL and the offer of RBS was accepted being lower of the other two. The Company awarded the contract to RBS at a negotiated price of Rs.2.09 crore which was 4.98 *per cent* above the estimate (Rs.1.99 crore) prepared by the Company's Consultant. It was noticed in audit that the selection procedure for awarding the contract was irregular as the financial bid of UIL was not considered on the ground that it was executing other time bound projects for IFFI. This was equally applicable to RBS also as it was executing IFFI related works for the Company apart from the work of Panaji Municipal Market during the same period. Further, RBS did not meet the minimum turnover criterion, which was relaxed by the Company.

The Government stated (December 2005) that subsequent to technical bid evaluation it was decided to drop the opening of financial bid of UIL and also contended that the other works awarded to RBS were either completed or nearing completion at that time. Further, the Company reserved the right to reject any bid as per NIT.

The reply is not tenable as the capacity of UIL to complete the work in time along with other projects was considered in the technical evaluation and non opening of their financial bid, therefore, lacked justification.

Variations

7.2.23 The work of providing Landscape Architectural Design and Development for the landscape and external development work in the Old GMC Complex was assigned to Prabhugaonkar & Associates on the recommendation of the lead Consultant at a fee of Rs.4.50 lakh. The estimates

prepared by the consultant were not realistic because the cost of work originally agreed at Rs 2.09 crore on completion rose to Rs.2.64 crore. The cost of civil works increased by 52 *per cent* (from Rs 93.12 lakh to Rs 1.41 crore) and the increase in quantities of many other items was more than cent *per cent* of the quantities estimated and even went up to 170 times (PVC sheathed power cable, plain cement and concrete, laterite rubble soling, etc). The total value of variations was Rs.86.04 lakh. The abnormal variation had the effect of executing work of Rs.86.04 lakh without tendering.

The Government stated (December 2005) that the variations were due to additional requirements during implementation stage.

The reply is not tenable in view of the fact that many items had to be included after awarding the contract indicating incorrect estimation which led to the execution of excess/extra quantities to the extent of Rs 86.04 lakh, which could have been avoided had the Government technical and engineering organisations such as the State Public Works Department been involved at the stage of estimation.

Appointment of consultants

7.2.24 The Company appointed consultants/ architects for various projects identified for the IFFI. For projects of estimated cost aggregating Rs.98.64 crore the consulting fee agreed to with various consultants aggregated Rs.9.04 crore, of which Rs.6.67 crore were paid till 30 June 2005. Scrutiny in audit revealed that the consultants were mostly appointed without calling for offers, ensuring technical capabilities and competitiveness of their fees and wherever the tendering process was adopted the selection was not transparent as discussed in paragraphs 7.2.25, 7.2.26 and 7.2.27.

Appointment of lead consultant

7.2.25 The Company appointed HOK Canada Inc. (HOK), a foreign firm as the lead Consultant at a total fee of US \$ 5,32,500 (equivalent to Rs.2.40 crore approximately) to advise and assist in the development and planning of the infrastructure necessary for the IFFI. Out of the four firms short listed by the Company two were rejected due to their failure to make presentations. CPG Corporation, one of the applicants was rejected, though they had made an impressive presentation, on the grounds that they did not address issues like economic viability. The reasons recorded for rejection of the three applications, however, were not substantiated by any documentary evidence. The selection of HOK as lead Consultant, therefore, lacked transparency.

It was also noticed in audit that the Company did not ask the lead consultant to prepare any basic design for the multiplex which was the main new facility required for the IFFI. Further, as all the other applications were rejected either at the initial screening or at the presentation stage there was no comparison of financial quotes. HOK, being the sole applicant was appointed by the Company on the financial quote without any analysis of the competitiveness and reasonableness of the fees quoted by them.

The Government stated (December 2005) that even though there was no documentation justifying the reasonableness, the fee fixed was roughly two *per cent* of the estimated cost of the project (Rs 100 crore) for IFFI.

The reply is not acceptable as the fee was not reasonable since it was not based on competitive bidding. Further, the justification for the fee being two *per cent* of the project cost is also not acceptable as the Government had appointed other consultants for various IFFI related works and for organizing of the event, with overlapping functions.

Consultant for Kala Academy works

7.2.26 It was proposed to suitably restore and upgrade the existing facilities in Kala Academy at an estimated cost of Rs.23 crore. The Company appointed (June 2004) Uttam C Jain as a consultant for the work at a total fee of Rs.1.67 crore, which represented about seven *per cent* of the project cost. The selection of the consultant was done on the basis of similar work done elsewhere for which no evidence was on record and the tendering procedures such as calling for offers and their evaluation with reference to technical capability/financial reasonableness were dispensed with. Thus, the selection lacked transparency. It was also seen that the HOK group as lead consultants for the IFFI facilities had identified in detail the extent of renovation that would be necessary for the complex and had submitted a report to the Company. The Company, however, did not analyse the reasonableness and competitiveness of the fee of Rs 1.67 crore to the consultant (Uttam C. Jain) for restoration and upgradation of Kala Academy, which lacked justification.

Appointment of consultant was done without ensuring financial competitiveness.

