

## CHAPTER – VII

### Government Commercial and Trading Activities

#### 7.1 Overview of Government companies and Statutory corporations

##### *Introduction*

**7.1.1** As on 31 March 2008, there were 15 Government companies (all working) and two Statutory corporations (working) as against 15 working Government companies and one working Statutory corporation as on 31 March 2007 under the control of the State Government. During the year, one new Statutory corporation viz. Goa Information Technology Development Corporation was added. 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 by the CAG as per the provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are 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 2012 has been entrusted to the CAG
Goa Information Technology Development Corporation	Section 25(2) of the Goa Information Technology Development Corporation Act, 2006 and Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit up to the period 31 March 2012 has been entrusted to the CAG

#### Working Public Sector Undertakings (PSUs)

##### *Investment in working PSUs*

**7.1.2** The total investment<sup>‡</sup> in working PSUs at the end of March 2007 and March 2008 respectively, was as follows:

*(Amount: Rupees in crore)*

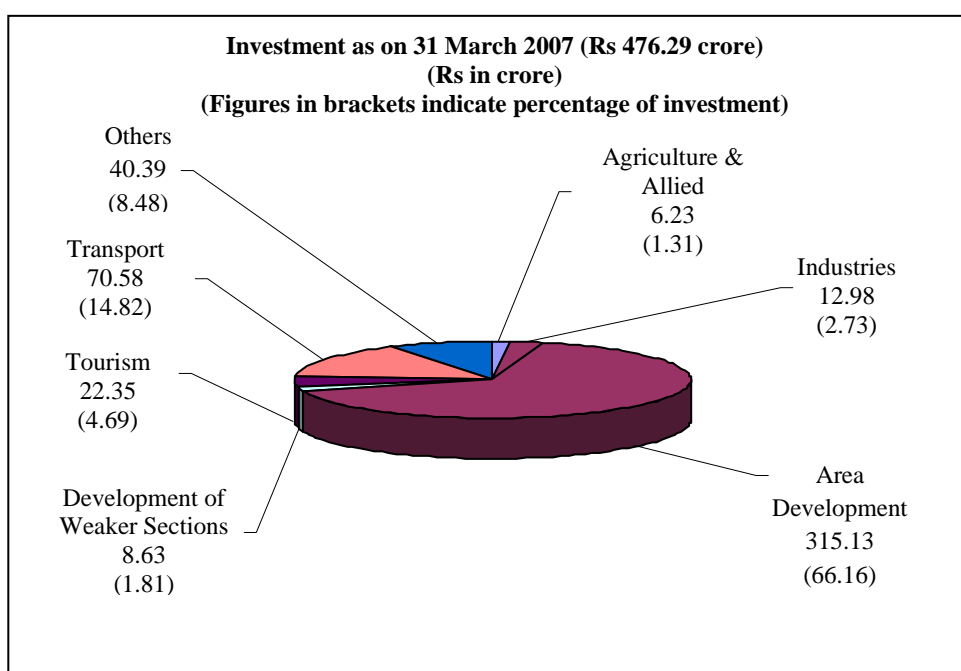
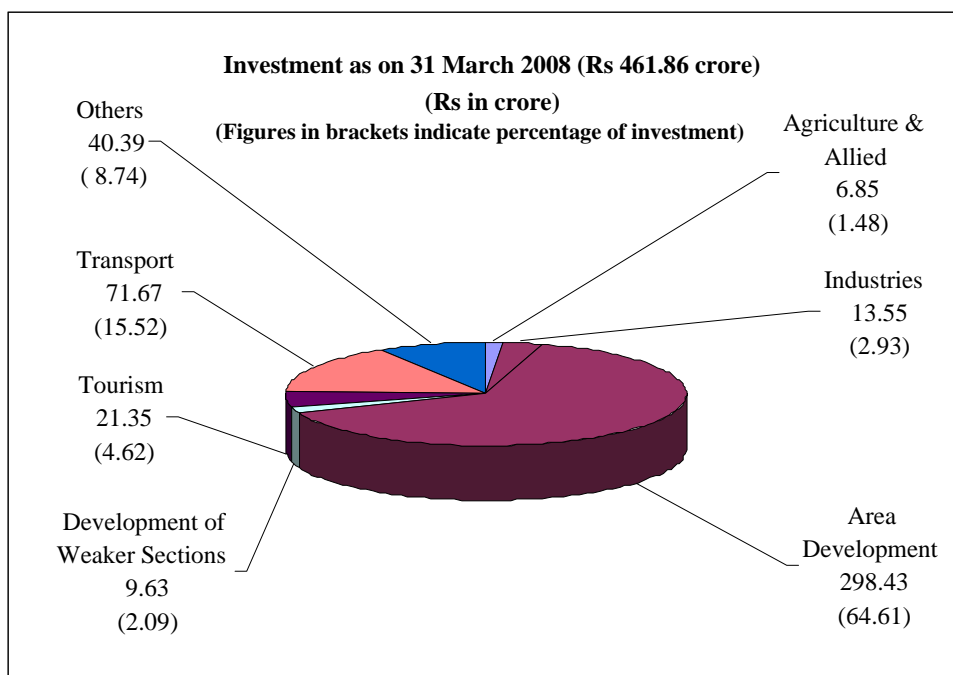
Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loans*	Total
2006-07	16	192.60	27.68	256.01	476.29
2007-08	17	221.64	23.68	216.54	461.86

<sup>‡</sup> Investment by way of equity and share application money in working PSUs by State Government is Rs 188.78 crore as per data furnished by the PSUs (Appendix 7.1); whereas the amount as per Finance Accounts 2007-08 is Rs 167.19 crore. The difference is under reconciliation.

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

**Sector wise investment in working Government companies and Statutory corporations**

The investment (equity and long term loans) in PSUs in various sectors and percentages thereof at the end of March 2008 and March 2007 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 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Year	Number of Companies	Investment in working Government Companies			
		Equity	Share application money	Loans	Total
2006-07	15	164.58	27.68	256.01	448.27
2007-08	15	193.62	23.68	216.54	433.84

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 2008, the total investment in working Government companies comprised 50.09 per cent of equity capital and 49.91 per cent of loans as compared to 42.89 and 57.11 per cent respectively as on 31 March 2007. The increase in investment in equity capital of Rs 25.04 crore was due to additional investment by the State Government in seven<sup>#</sup> companies during the year. The decline in loan in 2007-08 was due to repayment of loans by two companies (EDC Limited and Goa State Infrastructure Development Corporation Limited).

**Working Statutory corporations**

**7.1.4** The total investment in working Statutory corporations at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Name of the corporation	2006-07		2007-08 (Provisional)	
	Capital*	Loan	Capital*	Loan
Goa Industrial Development Corporation	28.02	-	28.02	-
Goa Information Technology Development Corporation <sup>⊗</sup>	NIL	NIL	NIL	NIL

A summarised statement of Government investment in the working Statutory corporations 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 working Statutory corporations are given in **Appendix-7.1** and **Appendix-7.3**.

<sup>#</sup> Sl. No. A- 4, 6, 7, 10, 11, 12 and 15 of Appendix-7.1

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

<sup>⊗</sup> No investment by Government till 31 March 2008 and the information on investment by 'Others' was not available; Corporation was yet to start the activities.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations during the three years up to 2007-08 are given below:

*(Amount: Rupees in crore)*

Particulars	2005-06				2006-07				2007-08			
	Companies		Corporation		Companies		Corporation		Companies		Corporation	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	6	9.08	-	-	6	28.23	-	-	7	26.04	--	--
Loans given from budget	1	1.00	-	-	1	1.00	-	-	-	-	-	-
Grants/subsidies	5	114.68	-	-	5	74.16	-	-	5	86.32	-	-
<b>Total Outgo</b>	<b>9<sup>@</sup></b>	<b>124.76</b>	<b>-</b>	<b>-</b>	<b>9<sup>@</sup></b>	<b>103.39</b>	<b>-</b>	<b>-</b>	<b>10<sup>@</sup></b>	<b>112.36</b>	<b>-</b>	<b>-</b>

At the end of the year, guarantees of Rs 87.35 crore obtained by three Government companies were outstanding as against the outstanding guarantees of Rs 286.91 crore as on 31 March 2007. One company (Kadamba Transport Corporation Limited) defaulted in repayment of guaranteed loan of Rs 29.08 crore and interest of Rs 8.89 crore.

#### ***Finalisation of accounts by working PSUs***

**7.1.6** The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These 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 Legislature as per the provisions of their respective Acts.

The position of finalisation of accounts by the working PSUs is given in **Appendix 7.2**. It will be noticed that out of 15 working Government companies and two Statutory corporations, only three<sup>o</sup> Government companies had finalised their accounts for 2007-08 within the stipulated period. During the period from October 2007 to September 2008, nine companies and one Statutory Corporation finalised 11 accounts for previous years.

The accounts of 12 working Government companies and two Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2008, as detailed below:

<sup>@</sup> Actual number of Companies/Corporation which have received budgetary support from the State Government in the form of equity, loans, grants and subsidies.