The Government stated (December 2005) that the consultant was engaged to render various services including architectural and structural work and the fee of seven *per cent* of the project cost was within the standard norms. The report submitted by the lead consultant was a broad outline for the work.

The reply is not tenable as restoration and repair did not call for any architectural/structural changes and HOK had given a detailed list with specific items of work to be carried out. The Company also had awarded the work without inviting offers for the consultancy work which lacked transparency.

The report (December 2005) brought out by the engineering audit of the works, ordered (June 2005) by the Kala Academy revealed that a large percentage of defects/deficiencies could have been avoided during the construction itself indicating that the engagement of PMC at Rs.1.67 crore has not brought in the desired results.

Appointment of consultant for Road Package works

7.2.27 S N Bhoje & Associates Private Limited (SNB) were appointed (December 2003) as consultants for techno- feasibility study and thereafter for Project Management for the work of improvement, upgradation and beautification of roads from Patto to Dona Paula Jetty and from St. Inez Circle to Miramar Circle via Hotel Goa International. The contract cost of the work tendered for four different stretches aggregated Rs. 39.77 crore and the consultant fee agreed to by the Company was Rs. 1.59 crore. It was noticed in audit that engagement of SNB as consultant for road works was not justified as they had applied for empanelment for bridgeworks. It was further noticed that the Company availed the services of seven other architects also at an aggregate fee of Rs.18.92 lakh for the same works. It was opined by HOK that the services of the consultant were, however, not upto the standard and benchmark

required for holding the film festival. Consequently, the Company had to engage another architect at a cost of Rs. 7.26 lakh. Appointment of SNB without evaluating their credentials with regard to their capabilities necessitated availing of services of other architects at an extra expenditure of Rs. 26.18 lakh.

The details given in the **Appendix 7.8** show that the road packages were not completed and one package was not commenced. The consultants, however, were paid fees without linking with the work completion. Payment of project management fee of Rs 72.77 lakh to the consultants without linking to the physical progress of the construction was irregular and unjustified resulting in excess payment of Rs.12.69 lakh*.

The Government stated (December 2005) that the work initially included a bridge, flyover jetty, sub-way and various civil works in addition to the roads and consultant having expertise in bridges was most suited. Further, the seven architects who were originally appointed by the Corporation of City of Panaji were re-engaged to provide architectural services. One more architect was appointed based on the suggestion of the lead consultant for providing services related to landscaping. It was also stated that the payment of fee was as per agreement and as per normal practice followed by the Company and hence was not irregular.

The reply is not tenable as the work awarded did not involve bridge, flyover, jetty and sub-way etc. and the necessity of appointing a consultant having expertise in bridges was not justified. The lead consultant as well as the Company recorded the poor quality of services rendered by the consultant, which was indicative of wrong selection of the consultant.

The Company at the instance of Audit has now evolved a payment schedule based on the services rendered by the consultant.

Wasteful expenditure on abandoned projects

7.2.28 The Company had initially (February 2004) decided to construct a temporary theatre for the opening / closing ceremonies of the IFFI at a site next to the Kala Academy (Football ground). For this and other works of upgradation of three private theatres in Panjim, the Company appointed Uttam C Jain as Consultant. Though the project was tendered in March 2004 the works did not commence as the Company could not obtain necessary clearances for the construction of the temporary theatre and non execution of agreement by theatre owners. The Company paid (June 2004) the consultant Rs. 58.65 lakh, which were rendered wasteful as the proposed objectives were not met.

The Government stated (December 2005) that the projects had to be kept in abeyance as the requirements of the infrastructure for the festival were modified in consultation with Directorate of Film Festival (DFF) and non-execution of agreement by private theatre owners. Separate film theatre was not taken up since the time was short. Further, the project development was taken up entirely based on the requirements of the Government with clear directives

* Amount paid – Rs.72.77 lakh less amount payable on the basis of percentage completion – Rs.60.08 lakh

that in the case of the projects not being taken up, the cost would be reimbursed.

The reply is not tenable as the expenditure on the consultancy was rendered wasteful.

Conclusion

Though the State Government hosted a prestigious event like IFFI 2004, the findings of the review as mentioned above reveal that the works were not planned, executed and monitored efficiently. The Company did not carry out proper surveys. The tendering process suffered due to lack of transparency, tender evaluation procedure was faulty, there were cases of excess payments/wasteful expenditure and over dependence on consultants on all the major works.

Recommendations

The Company must ensure that:

- proper planning is done based on surveys with adequate involvement of user departments/ agencies before taking up projects;
- the Company's own professional group for technical advice and monitoring of projects including quality is used to avoid over-dependence on hired consultants and the consultants fees are linked with physical progress of works;
- a dependable quality assurance mechanism is installed;
- reasonability of rates payable to various contractor is ensured through strict competitive bidding;
- the contract clauses are constructed to safeguard the financial interests of the Company/Government and are enforced in their entirety.

ELECTRICITY DEPARTMENT

7.3 BILLING AND COLLECTION OF REVENUE

Highlights

The arrears in revenue collection increased by over 55 per cent from Rs.128.26 crore in 2000-01 to Rs.199.65 crore in 2004-05.

(Paragraph 7.3.9)

There were instances of short billing of Rs.1.54 crore due to mis-interpretation of rules resulting in non-recovery of revenue of Rs.1.43 crore.