<sup>o</sup> Sl. Nos. A-3, 4 and 5 of Appendix 7.2

Sl. No.	Number of working companies/corporations		Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Appendix-7.2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1.	1	-	2001-02 to 2007-08	7	A-11	-
2.	1	-	2003-04 to 2007-08	5	A-10	-
3.	1	-	2005-06 to 2007-08	3	A-2	
4.	1	1	2006-07 to 2007-08	2	A-9	B-2
5.	8	1	2007-08	1	1, 6, 7, 8, 12, 13, 14 and 15	B-1
<b>Total</b>	<b>12</b>	<b>2</b>				

The State Government had invested Rs 113.30 crore (Equity: Rs 25.64 crore; loans: Rs 1.49 crore and grants/subsidy: Rs 86.17 crore) in nine working PSUs during the years for which accounts have not been finalized as detailed in **Appendix 7.4**. In the absence of finalization of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalization of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and the officials of the PSUs were apprised quarterly by the Accountant General regarding arrears in finalisation of accounts, adequate measures had not been taken by the Government and 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 corporations) as per their latest finalised accounts are given in **Appendix-7.2**. Besides, the financial position and working results of one<sup>⊗</sup> (Goa Industrial Development Corporation) of the two working Statutory corporations for the latest three years for which accounts are finalised are given separately in **Appendix-7.5**.

According to the latest finalised accounts of 15 working Government

<sup>⊗</sup> The other Statutory corporation (viz. Goa Information Technology Development Corporation) has not started the activities.

companies and one working Statutory corporation, nine companies had incurred an aggregate loss of Rs 9.97 crore, five companies earned an aggregate profit of Rs 51.78 crore and one company, (viz., Sewage and Infrastructural Development Corporation Limited) had not started commercial activities. Out of the two Statutory corporations, one (Goa Industrial Development Corporation) earned a profit of Rs 10.80 crore while the other was yet to commence activities.

#### ***Working Government companies***

##### ***Profit earning working companies and dividend***

**7.1.8** Out of three working Government companies which finalized their accounts for 2007-08, two companies (A – 4 and 5 of **Appendix 7.2**) earned profit of Rs 1.23 crore and one company (A – 4 of **Appendix 7.2**) declared dividend of Rs 7.50 lakh. The State Government has not formulated any policy for payment of minimum dividend by the Government companies.

Similarly, out of 12 working Government companies which finalised their accounts for previous years by 30 September 2008, three<sup>^</sup> companies earned an aggregate profit of Rs 50.55 crore and all these three companies earned profit for two or more successive years. One company (Sl.No.8 of **Appendix 7.2**) has declared dividend amounting to Rs 31 lakh for the year 2006-07.

##### ***Loss incurring Government companies***

**7.1.9** Out of nine loss incurring working Government companies, two<sup>#</sup> companies had accumulated losses aggregating Rs 98.32 crore which exceeded their aggregate paid-up capital of Rs 55.61 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 grant, subsidy *etc.* According to available information, total financial support so provided by the State Government to one of these two companies (viz. Kadamba Transport Corporation Limited) by way of equity and subsidy during 2007-08 was Rs 14 crore.

#### ***Working Statutory corporations***

##### ***Profit earning working corporation and dividend***

**7.1.10** Out of two Statutory corporations, one corporation (Goa Industrial Development Corporation), which finalised its accounts for 2006-07, earned a profit of Rs 10.80 crore during the year but did not declare any dividend. The State Government has not formulated any policy for payment of minimum dividend by the Statutory corporations. The other Statutory corporation (Goa Information Technology Development Corporation) is yet to start the commercial activities and has not submitted its first accounts.

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<sup>^</sup> Serial No. A- 7, 8 and 13 of Appendix-7.2.

<sup>#</sup> Goa Antibiotics and Pharmaceuticals Limited and Kadamba Transport Corporation Limited.

**Return on capital employed**

**7.1.11** As per the latest finalised accounts (up to September 2008) the capital employed<sup>∅</sup> in 15 working Government companies worked out to Rs 531.33 crore and total return<sup>\*</sup> thereon amounted to Rs 75.88 crore which was 14.28 *per cent*, as compared to total return of Rs 43.75 crore (9.32 *per cent*) in the previous year (accounts finalised up to September 2007). Similarly, the capital employed and total return thereon in case of one<sup>∇</sup> working Statutory corporation (Goa Industrial Development Corporation) as per the latest finalised accounts (up to September 2008) worked out to Rs 37.96 crore and Rs 10.77 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*.

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

**7.1.12** The following table indicates the status of placement of Separate Audit Reports (SARs) on the accounts of one out of two Statutory corporations as 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	2004-05	2005-06	28 April 2008	Delay in printing

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

**7.1.13** During October 2007 to September 2008, the accounts of nine working Government companies and one Statutory corporation (Goa Industrial Development Corporation) were selected for audit. The net impact of the important audit observations as a result of audit 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 profit	1	--	4.25	--
ii)	Increase in loss	-	1	-	57.83
iii)	Decrease in loss	1	-	2.75	
iv)	Errors of classification	2	1	330.99	14780.84

<sup>∅</sup> 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 refinancing).

<sup>\*</sup> 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.

<sup>∇</sup> The other statutory corporation has not started the commercial activities and has not submitted its first accounts.

Some of the major errors and omissions noticed in the course of audit of annual accounts of the PSUs by Statutory Auditors and by Comptroller and Auditor General of India during supplementary audit are as under:

***Important Comments of Statutory auditors in case of working Government companies***

***Goa Antibiotics and Pharmaceuticals Limited (2006-07)***

**7.1.14** The Company had not made any provision for Rs 4.34 crore being the sales tax, interest and penalties demanded by the Commercial Tax Officer, Hyderabad.

**7.1.15** The expenditure of Rs 1.16 crore incurred towards installation of HVAC system was accounted as capital work-in-progress though work completion certificate was issued to the supplier.

***Goa Forest Development Corporation Limited (2006-07)***

**7.1.16** As against the doubtful debts of Rs 56.93 lakh, provision was made towards doubtful debts only for Rs 35.67 lakh, resulting in inadequate provision on this account and consequent understatement of loss by Rs 21.26 lakh.

***Important Comments arising from Supplementary audit in case of working Government companies***

***EDC Limited (2006-07)***

**7.1.17** A term loan of Rs 80 crore was sanctioned to Goa Infrastructure Development Corporation Limited (GSIDC) for funding the pre-payment of HUDCO loan. Though the Company had taken the obligation of settling the pre-payment charges, pre-payment charge of Rs 1.64 crore levied by HUDCO was neither accounted nor the fact disclosed.

***Goa Forest Development Corporation Limited (2006-07)***

**7.1.18** The development cost of Rs 2.53 crore was to be written off at the rate of five *per cent* from the fifth year of plantation. Accordingly, the amount to be written off in 2006-07 worked out to Rs 12.65 lakh against which Rs 15.40 lakh has been written off, resulting in overstatement of 'Plantation and related expenses' and loss by Rs 2.75 lakh.

***Important Comments arising from Sole audit in case of working Statutory corporation***

***Goa Industrial Development Corporation (2005-06)***

**7.1.19** Non-accounting of unutilised grants, received from the Central/State Government, and interest earned thereon, resulted in understatement of Sundry Creditors as well as Cash at Bank by Rs 9.79 crore.



**7.1.20** Delayed payment charges received from the allottees towards rent and water was credited to Sundry Creditors Account instead of crediting to income which resulted in overstatement of deficit by Rs 10 lakh.

**7.1.21** Non-capitalisation of the construction cost of Head Office Building completed and put to use resulted in overstatement of work-in-progress and understatement of office buildings under Fixed Assets by Rs 2.62 crore. Further, as depreciation was not charged, accumulated surplus was overstated by Rs 41.95 lakh.

### **Internal Audit/Internal Control**

**7.1.22** 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/Control System in respect of State Government companies is indicated below:

<b>Nature of recommendations/ comments made by the Statutory Auditors</b>	<b>Number of companies where recommendations/ comments were made</b>	<b>Reference to serial number of Appendix 7.2</b>
Auditors Report and Comments/ Draft Paras/Mini Reviews not discussed in Audit Committee	2	A-7, 15
No system of making a Business Plan –short term/long term	6	A- 5, 6, 9, 10, 13 and 14
No clear credit policy	5	A-1, 2, 5, 6 and 13
No delineated fraud policy	13	A-1, 2, 3, 4, 5, 6, 9, 10, 11, 12, 13, 14 and 15
No separate Vigilance Department	14	A-1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15
Maximum and minimum levels of stocks were not prescribed	6	A-1, 2, 3, 4, 6 and 14
No ABC analysis adopted to control the inventory	5	A-1, 2, 4, 6 and 14
Inadequate Scope of Internal Audit	3	A- 5, 11 and 12
No Internal Audit	1	A- 9

### **Response to inspection reports, draft paras and reviews**

**7.1.23** 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 upto March 2008 pertaining to 11 PSUs, and 11 divisions of Electricity Department of Goa and River Navigation

Department disclosed that 148 paragraphs relating to 28 Inspection Reports remained outstanding at the end of September 2008. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2008 is given in **Appendix-7.6**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of ten draft paragraphs and one review forwarded to various departments (viz., Finance, Information Technology, Power and Industries Departments) during March-June 2008, no replies were received from the Government so far in respect of six paragraphs and one review pertaining to Finance, Information Technology, Power and Industries Department (September 2008). It is recommended that the Government should ensure that:

- 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;
- action is taken to recover loss/outstanding advances/overpayment in a time bound manner; and
- the system of responding to audit observations is revamped.

#### **Departmentally managed Government commercial/quasi commercial undertakings**

**7.1.24** 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 2008.

The *pro forma* accounts of the River Navigation Department were in arrears for the years from 2004-05 to 2007-08 and that of the Electricity Department for the years 2006-07 and 2007-08 (September 2008).

The summarised financial results of the Electricity Department and River Navigation Department for the latest three years for which their *pro forma* accounts are finalised are given in **Appendix-7.7**.