(Paragraph 7.3.8)

Injudicious grant of instalment facility, delay in disconnection, delay in referring default cases to the Revenue Recovery Court resulted in accumulation of arrears to the extent of Rs.9.24 crore.

(Paragraphs 7.3.10 to 7.3.11)

The Department suffered loss of Rs.189.89 crore upto 2004-05 due to transmission and distribution losses in excess of the norms.

(Paragraph 7.3.16)

Lack of Internal Controls and inadequacy of Internal Audit led to non-detection/delay in replacement of faulty meters, non renewal of bank guarantees during validity periods and non collection of adequate security deposits adversely affecting revenue collection.

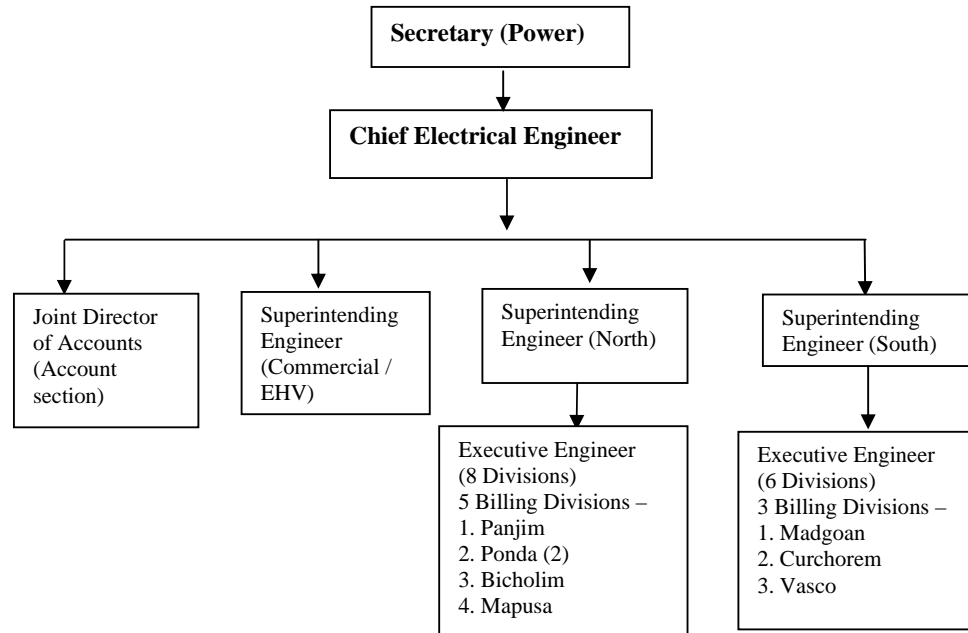
(Paragraphs 7.3.17 to 7.3.23)

Introduction

7.3.1 The Electricity Department of the Government of Goa (Department) is entrusted with the transmission and distribution of electrical energy as the State does not generate any power of its own. The State has been allocated 357 mega watt (MW) of power from the Central sector generating stations. The Department also buys (18 MW) power from Reliance Energy Limited (formerly Reliance Salgaonkar Power Company Limited).

The power supply thus received is distributed through a network of transmission and distribution lines to all types of consumers, i.e. high tension (HT) for bulk consumption, industrial and other units etc. and low tension (LT) for motive power for industries, domestic, agriculture, commercial, public lighting, small scale industries etc. The Department also trades surplus power, which yielded additional revenue of Rs. 118.66 crore to the State during 2003-04. The Department, being a commercial entity, maintains Pro-forma Accounts. The Accounts for the year 2003-04 showed a net profit of Rs. 187.07 crore.

The Department is headed by a Chief Electrical Engineer and consists of six branches at Head office. There are fourteen divisions headed by Executive Engineers which carry out the operations and maintenance works relating to transmission and distribution. The organisation chart of the Department relating to billing and collection of revenue is as follows:



Scope of Audit

7.3.2 The review was conducted during May-July 2005. It covers the performance with regard to billing and collection of revenue with special emphasis on (HT/EHT)* consumers for the five year period 2000-2005, which was extended to earlier periods wherever required, covering all the eight divisional offices[≈] where billing and collection of revenue are being carried out.

Audit objectives

7.3.3 The objectives of the audit review were to ascertain whether the systems and procedures in the Department were adequate to ensure:

- regular billing and collection of revenue as per applicable tariff;
- prompt collection of arrears of revenue;
- prevention of transmission and distribution losses; and
- effective Internal Controls and Internal Audit System.

* HT/EHT- High Tension/Extra High Tension

[≈] Panajim, Ponda (two divisions), Madgaon, Curchorem, Bicholim, Mapusa and Vasco

Audit criteria

7.3.4 The following audit criteria were adopted:

- prescribed system for regular and timely billing and collection of electricity charges;
- system devised and adopted for granting concessional tariff to consumers;
- adequacy of the system for recovery of arrears of revenue;
- adequacy of the Internal Control mechanism to check billing and recovery and credit of revenue to Government account; and
- other instructions, rules, directions, notifications issued by the Government or the Department.

Audit methodology

7.3.5 Audit test checked and analysed documentary evidence comprising Electricity Act/Rules, Government orders and guidelines, tariff notifications, agreements with consumers, proforma accounts of the Department, internal correspondence and Internal Audit reports. Meetings were also held at higher levels to obtain key evidence/replies etc.

Audit findings

Billing and collection of revenue

7.3.6 The revenue and profitability of the Electricity Department during the period 2000-2005 is given below:

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05*
Units purchased (lakh units)	15903.46	20065.54	26658.70	28992.80	27163.20
Units sold (lakh units)	11115.10	15417.20	21496.00	23642.50	22367.90
Number of consumers	355264	368820	417771	424575	428597
Revenue receipts (Rupees in crore)	328.26	416.29	491.45	565.78	534.06
Profit(+)/Loss(-) (Rupees in crore)	(-) 17.90	(-) 1.65	154.11	187.07	146.39

The Department revised the tariff in July 2000 and again in April 2002. A comparison of the two revisions revealed that there was no upward revision in respect of domestic, mixed, public lighting and public water works under the LT category and Public Works, MES / Defence under the HT category. The

* Figures for 2004-05 are provisional.

tariff in respect of certain categories of consumers under LT and HT category were reduced in the revision carried out in April 2002. A new tariff for IT high tech category was introduced in 2002.

Billing

7.3.7 The bills for LT consumers are issued monthly at sub-division level. The Chief Electrical Engineer's Office issues computerised bills during the first week of every month for HT consumers after collecting the details from the divisional offices. Monthly meter reading is taken by the Junior Engineers/Assistant Engineers of the concerned divisions.

Test check in audit revealed the following deficiencies resulting in short billing of mainly the HT Consumers:

Short billing due to misinterpretation of rules

7.3.8 As per clause 10(e) of the Government Notification dated 2 May 2002, if the Industry is closed for a minimum period of seven days or more during a month, the demand charges for that month would be levied on pro rata basis. This provision was, however, misinterpreted and Division III at Ponda allowed inadmissible benefit to 11 HT consumers by splitting the closure days to the next calendar month for different periods during 2000-2003. The Divisional Office issued (July 2002) supplementary bills amounting to Rs.1.54 crore to these consumers to rectify the mistake, as detailed in **Appendix 7.9**.

There was short billing of Rs.1.54 crore due to misinterpretation of the rules.

The Department stated (November 2005) that an amount of Rs 10.74 lakh had been recovered from two consumers and efforts were being made to recover the balance amount.

Collection and accountal of revenue

7.3.9 Appendix 7.10 gives the revenue assessed, amount recovered and arrears of revenue outstanding at the end of the year during 2000-01 to 2004-05. It will be seen that the arrears of revenue increased by over 55 *per cent* from Rs.128.26 crore in 2000-01 to Rs 199.65 crore in 2004-05.

Audit analysis of the arrears revealed the following:

- The Department recovered 71.90, 73.54, 73.82, 74.40 and 72.78 *per cent* in 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 respectively which reflects an inefficient recovery mechanism leading to accumulation of arrears.
- The Department had not maintained age-wise analysis of dues recoverable from individual consumers, indicating slack monitoring over receivables.
- In respect of low tension supply to Government Departments, the arrears increased by 47 *per cent* from Rs.4.37 crore in 2002-03 to Rs.6.43 crore in 2003-04, indicating poor follow up action.
- The arrears under Revenue Recovery Court (RRC) increased considerably from Rs.67.27 crore in 2002-03 to Rs. 76.59 crore in 2003-04 resulting in net increase of 13.85 *per cent* during the year. The recovery of the arrears by RRC

declined to Rs.33.24 lakh in 2002-03 and Rs.25.08 lakh in 2003-04. Increasing recourse to revenue recovery court indicates failure to effect timely and prompt recovery of dues from defaulting consumers.

The Department stated (November 2005) that all efforts were being made to recover the dues.

Non-recovery / delay in recovery of arrears

Failure to disconnect the power supply resulted in accumulation of arrears .

7.3.10 As per Clause 8 of General conditions of tariff revision order, if the consumers fail to pay the energy bills within the stipulated period, the Department shall have the right to disconnect the supply after serving seven days clear notice. The Government has delegated powers to the Chief Electrical Engineer to grant instalment facility to the defaulting consumers and also for waiver of delayed payment charges.

Test check in audit revealed that the power supply to defaulting consumers was not disconnected in the following cases leading to accumulation of arrears:

- Arrears of Goa Steel Limited up to July 2000 were Rs.35.70 lakh. The Department disconnected the supply on 4 August 2000. As the consumer agreed to pay the arrears, the Chief Electrical Engineer instructed (April 2001) to restore the power supply on the condition that the connection should again be disconnected, if the consumer failed to make payment as agreed upon. The consumer had agreed to pay rupees two lakh per month for first three months as monthly instalments against the outstanding arrears and thereafter rupees three lakh per month till the remaining outstanding arrears were cleared in full. The consumer, however, did not pay any instalment as agreed but the Department failed to disconnect the power supply as instructed. The arrears had increased to Rs.1.20 crore at the end of March 2005.

No action had been taken to fix responsibility for the violation of the instructions of the Chief Electrical Engineer to disconnect the supply if the consumers failed to make payment as agreed.