**SECTION A - PERFORMANCE REVIEW**

**GOA INDUSTRIAL DEVELOPMENT CORPORATION**

**7.2 Estate Management**

**Highlights**

*The Corporation did not prepare a perspective plan for development of industrial infrastructure in the State.*

*(Paragraph 7.2.7)*

*The Corporation deviated from its mandated role of acquiring and allotting land for industrial units, by acquiring and allotting land to developer companies for development and further allotment by them.*

*(Paragraphs 7.2.9 and 7.2.13)*

*Allotments of land at Verna Phase IV to Special Economic Zones (SEZ) were irregular as the land was acquired for industrial growth centre with financial assistance from Government of India.*

*(Paragraph 7.2.13)*

*Allotment of plots at tentative rates at Verna Phase IV resulted in loss of Rs 36.89 crore.*

*(Paragraph 7.2.14)*

*The Corporation executed lease deeds with four SEZ allottees for more area than approved by the Board which was rectified by allotting the area at lesser rates resulting in loss of Rs 39.47 crore.*

*(Paragraph 7.2.15)*

*The Corporation extended undue favour to 41 allottees by allotting land at lesser rates resulting in loss of Rs 26.28 crore.*

*(Paragraphs 7.2.16 to 7.2.20)*

*There was no effective system for monitoring post allotment activities and evaluation of performance of industrial units.*

*(Paragraph 7.2.23)*

*The Corporation has not adopted a policy to periodically revise the lease premium rate for plots. Delay in implementation of its own decision to revise premium rates resulted in loss of Rs 7.07 crore.*

*(Paragraphs 7.2.27 and 7.2.28)*

## **Introduction**

**7.2.1** The Goa, Daman and Diu Industrial Development Corporation (Corporation) was established in February 1966 under the Goa Daman and Diu Industrial Development Act 1965 to secure and assist in the rapid and orderly establishment and organisation of industries in industrial areas and industrial estates in Goa Daman and Diu. Consequent upon the formation of Goa State, the name of the Corporation was changed to Goa Industrial Development Corporation. The Corporation is yet (March 2008) to transfer its assets and liabilities situated in Daman and Diu to the Omnibus Industrial Development Corporation of Daman, Diu and Dadra and Nagar Haveli (OIDC), a company formed by Government of India vide notification issued in January 1998. The main activities of the Corporation are:

- to identify appropriate sites for industrial purpose, acquire them and provide basic infrastructure facilities like roads, power, water, drainage, etc; and
- to allot the developed plots to entrepreneurs on the terms and conditions as may be determined by the Corporation.

Land is also acquired at the specific request of entrepreneurs/companies for establishment of their projects. The allotment of developed/undeveloped land to prospective entrepreneurs was being made on lease basis initially for 30 years and extendable upto 95 years for a lump sum lease premium and annual lease rent (ALR) in consideration. The Corporation has established (March 2008) 22\* industrial estates including two in Daman and Diu. The Corporation has so far (March 2008) acquired 2.09 crore square metre of land; 1.63 crore square metre for own industrial estates and 46.35 lakh square metre at the specific request of entrepreneurs/companies. The land acquired for establishing own industrial estates has been developed into 3,538 plots of which 3,404 plots have been allotted and the remaining 134 plots were yet (March 2008) to be allotted.

The management of the Corporation is vested with a Board of Directors (BOD) consisting of 12<sup>β</sup> members. The Managing Director (MD) is the Chief Executive and also Ex-Officio Secretary to the Corporation and is assisted by Chief General Manager (CGM), Chief Accounts Officer (CAO), General Manager-Engineering (GM-E) and Deputy General Manger-Administration (DGM-A). A Land Acquisition Officer (LAO) has been deputed by the State Government for acquisition of land for the Corporation. The field offices are headed by Area Managers/Field Managers with overall supervision by three Deputy General Managers. The Corporation has a sanctioned staff strength of 318 against which the men-in-position (March 2008) were 248.

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\* Corlim, Margao, Sancoale, Mapusa, Tivim, Bicholim, Kakoda, Honda, Bethora, Cancona, Kundaim, Tuem, Verna, Cuncolim, Pilerne, Marcaim, Pissurlem, Colvale, Shiroda, Sanquem, Daman and Diu.

<sup>β</sup> Secretary (Industries), Secretary (Finance) who shall be the financial advisor to the Corporation, Chief Electrical Engineer, Director of Industries, an architect or environment expert, a person having shown capacity in industry or commerce, three persons having expertise in the fields of foods processing/agriculture, bio-technology and pharma, the Managing Director all nominated by the Government, President, Goa Chamber of Commerce and Industry and President, Small Scale Industries Association.

### Scope of audit

**7.2.2** The working of the Corporation was last reviewed and observations included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003, Government of Goa. The Report was under discussion (September 2008) by the Committee on Public Sector Undertakings (COPU). The present performance review was conducted during March to May 2008 at Head Office and four<sup>⊕</sup> field offices out of 22 field offices to evaluate the estate management by the Corporation during the five years ended 31 March 2008. The selected four industrial estates account for 68 *per cent* (1.11 crore square metre) of the total area of own industrial estates (1.63 crore square metre).

### Audit Objectives

**7.2.3** The performance review of the management of estates was conducted with a view to ascertain whether:

- the requirement of land was assessed and the acquisition was planned accordingly;
- the land was acquired and developed efficiently as per target;
- land/plots were allotted to industrial entrepreneurs in a transparent manner and the terms and conditions of lease were conducive to industrial development;
- lease rent/premium was fixed correctly;
- land/plots were utilised for the intended purpose;
- the corporation had framed policy regarding transfer of lease and
- internal control measures existed to monitor timely recovery of receivables and follow up thereof.

### Audit Criteria

**7.2.4** The Audit Criteria used for assessing the achievement of audit objectives were as follows:

- Industrial policy of the State Government and directives issued relating thereto;
- Proposals and planning for acquisition of land;
- Planning and Development Authority Regulations;
- Terms and conditions for allotment of land/plots;
- Rules/regulations/guidelines in force with regard to fixation of land price;
- Policy/guidelines in regard to levy of lease rent; and
- Internal control procedures.

<sup>⊕</sup> Verna, Kundaim, Pissurlem and Cuncolim.

### **Audit Methodology**

**7.2.5** The methodology adopted for attaining the audit objectives with reference to audit criteria involved:

- scrutiny of records relating to acquisition of land;
- review of allotment register, files and deeds;
- review of progress reports furnished by field offices;
- review of Government directions, minutes of meetings of BOD; and
- issue of audit observations and interaction with management at various levels.

### **Audit findings**

**7.2.6** Audit findings arising from the performance review were reported (June 2008) to the Government/Management and were discussed in the meeting (16 September 2008) of Audit Review Committee for Public Sector Enterprises (ARCPSE). The meeting was attended by the representatives of the Government and the Management. The views expressed by the representatives of the Government/Management have been taken into consideration while finalising the review.

The review of estate management in the Corporation revealed several deficiencies and irregularities in its functioning. Poor financial management, irregularities in allotment of land and other deficiencies resulted in a loss of Rs 127.25 crore to the Corporation. The loss on account of delay in revision of land premium is not quantifiable in the absence of specific details. The audit findings are discussed in the succeeding paragraphs.

### **Absence of perspective plan**

**7.2.7** The State Government announced (2003) its industrial policy which provided for an overall approach towards economic growth of the State through accelerated industrial development with high quality infrastructure to enable optimum utilization of the State's resources. The Government identified thrust areas for focused attention such as pharmaceuticals, drugs and bio-tech industries, food processing and agro based industries, IT & IT enabled services, eco-tourism / heritage tourism / adventure tourism / event tourism / medical tourism and entertainment industry. The salient features of the policy included:

- Setting-up of industrial parks to ensure focused attention for thrust areas;
- Revamping the functioning of the Corporation to provide proper infrastructure and facilities for setting up of industries and attracting investments in Goa;
- Quality competitiveness and technology upgradation; and
- Building industrial competency in women.

The following deficiencies were noticed in Audit:

*Corporation did not prepare a perspective plan for development of infrastructure*

- The Corporation has been pursuing industrial development on ad-hoc basis. It did not prepare a perspective plan defining both short term and long term plans for development of industrial infrastructure in the State in consonance with the Industrial Policy of the State Government. A perspective plan helps in ascertaining the level of industrial development required/can be achieved, employment potential, requirement of land and infrastructure which in turn is useful in planning industrial development.
- The State Government also did not set a definite target or time frame for the Corporation for development of estates in line with its policy.
- The Corporation does not have the details of employment created in the industrial estates. Though an allottee is required to mention the employment potential in his application, no systematic review and compilation of actual employment statistics was done.

The Management stated (August 2008) that it followed policy of industrial development by establishing industrial estates covering all the talukas of the State and subsequently gone in for expansion of the industrial estates. It further stated that employment census was going on and the details of employment would be ready on its completion.

The fact however, remains that the Corporation had not prepared any perspective plan for setting up industrial parks to ensure focused attention for thrust areas identified in the industrial policy. A systematic review and compilation of employment statistics is yet to take place.