- The arrears due from Goa Steel Rolling Mills Limited, Bicholim increased to Rs.28.96 lakh in April 2005 from Rs.25.69 lakh in April 2002. The arrear did not include delayed payment charges on the arrears which were frozen by the Chief Electrical Engineer since September 2001. Despite granting instalment facility to the consumer, the consumer did not pay but the power supply was not disconnected (June 2005). Justification for freezing the delayed payment charges was not made available.

7.3.11 A review of the arrears position of the Department revealed that the arrears relating to Ponda, Margao and Mapusa divisions were pending for periods ranging from two to seven years in the following cases :

Sl. No	Name of the consumer	Consumer No.	Arrears (Rupees in lakh)	Arrears pending from
1	Twenty First Century Wire Roads, Madkaim	HTC-11	435.47	September 1998
2	Kartik Induction Limited, Kundaim	HTC-88	376.13	May 1998
3	Samudra Ropes Private Limited	HTC-102	14.22	May 2003
4	Ravish Infusion	HTC-52	1.21	June 1998
	Total		827.03	

In addition amounts aggregating Rs.32.28 lakh were due from Kay Pee Steels Private Limited, Diamant Boart Limited and Zuari Carbide Limited; these have remained uncollected from January 1991 to February 1997, which indicates serious deficiencies in collection of arrears.

The Department stated (November 2005) that action was being taken to refer the cases to RRC. The undue delay in taking suitable action to refer the cases to RRC even after a lapse of 2 to 14 years had led to non-realisation of Rs.8.59 crore and consequential loss of interest.

Dues from permanently disconnected consumers

Delay in recovery of dues from permanently disconnected HT Installations

7.3.12 Audit analysis revealed that a total amount of Rs.34.30 crore was recoverable from the following six permanently disconnected HT consumers whose cases had been referred to RRC as detailed below:

Sr. No.	Name of the Consumer	Date on which referred to RRC	Recoverable Amount (Rupees in lakh)
1	Venkateshwar Alloys Private Limited, Kundaim -HTC-100	18.12.1998	41.08
2	Pent House-HTC-50	17.2.1999	2.18
3	Trirupati Steels -HTC-94	7 .12.1999	426.86
4	Raj & Yash -HTC-97	9 .12.1999	1116.88
5	Mandovi Ispat-HTC-100	9 .12.1999	1548.07
6	Mandovi Steel- HTC-113	9 .12.1999	294.58
	Total		3429.65

The above cases had been referred to RRC during the period from 1998 to 2000 but the cases remained pending at various levels even after lapse of six to seven years. The Department stated (November 2005) that efforts were being made to recover the dues. The recovery of these amounts, however, was still pending (November 2005).

Arrears of Revenue due from Viswas Steels Limited, Dhargal

7.3.13 Viswas Steel Limited was given power connection in March 1998 with a contract demand of 5000 KVA. It was noticed in audit that the consumer defaulted in payment of electricity charges from September 2000 onwards. The

power supply was, therefore, temporarily disconnected in October 2000 and the bank guarantee for Rs.1.10 crore was encashed (January 2001) and adjusted against the bills of Rs.55.35 lakh issued upto the end of December 2000 including delayed payment charges of two *per cent*. The balance claim was revised on 1 July 2004 to Rs.56.66 lakh by including Rs.1.31 lakh towards cost of departmental materials.

In view of the breach of contract on the part of the consumer, clause 18(C) of the agreement was invoked by the division, which stipulated that, in case of termination of the agreement during its currency (seven years), the consumer was to be billed an amount equal to the minimum charges for the un- expired period of the agreement. Thus claim for the minimum contract demand for the un- expired period of the agreement to the tune of Rs 18.55 crore was preferred (February 2001) against the consumer.

Thereafter, neither were the arrears pursued nor was the case referred to RRC (May 2005). The Department stated (November 2005) that the matter was being referred to RRC. The fact remains that delay in referring the matter to RRC resulted in non-recovery of the amount for more than four years.

Trading of Surplus Power

Outstanding charges from MSEB

7.3.14 Out of the total quantum of power allocated to the Western region from the Central grid, surplus due to underdrawal by the constituent States is exported to the Southern region and the revenue is shared by the constituents on the basis of the quantum of underdrawal. Maharashtra State Electricity Board (MSEB) is the nodal agency for overseeing the sale of the surplus. Audit scrutiny of the records revealed that an amount of Rs.4.25 crore was due for recovery from MSEB being the share of value of surplus power exported to the Southern region during August 1990 to September 1998.

Non-recovery of Rs.4.25 crore from MSEB being the share of value of surplus power exported to the Southern Region.

The Department stated (November 2005) that the figures were under reconciliation and the matter was being pursued vigorously. The fact, however, remains that the failure of the Department in getting the dues settled in time resulted in accumulation of arrears for a long time.

Non-settlement of dues by Global Energy Limited

7.3.15 The Government signed (April 2002) a Memorandum of Understanding (MOU) for trading of surplus power of 50 MW in the Southern Region Grid with Global Energy Limited (GEL), a Delhi based private company. The rates were fixed at Rs.2.80 per unit during peak hours and rupees two per unit during off peak hours with 25 *per cent* rebate for sale of power in excess of 10 MW during off peak hours. The Department accordingly sold 50 MW power during peak hours and off peak hours to GEL during 19 June 2003 to 11 May 2004 at the above rates.