### Acquisition of land

#### Action Plan

**7.2.8** For the purpose of establishing industrial estates and expansion thereof, the Corporation had been acquiring land from private parties as per procedures laid down in Land Acquisition Act, 1894. The Corporation acquired land at the specific request of entrepreneurs also, for establishing their own projects. The land acquisition is made through Land Acquisition Officer (LAO) deputed by the State Government. The Corporation so far acquired (March 2008) 2.09 crore square metre of land for 22 industrial estates and eight special projects. During the five years ended March 2008, the Corporation initiated acquisition proceedings for 1.64 crore square metre of land in different locations for expansion of own industrial estates and for two special projects and acquired 43.47 lakh square metre (35.88 lakh square metre pertaining to proceedings initiated prior to 2003-04) of land up to March 2008. Audit noticed the following deficiencies:

*No system existed to assess the requirement in accordance with specific project or demand*

- No system existed to assess the requirement in accordance with any specific project of its own or local demand of industries.
- No time specific action plan was drawn up for land acquisition. The Corporation initiated action for land acquisition without fixing any time

schedule. The acquisition proposals for 13.83 lakh square metre in four\* locations envisaged in the Budget proposals for 2003-04 were carried forward in the Budget proposals for 2008-09 also due to inadequate follow-up of the proposals and resultant delay in getting clearance from various authorities.

The Management stated (August 2008) that it was promoting industrial estates in backward areas to overcome regional imbalances. The fact however, remains that the Corporation does not have a definite policy for selection of land for acquisition with respect to the nature of industries and suitability for creation of infrastructure facilities.

### *Deviation from policy/established practice*

*Corporation deviated from its established role, of acquiring and allotting land directly to the entrepreneur, by allotting land to developers for further allotments by them*

**7.2.9** The Corporation was set up with the objective of securing and assisting in establishment and organization of industries in the State. With this end in view the Corporation acquired land, developed it with infrastructure facilities such as roads, water supply, drainage and street lights and allotted the developed land to industrial units. Special acquisitions were also made as per request of the industrial entrepreneurs for specific industries.

Contrary to this established practice, the Corporation acquired and allotted (April 2007) 4.19 lakh square metre of land in Quitol Village to Betul Hospitality Parks Private Limited (BHPL) for auxiliary services to Food Park. BHPL applied (November 2005) for land, for setting up residential resorts for up market tourists to cater to the industries that would come up in the proposed Food Park in the locality. Land for the Food Park however, was yet to be acquired. The decision of the Corporation to acquire and allot land for residential resorts was a clear deviation from the policies followed by the Corporation.

The Management stated (August 2008) that the acquisition/allotment had been done in line with the prevailing Government policies. However, the Government in its industrial policy had not envisaged allotment of land for residential resorts.

## **Development of land**

### *Lack of planning*

**7.2.10** The Corporation developed land acquired for industrial estates by providing basic facilities viz. roads, water supply, sewerage and street lights. The Corporation prepared its development plans sub-dividing the total area into saleable plots and open space/green area, internal roads (15 *per cent* each) and other utilities (7.5 *per cent*) in line with Planning and Development Authority regulations in the State. Of the 22 industrial estates the Corporation furnished area details only in respect of eight<sup>¶</sup> estates of which the entire area

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\* Cuncolim Phase II, Sancoale Phase IV-A and V, Bethora

¶ Bethora, Cuncolim, Kakoda, Kundaim, Pilerne, Pissurlem, Shiroda, Thivim



was developed only in three<sup>π</sup> estates. Five industrial estates were partly developed and areas aggregating 8.73 lakh square metre were yet to be developed in those industrial estates. The Corporation was not able to furnish the area statement in respect of remaining 14 industrial estates in the absence of which availability of undeveloped area in those 14 estates could not be ascertained. Audit observed the following :

*Corporation allotted land before completing basic development activities, paving way for fixing arbitrary rate of lease premium*

- Despite having exhausted saleable developed area in most of the estates, the Corporation has neither initiated any action to develop the undeveloped area aggregating 8.73 lakh square metre in the five industrial estates nor reported the matter to the BOD.
- The development activities were not planned and executed before commencing the process for allotment of plots. The Corporation allotted (September 2005) land (Verna Phase IV) even before lay out plans were finalised (March 2007). The procedure for allotting land before completing the basic development activities was irregular as it paved way for fixing arbitrary rate of lease premium without ascertaining the development cost, as discussed in *paragraph 7.2.14 and 7.2.18*.
- The Corporation subdivided the area acquired (March 2004) in Verna (Phase IV) into open/green space (5.37 lakh square metre), utilities (2.73 lakh square metre), plots (23.47 lakh square metre) and roads (5.34 lakh square metre). The area intended for plots, utilities and open space have been utilised. Out of 5.34 lakh square metre earmarked for roads, 1.35 lakh square metre was diverted for allocation to three SEZs and 1.30 lakh square metre only was utilized (March 2008) for construction of roads. The position of utilization of the remaining (2.69 lakh square metre) was not ascertainable.

The Management stated (August 2008) that the undeveloped land was being developed. It further stated that land was allotted before developing to avoid some industries moving out of the State.

The fact however, remains that the Corporation had not maintained the area details of all the estates and availability of undeveloped land had not been brought to the notice of BOD. The Corporation had not evolved a transparent system to provide information regarding availability of land for allotment.

### **Allotment of Land**

**7.2.11** The applications for allotments are processed in the Estate Division. MD has been delegated powers to allot land against requests for area less than 10,000 square metre with the approval of Chairman. Approval of the BOD is required for allotment of area of 10,000 square metre and above. The Corporation during the five years period ended 31 March 2008 allotted 50.63 lakh square metre of land in 18 industrial estates to 443 units. In addition to this, 18.55 lakh square metre of land specially procured (August 1992, August 2001 and March 2007) was also allotted during the

<sup>π</sup> Bethora, Cuncoim, Shiroda

period. The allotments included 38.41 lakh square metre of land to seven units for establishing Special Economic Zones (SEZ). All allotments to SEZs (38.41 lakh square metre) and allotments of area more than 10,000 square metre individually in Verna, Kundaim, Pissurlem and Cuncolim aggregating to 7.83 lakh square metre were test checked in audit while other allotments were generally reviewed.

***Deficiency in system of allotment***

**7.2.12** Audit observed the following deficiencies in the system of allotment of land:

*Allotments were made without any transparent selection procedures*

- The Corporation had not formulated an open system for providing information to the entrepreneurs regarding availability of land/plots and the area thereof by uploading the same on website etc.
- The Corporation had not resorted to open invitation for Expression of Interest (EOI) from interested entrepreneurs for allotment of land. The allotments were made without any kind of selection process; instead a 'direct approach system' was in vogue.
- The Corporation had not evolved a centralized system of registering all the requests/ applications from the entrepreneurs to ensure that all applications received get processed.

Audit noticed irregularities in 86 allotments (46.24 lakh square metre) involving loss of revenue of Rs 102.64 crore, as discussed in the succeeding paragraphs.

The Management while agreeing that it had no practice of advertising and inviting EOI stated (August 2008) that it has created a website to provide information regarding availability of land and also commenced maintaining applicants' roaster.

The fact however remains that introduction of the new systems indicated deficiency in the system hitherto followed. A system of invitation of EOI for allotment of land however, was not in place.

***Irregular allotment of land for SEZ projects***

**7.2.13** In pursuance of SEZ Act, 2005 and SEZ Rules, 2006 notified by the Government of India, the State Government formulated its SEZ policy in June 2006 to promote development of SEZ by extending various incentives such as exemption from payment of taxes and duties. The Government, however, had not assigned any specific role for the Corporation in development of SEZs. The Corporation allotted 38.41 lakh square metre land for setting up seven SEZs as detailed below.

<b>Name of Firm</b>	<b>Name of Estate</b>	<b>Area (Sq. Metre)</b>	<b>Purpose</b>
K Raheja Corporation Private Limited (KRC)	Verna	7,91,732	Service SEZ
		2,67,386	
Paradigm Logistics and Distribution Private Limited (PLDP)	Verna	2,64,419	IT / ITES Park
		1,22,246	
Inox Mercantile Company Private Limited (IMCL)	Verna	4,84,832	Bio-tech Park/SEZ
		35,000	
Planet view Mercantile Company Private Limited (PMCL)	Verna	1,32,845	Gem and Jewellery Park/SEZ
		1,03,331	
Maxgrow Fin lease Private Limited (MFPL)	Verna	2,03,445	Park/ SEZ for IT office space for sale or lease or lease cum sale
Peninsula Pharma Research Centre Private Limited (PPRC)	Sancoale	2,03,650	R&D Centre/Bio-technology Park/ SEZ
Meditab Specialties Private Limited (MSPL)	Keri	12,32,000	Pharmaceutical SEZ
	<b>TOTAL</b>	<b>38,40,886</b>	

Audit scrutiny revealed the following:

*Allotments to SEZs were made without publicising, that too before the State Government formulated its SEZ policy*

- The Corporation had not publicised its intention to allot land for SEZs. The allotments were not made based on any selection process such as invitation of expression of interest etc. The selection of allottees for SEZ, therefore, lacked transparency to that extent.
- The Corporation allotted (April/May 2006) land for SEZ even before the Government formulated its policy on SEZ. Land has been allotted to the above companies for establishing product specific SEZs as well as for creating office space for further sale or lease or lease cum sale. By allotting land to developer companies for further allotment to entrepreneurs, the Corporation deviated from its established role of developing and allotting land directly to entrepreneurs.
- Verna Industrial Estate has been established under the Industrial Growth Centre (IGC) Scheme of Government of India (GOI) for which financial assistance of Rs 10 crore was received. IGCs were intended for promotion of industries in the backward areas by allotting land to small and medium scale units. Area to the extent of 24.05 lakh square metre allotted to five companies for SEZs in Verna formed part of the total area of 65.81 lakh square metre of land acquired for IGC. Allotment of land for SEZ therefrom was in deviation from the GOI scheme for IGCs as SEZ is a specially delineated enclave treated as foreign territory for the purpose of industrial service and trade operations. GOI grant was meant for IGCs and not for setting up various SEZs. Allotment of land acquired for establishing IGCs with the aid of GOI, to SEZs was not in order and violated GOI guidelines in regard to IGC. In view of deviation,

*Land acquired for small and medium scale industries under IGC Scheme was allotted to SEZ violating GOI guidelines*

contribution of Rs 10 crore received from GOI is required to be regularised/refunded.

- The lease deed (with effect from 2003) with lessees in other cases provided to revise the Annual Lease Rent (ALR) as and when premium rates are revised whereas this clause was absent in the lease deeds executed with the SEZ allottees. In the case of SEZ allottees, the ALR fixed at the time of allotment was to remain unchanged for the full lease period (30 years). The change in the clause was detrimental to the interest of the Corporation as it deprived the Corporation of the right to revise the ALR as and when the lease premium in that area was revised. This was an undue concession to SEZ allottees.

Management stated (August 2008) that various instructions received from the Government to allot the land, indicated interest of the Government to have SEZ in the State. It further stated that Verna Phase IV did not form part of IGC. Further, revision of ALR annually was not applicable to SEZ as the entire infrastructure maintenance cost within SEZ would be borne by SEZ developers.

The fact is that the allotment for SEZ was made before the Government formulated its policy on SEZ. Government had not issued any orders to allot land acquired by the Corporation to SEZs. The contention in regard to IGC is also not correct as, without the area acquired for Verna Phase IV, the target of acquisition of land for IGC would not have been achieved. GOI provided grant/subsidy to establish growth centre and not SEZ. The reply in regard to ALR is also not appropriate as the Corporation had included its right to revise the ALR in lease deed with BHPL for land at Quitol where the entire infrastructure maintenance cost was to be borne by the allottee.

#### *Allotment of land at lower rate*

**7.2.14** The Corporation acquired (March 2004) 35.88 lakh square metre of land in Verna and Loutulim Village of Salcette Taluka for expansion (Phase IV) of its Verna Industrial Estate. The Corporation commenced (September 2005) allotment of land in the area even before the layout plan was prepared and the sub divisions completed, at tentatively fixed (September 2005) premium rate of Rs 600 per square metre. The rate was subsequently revised (03 August 2006) to Rs 750 per square metre. The Corporation allotted 24.60 lakh square metre of land at Rs 600 and 15,365 square metre at Rs 750. Audit observed that :

*Revision of premium rate at Verna Ph-IV only after major chunk was allotted at lower rate, tentatively fixed, resulted in loss of Rs 36.89 crore*

- The rate of Rs 600 at which land was allotted initially was purely tentative as no infrastructure development activities had commenced when the rate of Rs 600 was fixed. The Corporation however, neither informed the allottees that the rate was tentative nor included in the deeds a provision to collect the differential amount on finalisation of the premium. Consequently the Corporation could not recover the differential rate of Rs 150 per square metre for the 24.60 lakh square metre of land allotted at the tentative rate resulting in revenue loss of Rs 36.89 crore.

- With a view to rationalise the lease premium rate in different industrial estates, the Corporation revised (February 2006) the premium rates for land in Verna from Rs 600 to Rs 750 per square metre. The Corporation while revising/rationalising the premium rate for plots in Phase I, II and III however did not revise the rate for Phase IV which needed revision/fixation as the rate already fixed was tentative. When the rationalisation/ revision was proposed/decided, land available for allotment in the first three phases was only 4,121 square metre whereas 30 lakh square metre of land was available for allotment in Phase IV. The premium rate for plots in Phase IV was revised only in August 2006, after major chunk (94 *per cent*) of the area was allotted at the tentative rate of Rs 600 per square metre. Thus allottees of plots in Phase IV who were allotted plots during the six months period (February 2006 to July 2006) after the upward revision of the rates for Phases I, II & III, but before the upward revision of rates for Phase IV were extended an unjustified benefit against the interest of the Corporation.

The Management stated that the rate worked out to Rs 502 per square metre only whereas allotments were made at Rs 600 / Rs 750 per square metre. The rate of Rs 502 was not informed to the BOD as GCCI and GSIA would have insisted upon to allot land at that rate. It was also stated that revision in premium rates was decided with a view to increase the lease rent.

However, non-revision of tentative rate (Rs 600) fixed for Verna Phase IV along with other revisions in February 2006 and increasing the rate (Rs 750) after allotting major chunk of the area at lower rate was not justified. Further, the reply that the rate worked out to Rs 502 was not supported by the details of cost elements considered for tentative rate of Rs 600 or for the revised rate of Rs 750 and the infrastructure development cost factored therein was only an estimation not based on any detailed data. The amount of enhanced compensation for acquisition of land yet to be decided by the Court also has not been factored. The contention that the premium rate was increased for revising the ALR also does not hold good as the Corporation has not revised the ALR for already allotted plots on the basis of revised premium. The Corporation did not inform the cost computation to the BOD which compromised the transparency of its operations.

#### ***Unauthorised excess allotment of land***

**7.2.15** Based on the decision (19 April 2006) of the BOD, the Corporation allotted (20 April 2006) land admeasuring 16,73,828 square metre in Phase IV of Verna Industrial Estate to four\* companies at lease premium rate of Rs 600 per square metre, for establishing various sector specific SEZs. The lease deeds executed (July/August 2006) with the companies however, included (Schedule 1B) additional area to the extent of 274651, 125703, 35000, 103331 square metre respectively, over and above the area approved by the BOD and included in the allotment orders. The additional areas so

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\* (i) K Raheja Corporation Pvt Ltd (ii) Paradigm Logistics and Distribution Private Limited (iii) Inox Mercantile Company Private Limited and (iv) Planet view Mercantile Company Private Limited

included were without any consideration and was described as open space/internal roads. These areas also formed part of the proposed park/SEZ along with the allotted area and would remain in possession of the respective lessees. As per the deeds, the lessees were entitled to realign such areas as per their master plan and develop and maintain at their cost, provided, the lessee shall not be allowed to utilize the area for Floor Space Index<sup>∇</sup> (FSI) purpose. Though the areas unauthorisedly included were proposed (January 2007) for deletion by rectification deeds, the Corporation subsequently allotted (April 2007) such areas (5.28 lakh square metre) also to the respective lessees at a reduced premium of Rs 100 per square metre as decided (March 2007) by the BOD. Rectification deeds to incorporate the changes were executed (May/July 2007). Audit scrutiny revealed the following :

- Inclusion of area to the extent of 5.28 lakh square metre (aggregate) initially in the deeds over and above the approved/allotted area was irregular. The unauthorised inclusion of additional land was undue favour to the companies which helped them to obtain SEZ approval considering the entire area under the absolute possession of the respective companies.
- As per Planning and Development Authority (PDA) regulations, when development of a plot is undertaken, each sub-divided plot should be provided with access roads and when the plot to be subdivided has an effective area of more than 4000 square metres, an area equal to 15 per cent of the effective area of such plot shall be set apart as usable/green area. All open spaces shall have means of access as if they are independent plots. In case of partial development of a plot, however, 15 per cent open space need not be set apart for the portion of the plot not undertaken for development. The Corporation allotted land to the four companies without any development activities within the bulk area allotted. As such, the Corporation was not bound to provide internal roads or to set apart area for open space for the area not taken for development. Providing green area/open space etc as per SEZ requirements within the periphery of allotted land was the primary responsibility of the respective developers of SEZ. Thus, total area allotted to each of the above lessee should have been treated as single allotment and lease premium rate of Rs 750 per square metre applied uniformly for the total area allotted in each case. Thus, the decision to allot 5.28 lakh square metre of land under the pretext of open space/internal road, at a lesser premium of Rs 100 per square metre resulted in loss of revenue of Rs 39.47 crore (i.e. Rs 34.32 crore on account of premium plus Rs 5.15 crore on account of annual lease rent for 30 years) to the Corporation.

*Allotment of land contiguous to the land allotted to four SEZs at lesser rate resulted in loss of Rs 39.47 crore*

The Management stated (August 2008) that it was a normal practice to permit unit holders to use open space free of cost. By charging Rs 100 to SEZ developers the Corporation generated additional revenue of Rs 5.27 crore.

The fact is that the Corporation allowed certain units only to develop the open space without actually allotting such area or parting with the right of ownership of the Corporation. In the case of SEZ developers the area of open

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<sup>∇</sup> Ratio of total floor area of building that can be constructed on a plot to the total plot area.

space and road has been allotted to them with absolute possession thereof. Further, providing open space, internal roads, etc., within the SEZ was the responsibility of the respective developers, out of the area declared as SEZ. The Corporation was in no way bound to provide for such area free of cost or at concessional rate. The contention that the Corporation had benefited by additional revenue also does not hold good as the land was allotted in bulk in March 2006 without actually subdividing them into smaller parts. Thus, entire area allotted to each SEZ developer should have been treated as single plot, for the purpose of collecting premium and ALR.