Failure to effect weekly draw down resulted in accumulation of arrears.

Audit scrutiny revealed that an amount of Rs.3.24 crore was due from GEL as on 31 March 2005 being the value of power sold to them up to 11 May 2004. The MOU with GEL stipulated that GEL would open a revolving letter of credit mechanism for payment to enable the Department to make weekly draw

downs there from and raise monthly bills as per the details furnished by the Regional Electricity Board and GEL would release payments against the same. The Department failed to effect weekly draw downs as stipulated in the MOU which resulted in accumulation of arrears for 11 months. The Department also continued the supply inspite of default, which also contributed to the accumulation of arrears.

The Department stated (November 2005) that their effort to encash the letter of credit was not successful as Delhi High Court stayed the encashment in connection with another case filed by Delhi Transco against GEL and that the matter had now been referred to arbitration.

The reply is not tenable as the Department failed to effect recoveries on weekly basis as provided in the MOU which resulted in accumulation of arrears and necessitated reference to the arbitrator.

Transmission and Distribution Losses

7.3.16 The Transmission & Distribution (T&D) losses are accounted for as technical losses / commercial losses. Technical losses occur due to inherent characteristics of the equipment and conductors used for transmitting and distributing power. Commercial losses occur due to theft of energy, defects in the meters, errors in reading or recording of readings and other human errors.

The details of energy purchased, energy sold and transmission and distribution losses during 2000-01 to 2004-05 are detailed in the **Appendix 7.11**. It was noticed in audit that even though the Department could considerably reduce the T & D losses over a period of time, the losses are more than the norm of 15.5 *per cent* fixed by the Central Electricity Authority (CEA).

Due to T & D losses in excess of the norms fixed by the CEA, the Department suffered loss of 63.34 crore units of power valued at Rs.189.89 crore during 2000-05.

The Department stated (November 2005) that the T&D losses were within the CEA norms and lots of measures had been taken to bring down the losses still further. The reply is not tenable as the losses ranged between 18 to 30 *per cent* which are in excess of the norm of 15.5 *per cent*.

Internal Control

7.3.17 Audit analysis revealed that due care was not taken in raising energy bills at correct rates, there were delays in meter checking / periodical inspections, under assessment of revenue due to defective meters, non encashment of bank guarantees and short collection of security deposit as discussed below:

Excess/Short billing of energy charges

7.3.18 Audit scrutiny revealed that Goa Steel Limited was billed as per tariff applicable to HT Industrial (Steel Rolling) instead of tariff applicable to HT industrial (Ferro-Metallurgical/ power Intensive) for the period from July 2000 to July 2001. The demand charge for HT industrial (Ferro-Metallurgical/ power Intensive) was Rs.700 per KVA whereas for HT Industrial (Steel Rolling) the

rate was only Rs.450 per KVA. This resulted in short billing of Rs.18.02 lakh. The error in billing, which was brought to the notice of the Divisional office by the consumer, was caused due to failure of the division in exercising prescribed internal checks. The failure of the Department to detect the short billing in time resulted in loss of Rs 18.02 lakh as recovery of short billing cannot be preferred beyond six months as per Electricity Supply Rules.

The Department stated (November 2005) that the audit findings have been noted for future compliance.

Delays in periodical inspection/check reading

7.3.19 Binani Industries Goa Glass Fibre Limited (EHTC-57), an HT consumer under Division VI, was given a 4000 KVA connection in March 1996. Within a year the transformer at the consumers unit failed and the billing had to be done on daily consumption basis. The Meter Relay Testing (MRT) Division of the Department inspected (December 1997) the installation and reported that the meter was recording only 31 *per cent* of the actual consumption. The Department replaced the meter with an electronic one only in February 1999 i.e. after a gap of one year and two months. When the MRT Division served an arrear bill of Rs.3.15 crore based on average readings for this intervening period, the consumer disputed the same. The matter was referred to the Chief Electrical Engineer in October 1999 but action for recovery has not been taken even after a lapse of six years (November 2005).

The Department stated (November 2005) that the case was being examined for appropriate action.

The inordinate delay on the part of the Department in taking a decision on the case resulted in non recovery of Rs.3.15 crore for more than six years.

Short billing due to faulty meter

7.3.20 The HT meter of All India Radio (No. 182) in Division-I was not working from July 1999 to July 2003 and the bills were issued for 1.90 lakh units based on the average consumption for the previous months. After replacing the meter in July 2003 it was noticed that the average consumption was around 2.97 lakh units per month on the basis of the actual consumption recorded. Accordingly, an arrear bill for Rs.1.81 crore for the period of short billing was issued on 15 April 2005, which was contested by the Consumer pointing out that several letters had been written to the Department for replacing the meter. The consumer did not pay the energy charges. Thus, absence of check reading and inspection of installation, especially that of HT consumers resulted in failure to detect the faulty meter and consequent non recovery of the arrears of Rs.1.91 crore from HT consumer.