### *Undue favour to allottees*

*Allotment of 14.36 lakh square metre land to two SEZ developers without adopting approved formula resulted in loss of Rs 17.76 crore*

**7.2.16** Based on requests (March 2006) received, the Corporation allotted (March/April 2006) 12.32 lakh square metre of land in Keri/Candepar Village in Ponda to MSPL at premium rate of Rs 80 per square metre and 2.04 lakh square metre of land in Sancoale village to PPRC at a lease premium of Rs 270 per square metre. Audit scrutiny revealed the following:

- Both the lands specially acquired (August 1992 & 2001) on requests from Thapar Dupont Limited and Bharat Petroleum Corporation Limited were remaining unallotted consequent to backing out of the respective companies. As per the approved formula\* for computing the lease premium for allotment of specially acquired/undeveloped land, the premium rate chargeable to MSPL and PPRC worked out to Rs 95.50 and Rs 934.20 per square metre respectively against which rate applied was Rs 80 and Rs 270 per square metre. The rate would be still higher if carrying cost on the cost of land is also considered. While the Corporation had a definite approved formula for computing premium rates for such areas, applying arbitrary rates was irregular. Deviation from the approved formula and allotting land at a lesser rate tantamount to extending undue favour to PPRC and MSPL which resulted in loss of revenue of Rs 15.44 crore in premium and Rs 2.32 crore in annual lease rent for 30 years.
- PPRC requested for land as export processing zone. Instead, the Corporation *suo moto* processed the application for SEZ.
- MSPL was allotted land at a time when the Corporation was in the process of implementing a Pharma park by itself at the land available at Keri and the Corporation had already appointed (March 2006) a consultant for the purpose.

The Management stated (August 2008) that there were no takers for the land as it remained idle for long. The rate charged to MSPL was almost double the rate to be charged and for PPRC the rate was decided through negotiation.

The fact remains that the Corporation had a definite formula for computing premium for allotment of undeveloped land as per which the premium worked out to Rs 95.50 per square metre at Keri and Rs 934.20 per square metre at

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\* Premium =  $x + 3x$  where  $x$  is the Compensation (original enhanced/differential) for acquisition of land awarded/enhanced by LAO/Court and  $3x$  (300 per cent of compensation) overhead/service charges.

Sancoale. Though the Corporation considered the amount deposited in court towards additional compensation in appeal, the amounts have not been appropriately applied in the formula for computing the premium. The contention that there was no taker also does not hold good as, the Corporation was in the process of setting up product specific parks by itself by utilising such area.

***Allotment of land at pre-revised rates***

*Allotment of  
land at pre-  
revised rates  
resulted in  
loss of  
Rs 11.06 crore*

**7.2.17** As per the procedures in vogue, applications for allotment of land should be accompanied by prescribed documents/details regarding the project. If all the documents are attached, the Corporation communicates the offer of allotment (pre-allotment letter) directing to pay the premium and first year ALR within 15 days failing which the offer would lapse. In case, the application is not complete in all respects, the Corporation communicates earmarking of the area allowing three months time to furnish all the documents. In such cases also, pre-allotment letter would follow. The earmarking letters specifically stipulated that the rate prevailing on the date of allotment would be applicable. The Corporation revised lease premium rates in September 2005, November 2005, February 2006, August 2006 and July 2007. Audit observed that despite having made clear mention in the earmarking letters about the applicability of rates prevailing on the dates of allotment, the Corporation allotted land at pre-revised rates to 43 (40 in Verna and 3 in Kundaim) earmarked cases, thus extending undue concession to such applicants. The concession was not warranted as the applicants in such cases had not submitted the documents/paid the premium and ALR within the validity period of earmarking/pre-allotment. The loss due to concessions extended to 43 allottees amounted to Rs 11.06 crore (loss of Rs 9.49 crore in respect of 27 cases in Verna Phase IV forms part of loss mentioned in ***paragraph 7.2.14***).

The Management stated that the revised premium rates were not charged to existing applicants as decided by the BOD.

The reply does not address the point that the earmarking letters specifically stipulated that the rate prevailing on the date of allotment would be applicable. Thus allotment of land at pre-revised rates even after the validity period of earmarking / pre-allotment amounted to an undue favour to the respective allottees.

***Allotment before infrastructure development***

**7.2.18** The Corporation does not have any approved policy of allotting land acquired for industrial estates in 'as is where is basis'. The Corporation, however, allotted 40,000 square metre of land in Honda Phase III and 20,875 square metre in Kundaim at lesser rates without developing the same. Audit scrutiny revealed the following:



*Allotment of land categorising them as undeveloped/unuseable at arbitrary rates resulted in loss of Rs 2.27 crore*

- 40,000 square metre of land in Honda (Phase III) was allotted (February 2006) to Goa Formulation Limited (GFL) for their pharmaceutical unit at lease premium rate of Rs 120 per square metre and ALR at 0.5 per cent of the premium, whereas the prevailing lease premium for plots in the same industrial estate (Phase I and II) was Rs 200 per square metre and ALR rate was two *per cent* for the first 10,000 square metre and one *per cent* thereafter. The rate of lease premium and ALR applied to GFL was arbitrarily fixed without any basis. The land was allotted to GFL before development activities (approach road, water pipelines) in the land were taken up, which were awarded only in August/October 2007. Before taking up the developmental activities, the Corporation allotted land in Phase III to three<sup>δ</sup> more firms applying lease premium rate at Rs 300 per square metre. Audit observed that the Corporation provided approach road and water pipelines up to the plot allotted to GFL also, as part of the infrastructural development activities. Thus, GFL enjoyed all facilities provided to other firms and therefore allotting the area at a lesser rate lacked justification. In fact the rate was dictated by GFL itself. Thus, the allotment of land at Rs 120 per square metre and at reduced<sup>∞</sup> lease rent tantamount to extending undue favour to GFL with resultant loss of revenue of Rs 72 lakh<sup>▲</sup> in premium and Rs 37.80 lakh in ALR for 30 years.

The Management stated (August 2008) that the rate of Rs 120 per square metre was charged as the land was allotted before conversion and development.

By development the Corporation meant to provide approach road and water pipelines up to the periphery of the plots which had been provided to GFL as well, when development activities for the industrial area were taken up subsequently. Allotment at reduced rate before development and providing benefit of facilities later was against the commercial interests of the Corporation.

- Additional area aggregating 20,875 square metre was allotted (March/November 2006) to three<sup>•</sup> existing units in Kundaim Industrial Estate at Rs 150 per square metre terming the allotment as ‘as is where is basis’ whereas the prevailing rate approved by the BOD was Rs 500 per square metre. The additional areas allotted were adjoining their existing plots. Being adjacent to the existing plots, existing approach road and pipelines would suffice for the requirements and no extra developments were required to be provided by the Corporation. Thus, allotting additional area terming it as ‘as is where is basis’ was incorrect and amounted to an

<sup>δ</sup> Elsteel Modular Pvt Ltd (18743 Sqm –12.02.2007), Parenteral Bio-tech (19283 SqM - 30.04.2007), Proactive Project (6016 Sqm – 30.05.2007).

<sup>∞</sup> 0.5% of premium as against 2% for 10000 sqm and 1% for balance area

<sup>▲</sup> 40000 sqm X (Rs 300 minus Rs 120)

• Himcast 9000 sqm, Nova System 6775 sqm, Shiva Samrath Engineering 5100 sqm.

undue concession of Rs 73.06 lakh<sup>ψ</sup> in premium and Rs 43.84 lakh<sup>λ</sup> in ALR for 30 years.

The Management stated (August 2008) that the area allotted was unusable as HT lines were passing over the area.

The contention does not hold good as, the respective allottees had requested the Corporation to allot the land in their favour for useful purposes. Thus, no relaxation in the premium rate was warranted.

***Other irregularities in allotment of land***

*Allotment of land acquired for expansion of Verna IE at special rates resulted in loss of Rs 4.47 crore*

**7.2.19 Allotment of land to Cipla at Verna:** The Corporation acquired (March 2006) an area of 75,475 square metre of land in Verna village adjacent to the existing Verna Industrial Estate for its expansion. The land was allotted (March 2006) to CIPLA based on their request (September 2005) at a premium of Rs 276 per square metre. The rate was computed adopting formula applicable to special acquisition. CIPLA paid (March 2006 & April 2008) the premium amount of Rs 2.08 crore. Audit scrutiny revealed that premium computed on the basis of formula applicable to special acquisition was not applicable to CIPLA as CIPLA had not complied with the pre-requisites, i.e., pre-acquisition agreement (Section 39 of Land Acquisition Act) and deposit of cost of acquisition, formulated by the Corporation for special acquisition. Further, the decision to treat the acquisition as special acquisition for CIPLA and computing the premium accordingly was not in line with the Corporation's earlier stand (March 2003) that requests from a particular unit for acquisition of land adjoining industrial estate should not be entertained; instead, such acquisitions should be done as part of the existing industrial estate and allotted accordingly. In view of the non-compliance of the pre-requisites and the stand already taken by the BOD, the allotment of 75,475 square metre of land to CIPLA was a normal allotment for which prevailing lease premium rate should have been applied. The Corporation in another identical case\* in Kundaim Industrial Estate allotted (July 2006) land at the prevailing rate for plots in that area. Reckoned at the prevailing premium rate of Rs 750 per square metre for plots in Verna, the premium collected from CIPLA for the 75,475 square metre area was lower by Rs 3.58 crore<sup>♦</sup> and there would also be consequent loss of Rs 89.21 lakh in lease rent for 30 years.

The Management stated (August 2008) that it was decided to acquire the land considering the investment potential and good work done by CIPLA. Premium applicable to special project had been adopted as the Corporation was not required to provide any infrastructure.

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<sup>ψ</sup> (9000 + 6775 + 5100) square metre x Rs ( 500 – 150 ) =  
20,875 square metre x Rs 350 = Rs 73.06 lakh

<sup>λ</sup> Rs 73.06 lakh x 2 per cent x 30 years = Rs 43.84 lakh

\* allotment of 19,528 square metre land to Okasa Limited.

<sup>♦</sup> 75,475 square metre X (Rs 750 minus Rs 276)

The fact remains that the pre acquisition agreements and deposit of cost of acquisition were pre requisites for special acquisitions which had not been complied with. Further, as per Reports submitted to GOI, the land formed part of the land acquired for IGC at Verna.

*Re-allotting land at concessional rates to evictees resulted in loss of Rs 21.29 lakh*

**7.2.20 Allotment of land for kiosks :** The Corporation by converting open area, allotted area aggregating 2661.5 square metre in the Verna Industrial Estate to 18 persons for putting kiosks at concessional rate of Rs 100 per square metre as against the prevailing rate of Rs 600. These 18 persons were earlier allotted kiosks on rental basis for running small business activities such as general stores, tea stall, Xerox, STD booth, etc., and were evicted for unauthorized expansion. The Corporation allotted land afresh to rehabilitate such evicted persons. Audit observed that no concession was warranted in rehabilitating the evictees as they unauthorisedly expanded their original kiosks and such rehabilitation and concessional rates would create a bad precedent. By extending concessional rate, the Corporation suffered loss of revenue of Rs 13.31 lakh in premium and Rs 7.98 lakh in ALR for 30 years.

The Management stated (August 2008) that the concessional rate was considered as the activities of kiosk holders were not for industrial production but for providing services to the workers in the industrial estates.

The reply does not address the point that concession in normal rate for those who had been evicted for unauthorized expansion of the original kiosk allotted to them, would create a bad precedent.

#### ***Diversion of land for housing projects***

*Corporation surrendered land acquired for industrial purposes for housing schemes forgoing revenue of Rs 8.62 crore*

**7.2.21** Based on a request (September 2005) from Village Panchayat, Verna, the Corporation decided (April 2006) to surrender 50,000 square metre land free of cost in Verna Village for housing colony for workers from that village. The Corporation also took decision (April 2006) to surrender another 50,000 square metre land in Loutolim Village free of cost for housing colony for workers of that village. The land was surrendered to the Collector, South Goa District, as per directives (March/April 2006) of Government. The land was proposed to be allotted by the District Collector to 403 beneficiaries. The surrendered area was part of the land (35.88 lakh square metre) acquired (March 2004) by the Corporation for the purpose of expansion of Verna Industrial Estate, Phase IV as part of IGC. Diverting land acquired for industrial purpose under IGC scheme of GOI to housing projects was irregular and against the mandate of the Corporation. This also deprived the Corporation of the revenue of Rs 7.50 crore by way of premium and Rs 1.12 crore by way ALR for 30 years.

The Management stated (August 2008) that the diversion of land for housing projects was done as per Government orders.

***Non utilisation of allotted land***

*Corporation did not repossess 7.53 lakh square metre land allotted to SKCC, lying un-utilised for last 12 years despite directions of BOD*

**7.2.22** The Corporation allotted (December 1994, February 1995 and October 1998) area aggregating 14.50 lakh square metre in Navelim-Amona, Bicholim Taluka to Sesha Kembla Coke Company Limited (SKCC) for their metallurgical coke manufacturing project. The land was acquired (July 1996) by the Corporation invoking urgency clause for the public purpose of Industrial Estate/project. Of the total area allotted, SKCC surrendered (June 1998) 2.63 lakh square metre area which then was allotted to another firm. As per conditions for allotment, the allottee shall execute lease deed immediately after issue of allotment letter. Further, construction of building in the allotted area was to be started within six months and production within two years. Audit observed that SKCC executed (February 1998) lease deed for part area admeasuring 4.34 lakh square metre only. No lease deed had been executed for an area of 7.53 lakh square metre; nor did SKCC seek permission of the revenue department for conversion of the land for industrial purpose. Thus, area to the extent of 7.53 lakh square metre remained with SKCC for the last 12 years without utilisation for the purpose for which it was acquired. Though the BOD decided (August 2005) to take back the unused land, the Corporation did not comply with the decision and no effective action had been taken to repossess the unused area, despite having high demand for industrial land in that area.

The Management stated (August 2008) that SKCC approached the Corporation for conversion of the land for industrial purpose and the Corporation approved (June 2008) construction plans submitted by them.

The fact remains that the Corporation's post allotment monitoring was ineffective and the land acquired invoking urgency clause remained unutilised for the purpose, even after 12 years, without the Corporation taking any action to repossess the land.

**Monitoring and evaluation**

**7.2.23** In order to ensure that the infrastructure created by the Corporation had been productively utilized and the units, which are allotted land in various industrial estates, are functioning well, the conditions for allotment of land and lease deed executed by the entrepreneur prescribed various post allotment responsibilities, for the Corporation/allottee as mentioned below.

- Allottee has to execute with the Corporation a lease deed immediately after the issue of allotment order.
- The entrepreneur should, within three months from the date of allotment order, submit plans of building for approval.
- Commence construction within six months from the date of allotment.
- Complete the building and commence industrial activities within two years from the date of allotment.

The Corporation was at liberty to take back the possession of such land in case of non-compliance of the conditions. Audit observed the following deficiencies:

*Monitoring of post allotment activities was ineffective*

- There was no system in the Corporation to monitor the above activities with reference to the schedule fixed and to report the lapses thereon to the top management with a view to take either corrective measures or invoke penal provisions. Though monthly progress reports regarding construction and commencement of industry were to be sent to Head Office of the Corporation by the field offices, the field offices were not regular in furnishing the same, nor did the Head Office insist for the timely reports.
- There was no system to have evaluation of the overall performance of industrial units set up. Out of 2,127 allotments made up to March 2008, units pertaining to 1,444 allotments only were functioning and 326 allottees have stopped their activities indicating slow pace of industrialisation. The Corporation had not analysed the reasons for closure of units. Area aggregating 3.13 lakh square metre in respect of 167 allottees remained unutilised for more than two years. The Corporation was not taking action on a regular basis to repossess areas remaining unutilised or closed for more than two years. 190 allottees were at various stages of procedural compliance required for commencement of industry.
- The Corporation was allotting three times the built up area including provision for expansion as shown in the application of each allottee. No systems however exist to ensure whether the proposed expansions have taken place and excess areas allotted have been utilized for the intended purpose.

The Management stated (August 2008) that there was a watch on each and every allottee. More than 50 plots which had not been utilised were taken back. The closure of units was due to change in technology, market recession, etc, which the Corporation could not solve.

The fact however, remains that post allotment monitoring was not effective. The Corporation was not taking action on a regular basis to repossess plots remaining unutilised/closed. The field offices were not regular in submitting the progress reports regarding construction, commencement and continuance of the units.

## **Financial Management**

### ***Financial position***

**7.2.24** The financial position of the Corporation for the five years ended March 2008\* is given in **Appendix 7.8**. As on 31 March 2008 the Corporation has been provided with funds of Rs 16.88 crore by the Government of Union Territory of Goa, Daman and Diu (Rs 8.12 crore), Government of Goa (Rs 6.93 crore) and Union Territory of Daman and Diu (Rs 1.83 crore).

\* Figures for 2007-08 are provisional.

Besides, the Corporation received Rs 11.07 crore (rupees two crore during 2003-07) from Central/State Government towards contribution for establishing industrial growth centre and Rs 6.94 lakh towards scheme for educated unemployed. The Corporation collected premium and deposits from allottees aggregating Rs 230.26 crore for allotment of plots and sheds during this period. The funds generated were mainly used for creation of fixed assets (Rs 3.31 crore) and development of industrial estates (Rs 66.28 crore). As on 31.03.2008, the Corporation had surplus funds of Rs 196.63 crore including Rs 185.12 crore kept in fixed deposits with banks.

***Short recovery of operating expenses***

**7.2.25** The working results of the Corporation for the four years ended 31 March 2008 are given in **Appendix 7.9**. During 2003-06, the working of the Corporation resulted in aggregate deficit of Rs 5.25 crore whereas it earned surplus of Rs 10.80 crore in 2006-07 and Rs 23.34 crore (provisional) in 2007-08. The details of total operating income vis-à-vis total operating expenses for the five years ended March 2008 are given below.

*(Rupees in crore)*

<b>Particulars</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08*</b>
Annual rent of land lease and building	2.04	2.19	3.06	4.59	4.40
Transfer fees and approval charges	1.1	0.59	1.12	2.01	1.48
Water supply recovery	2.35	2.19	2.2	2.6	2.54
<b>Total Operating Income</b>	<b>5.49</b>	<b>4.97</b>	<b>6.38</b>	<b>9.2</b>	<b>8.42</b>
Operating Expenses (excluding depreciation and financial expenses)	6.21	4.72	5.51	6.93	7.30
Water supply expenditure	4.76	4.31	3.56	3.81	3.81
<b>Total Operating Expenses</b>	<b>10.97</b>	<b>9.04</b>	<b>9.08</b>	<b>10.74</b>	<b>11.11</b>
<b>Operating deficit</b>	<b>(-) 5.48</b>	<b>(-) 4.07</b>	<b>(-) 2.70</b>	<b>(-) 1.54</b>	<b>(-) 2.69</b>
Percentage of expenditure to operating income	199.82	181.89	142.32	116.74	131.95
Depreciation and financial expenditure	2.65	3.04	3.67	4.22	4.54
Other Income (interest and miscellaneous)	5.4	5.68	5.28	16.56	30.57
<b>Surplus / Deficit (-)</b>	<b>(-) 2.73</b>	<b>(-) 1.43</b>	<b>(-) 1.09</b>	<b>10.80</b>	<b>23.34</b>

It could be seen from the above table that the Corporation suffered operating deficit consistently indicating operational inefficiency due to short recovery of operating expenses aggregating to Rs 16.48 crore during the five years. The

\* 2007-08 figures are provisional

short recovery is mainly attributable to non-revision of annual lease rent and to distribution loss of water supplied to the units as discussed in *paragraphs 7.2.29 and 7.2.32* respectively.