7.3.21 Non-encashment of Bank Guarantees

- Electric power supply to Trimaran India Limited (HTC 145) in Division No. III was temporarily disconnected on 20 March 2002 for non-payment of accumulated arrears of Rs.2.12 lakh. Later, the power supply was permanently disconnected after six months of temporary disconnection. The

Executive Engineer had intimated the consumer that the bank guarantee would be adjusted towards the balance arrears and the matter was being referred to RRC for recovery of the amount.

It was noticed in audit that though the bank guarantee for Rs.2.20 lakh was revalidated upto 27 June 2004, the division failed to encash the same within its validity period. The bank guarantee was sent to the Bank on 19 July 2004. The bank did not remit any amount towards encashment of bank guarantee as the validity had expired. The matter was taken up with the Reserve Bank also, but it yielded no results; the Department was unable to realise the arrears (June 2005).

- In yet another case, Anderson Marine Private Limited (HTC-40) who are the owners of Trimaran India Private Limited, also defaulted in making payments of energy charges and the supply was temporarily disconnected on 11 June 2004. Later, at the time of permanent disconnection the accumulated amount of arrears of the consumer was Rs.1.27 lakh. The division had a bank guarantee for Rs.0.85 lakh issued by Corporation Bank, Vasco-da-Gama Branch, valid upto 2 June 2004. The Division invoked the above bank guarantee to recover the dues only on 7 July 2004 after its validity period and as a result the bank did not honour the same.

Though these cases were required to be referred to RRC after one month of permanent disconnection as per the conditions of supply, they had not been referred till June 2005.

The Department stated (November 2005) that these cases would be followed up vigorously.

Faulty Meters

7.3.22 The Department has the responsibility of maintaining the electricity meters which are in operation at the premises of the consumers. Scrutiny of records revealed the existence of a large number of faulty meters, which indicates lack of internal check in this regard. The details of faulty meters at five Divisions (No. I, V, VI, VII and XI) during 2002-05 as furnished by the Department are given below:

Increasing trend in number of faulty meters resulted in billing on average basis with consequent disputes and blocking of revenue.

Sl. No.	Particulars	2002-03	2003-04	2004-05
1.	No. of faulty meters at the beginning of the year	29819	29179	32698
2.	No of Meters replaced during the year	3713	4051	16941
3.	No. of faulty meters at the close of the year	29179	32698	23118
4.	Percentage of Replacement	12.45	13.91	47.42

Details of faulty meters in other divisions, though called for, were not furnished (December 2005). As against 2.78 lakh installations at the end of March 2005 in five divisions, 23110 meters were faulty. The number of faulty meters has increased but the Department did not take action to replace them promptly. The

Department, therefore, had to bill the energy charges based on average consumption instead of actual consumption, which was generally disputed by the consumers resulting in blockage/loss of revenue.

The Department stated (November 2005) that a large number of single phase meters had been replaced with electronic meters and 3-phase meters were being replaced.

Short collection of Security deposit

7.3.23 The conditions of supply of Electrical Energy, inter alia, provide that the amount equivalent to three months energy consumption charges should be collected from the consumers by way of cash/bank guarantee which should be reviewed periodically and updated with reference to the latest energy charges (clause 8 and 26). Scrutiny of security deposits collected from HT consumers revealed that Rs.42.13 crore from 91 consumers had not been recovered so far in the form of bank guarantee, as detailed in the **Appendix 7.12**.

Conclusion

The performance of the Department with regard to revenue collection was found to be unsatisfactory. Cases of short billing of HT consumers non-recovery of delayed payment charges and accumulation of huge arrears were observed during the review. Non-receipt of cost of surplus power sold to private as well as State Governments were also noticed. Internal Control System was found to be ineffective in timely replacement of faulty meters, checking of installation, collection of prescribed security deposits and encashment of bank guarantees within the validity periods which adversely affected revenue collection.

Recommendations

The Department should ensure:

- Prompt collection of revenue by sending timely notices of disconnection to defaulters.
- Timely collection and encashment of security deposits and bank guarantees from the consumers as per the rules.
- Non-restoration of HT connections till fulfillment of payment conditions.
- Improving the monitoring mechanism at Chief Electrical Engineer's level.

The above matters were referred to the Government in September 2005; reply had not been received (December 2005).

SECTION 'B' DRAFT PARAGRAPHS

GOVERNMENT COMPANIES

EDC Limited

7.4 Irregular disbursal of loans

Disbursal of loans to two units owned by the same promoters, absence of post sanction monitoring and inordinate delay in taking over the units / assets resulted in non-recovery of Rs.5.04 crore.

The Company sanctioned (March / June 1998) term loan of Rs.1.50 crore each to two units viz. Meher Plastics to establish a unit for manufacture of plastic articles; and Monalisa Multiplast Limited for their proposed expansion scheme in Daman, set up by the same promoters*, at interest rates of 16.5 and 17.5 *per cent* respectively. The Company disbursed Rs.1.14 crore to Meher Plastics during March 1998 to June 1998 and Rs.1.24 crore to Monalisa Multiplast Limited during July 1998 to April 1999. The loans, along with interest thereon were repayable in 16 equal quarterly instalments of Rs.9.38 lakh each beginning after one year from the date of first disbursement.

Audit scrutiny revealed the following:

- The Company disbursed loans to the units established by the same promoters.
- Technological changes were not considered while appraising the loan proposal.
- Both the units defaulted in repayment from the beginning (March 1999 and July 1999) and no instalment was paid by the units.
- The Company recalled the loans only in September 2003 and the assets of the units were taken over in December 2003 and January 2004 respectively under Section 29 and 30 of the State Financial Corporations Act, 1951 (SFC Act).
- The Company sold the properties taken over from Meher Plastics and realised (November 2004 / May 2005) an amount of Rs 34 lakh only while in the case of Monalisa Multiplast Limited, the properties were sold (February 2005) for Rs.11 lakh.
- The delay on the part of the Company in taking over the possession of assets contributed to reduction in the realisable value of the assets taken over.

* Promoters of Meher Plastics – Shri Mohammed Aslam Khan, Shri Mohammed Azam Khan, and Shri Mohammed Alam Khan. Promoters of Monalisa Multiplast Limited – Shri. Mohammed Aslam Khan, Shri. Mohammed Azam Khan, Shri Mohammed Alam Khan and Shri Mohammed Anjum Khan

- The outstanding dues from Meher Plastics and Monalisa Multiplast at the end of July 2005 were Rs.2.32 crore (Principal: Rs.1.14 crore and interest: Rs.1.18 crore) and Rs.2.72 crore (Principal: Rs1.19 crore and interest: Rs.1.53 crore), respectively.

The management stated (September 2005) that the delay of four years in recalling the loans and initiating recovery proceedings was due to a proposal of restructuring package considered during 2001-02 but withdrawn due to default by the loanees. It was also stated that the personal guarantee of the promoters had also been invoked (March 2005) as per the terms and conditions of loan and a suit was filed under section 31 of SFC Act for recovery of the balance amount. Further, the depletion in value of the assets was attributed to constant technological and design changes in the market.

The management's reply relates to the post disbursal action taken. The fact remains that disbursal of the two loans to the same promoters, failure to consider the technological changes during appraisal, absence of post sanction monitoring and delay in recalling the loans after withdrawal of restructuring package as also invoking the personal guarantees of the promoters resulted in non-recovery of Rs.5.04 crore (Principal Rs.2.33 crore and interest Rs.2.71 crore).

The matter was reported to the Government in August 2005; their reply was awaited (November 2005).

STATUTORY CORPORATION

Goa Industrial Development Corporation

7.5 Poor cash management

Retention of large balances of funds in short term deposits and current account without any prudent financial planning deprived the Corporation of potential interest income of Rs 27.93 lakh.

The Corporation, which is engaged in promotion of industries in the State, receives funds from the State and Central Government to carry out various activities related to industrial development. It also earns its own income arising out of lease rentals, building rent in addition to interest earned on the deposits.

Audit scrutiny revealed that the Corporation had not devised any system for efficient cash management through preparation of Cash flow statement indicating the probable flow of cash during the year and its utilisation. The Corporation did not optimize the investment returns by investing the funds for long-term instead of in short-term deposits requiring frequent renewals. During the year 2003-04, the Corporation invested surplus funds ranging from Rs.90 lakh to Rs.4.46 crore in Term Deposits mainly with Centurion Bank for periods ranging from 15 days to one year. The interest earned ranged between 5 to 5.75 per cent as against 5.75 to 8 per cent in case of long-term deposits. The Corporation earned interest of Rs.1.12 crore from the deposits as against Rs.1.38 crore that could have been earned by opting for long term deposits,

thus resulting in loss of interest income of Rs.25.97 lakh. Deposits were renewed for short periods, resulting in low interest return to the Corporation.

It was further noticed that large balances were retained in current account with Centurion Bank and State Bank of India. The aggregate of minimum balance in the current accounts with Centurion Bank and State Bank of India (SBI), Panaji branch ranged between Rs 2.15 crore to Rs 3.07 crore during 2003-04, which did not earn any interest. Had the Corporation transferred the excess funds to short-term deposits, it could have earned an additional income of Rs.1.96 lakh.

Thus, parking of surplus funds in short term deposits (deposits initially for 15 days and renewing the same upto even one year) and retention of heavy balances in current accounts (Rs.2.22 crore for 15 days during April 2003, Rs.3.07 crore for 15 days during December 2003 and Rs.2.15 crore for 34 days during February – March 2004) without any prudent financial planning resulted in a foregone interest income of Rs 27.93 lakh by the Corporation during the year.

The Management stated (November 2005) that funds were kept in short term deposits / current accounts for making major payments including land acquisition, meeting revenue expenditure like salaries of around Rs.75 lakh and to avoid premature encashment of long term fixed deposits.

The reply is not tenable as the investments of funds were made without any prudent financial planning. The balances in the current account were more than the monthly requirements and the short-term deposits were renewed without reviewing the availability of funds for long-term investment. There was absence of an efficient cash management system as the Corporation failed to optimise returns on surplus funds.

The matter was reported to the Government in October 2005; their replies were awaited (November 2005).

**Panaji
The**

**(SANGITA CHOURE)
Accountant General, Goa**

Countersigned

**New Delhi
The**

**(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India**