The Management stated (August 2008) that income towards interest received from banks also constituted income of the Corporation during the course of its activities. The Corporation could not implement revision of ALR due to non provision of adequate clause in the lease deed and opposition from GSIA & GCCI. Further, effective steps were being taken to curtail the water losses.

The reply is not acceptable as interest income does not form part of operating income of the Corporation. The contention that lease deeds did not contain adequate clause for revision of ALR is factually incorrect as the lease deed in respect of allotments made after 2003 contained provision to revise ALR based on premium prevailing from time to time. The fact remains that the income from operating activities was not adequate to meet the operating expenses.

#### *Non implementation of Government Order to transfer assets*

*Transfer of the assets & liabilities in Daman & Diu has not materialised even after ten years of notification by GOI*

**7.2.26** Mention was made in Audit Report for the year ended 31 March 2003 - Government of Goa, regarding non-transfer of assets and liabilities relating to industrial estates of the erstwhile Goa, Daman and Diu Industrial Development Corporation (GDDIDC) situated in Daman and Diu to the OI DC<sup>^</sup>. As per notification (January 1998) of Ministry of Home Affairs, Government of India which came into effect from September 1997, all assets of GDDIDC situated within the Union Territory of Daman and Diu were required to be transferred to OI DC and all existing liabilities apportioned between GIDC and OI DC as specified therein. Even after ten years of the notification, transfer of the assets and liabilities has not materialised, as issues like future liabilities that may arise against awards for acquisition of land in Daman and Diu, transfer of lease premium collected for the unexpired period of lease etc., have not been resolved. The Corporation has not taken up the matter at appropriate level as a result of which Government of India orders regarding division of assets and liabilities of the erstwhile GDDIDC between Corporation and OI DC remained to be implemented.

The Corporation sustained operational loss of Rs 10.82 lakh during 2006-07 for maintaining the estate of Daman and Rs 19.80 lakh during 2003-07 for Diu. Considering the administrative inconvenience and operational loss, the Corporation needs to accelerate the process of handing over the assets and liabilities in respect of industrial estates in Daman and Diu to the OI DC.

The Management stated (August 2008) that the matter would be taken up with the Daman Administration to sort out the issue involved for handing over the assets and liability to OI DC.

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<sup>^</sup> Omnibus Industrial Development Corporation of Daman, Diu and Dadra and Nagar Haveli.

***Deficiency in fixation and revision of lease premium***

**7.2.27** The Corporation had been computing the lease premium by aggregating the acquisition cost, development expenditure, interest cost, conversion charges and any other expenditure necessary to put the acquired land into saleable plots. Audit scrutiny revealed the following deficiencies:

*No policy exists to periodically revise lease premium*

- The Corporation had not adopted a policy to periodically revise the lease premium for plots to absorb the carrying costs or additional cost for providing infrastructure. As a result, lease premium rate fixed in the earlier years remained unrevised till September 2005, which caused revenue loss to the Corporation as discussed in **paragraph 7.2.28**.
- The Corporation took four to 13 years to revise the premium initially fixed. The lease premium rates were revised in September 2005 (Verna), November 2005 (Tuem) and February 2006 (17 estates). The Corporation, however, neither provided the detailed information regarding various components which formed the basis of the revision/initial fixation nor explained the same, indicating absence of transparency in the revision/fixation of lease premium.

The Management stated (August 2008) that the lease premium had been fixed as and when the new Industrial Estates were established. It has not been revised as the infrastructure cost provided in the rate initially had not exceeded.

However, price revision was required as the entire plots were not allotted at a stretch and the price initially fixed did not provide adequate cushion for interest on cost incurred for acquisition and development, on the plots allotted in subsequent years. Further, non revision of lease premium periodically would result in over-subsidising the land cost to those who had been allotted land in subsequent years. The revision was also important as non revision of lease premium would result in non revision of ALR which had been fixed as a percentage of the premium.

***Non-implementation of price revision and consequent loss***

*Deferment of decision to revise lease premium rates resulted in loss of Rs 7.07 crore*

**7.2.28** The Corporation had not revised the lease premium rates for plots in its industrial estates for periods ranging from four to 13 years. A sub-committee<sup>^</sup> of the BOD constituted to look into the necessity of rationalising the land price (lease premium) recommended (August 2002) for urgent upward revision of the price of 18 industrial estates. Accordingly, the BOD decided (September 2002) to revise the price of land in 18 industrial areas with effect from 10 September 2002. The same Board, however, decided (October 2002) to defer its own decision till new industrial policy of Government of Goa was declared. Though the Government declared its industrial policy in August 2003, the Corporation did not revise the rates till September 2005 (Verna)/November 2005 (Tuem)/February 2006 (17 estates). During the intervening period, the Corporation allotted area aggregating

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<sup>^</sup> Chairman, Managing Director, President GSIA and President GCCl.



6,23,870.48 square metre to 160 entrepreneurs at the old rates. The decision to defer the implementation of price revision despite the BOD having convinced about the urgent need to revise the rates compromised with the interest of the Corporation and deprived it of additional revenue to the extent of Rs 7.07 crore worked out on the basis of rates proposed in September 2002.

The Management stated (August 2008) that revision in lease premium would create unrest among industries and affect the smooth functioning. Further, there was no need to periodically increase the premium as long as actual cost of infrastructure did not exceed original estimate.

The fact is that it was the sub-committee consisting of Presidents of GCCI and GSIA, representing the industrialists in the Board among others, who recommended the revision on urgent basis, of which the Board was convinced of. Thus, there was no justification for the non-revision of premium.

***Non-revision of Annual Lease Rent (ALR)***

**7.2.29** The Corporation fixed (December 1996) ALR for different slabs of area allotted as given below.

<b>Total Plot Area Allotted (in SqM)</b>	<b>Lease Rent as percentage of total premium</b>
Up to 10,000	<i>2 per cent</i>
Up to 50,000	<i>2 per cent for the first 10,000 SqM; 1 per cent thereafter.</i>
Up to 1,00,000	<i>1 per cent for the first 50,000 SqM; 0.5 per cent thereafter.</i>
Above 1,00,000	<i>0.5 per cent for entire area.</i>

***Non-revision of lease rent despite enabling provisions resulted in loss of Rs 48.82 lakh***

The Corporation's income from the industrial estates is by way of lease rent which in turn is based on lease premium. As the Corporation did not revise the premium rate for years together, the lease rent also remained unrevised for years, whereas, the cost of maintenance of estates recorded steep increase over the years. The Corporation during 2003-08 revised the premium rates applicable to various industrial estates on five occasions<sup>λ</sup>. The Corporation however did not revise the lease rent on the basis of the revised rate despite having enabling provision in the lease deed. In fact, the BOD had unanimously decided (19 April 2006) to revise the lease rent with effect from 01 April 2006. The decision however was deferred (September 2006) based on request from Goa Small Industries Association (GSIA) and remained unimplemented till date (April 2008). Audit observed that as the lease deed contained provision to revise the annual lease rent based on the premium amount of the plot, prevailing from time to time, the Corporation was at liberty to revise the lease rent as and when premium rate was revised. The revision was essential to offset the rising costs of maintaining the industrial

<sup>λ</sup> September 2005, November 2005, February 2006, August 2006 and July 2007.

estates. The loss (up to March 2008) of revenue due to non-revision of lease rent in respect of 142 allotments, made during the period April 2003 to October 2007, in the three industrial estates (Kundaim, Verna and Cuncolim) amounted to Rs 48.82 lakh. The allotment registers being in a deteriorated condition, the loss due to non-revision of ALR was not ascertainable in other cases.

***Anomaly in fixation of percentage of lease rent for plots***

***Discrepancy in fixing ALR resulted in loss of Rs 4.30 crore***

**7.2.30** The present rate of lease rent as a percentage of premium is anomalous as lease rent payable by lessee holding area of 50,000 square metre would be more than the lease rent payable by lessees holding area measuring 50,001 to 69,000 square metre; and lease rent payable by lessee holding area of 1,00,000 square metre would be more than the lease rent payable by lessees holding area measuring 1,00,001 to 1,49,000 square metre. The discrepancy resulted in under realisation of ALR amounting to Rs 4.30 crore in respect of 14 allotments made during 2003-08. The Corporation needs to review the present rate of lease rent to overcome the anomaly by adopting slab-wise uniform percentage. In view of the fact that the Corporation does not have a policy to revise the premium rates of the plots at regular intervals, the Corporation may consider adopting a policy of increasing the lease rent annually based on initial lease rent fixed at the time of allotment, so as to absorb increase in cost of maintenance/ development.

After being pointed out in audit, the anomaly is being rectified by the Corporation.

***Recovery mechanism***

***Debtors details not maintained rendering recovery mechanism ineffective***

**7.2.31** The lease deeds provide that the Corporation may re-enter (take over) the premises and forfeit the deposits and premium already paid in case of default in payment of installment of premium or ALR and also to recover the arrears as per provisions of Goa Land Revenue Code. As per provisional accounts for 2007-08, Rs 72.32 crore were due from various parties of which Rs 67.67 crore were towards premium of plots. Huge arrears pending realisation indicated ineffectiveness of recovery mechanism. As the Corporation is not maintaining debtors ledger and updated age-wise debtors' details, the accuracy and realisability of the amount shown in accounts was not ascertainable. The Corporation was not able to furnish estate-wise details of debtors.

The Management stated (August 2008) that major portion of the recovery had been done by extending One Time Settlement (OTS) Scheme. Recovery was done when allottees approached with a request to allow them to transfer their plots/sheds. The estate wise details of debtors as on 31 March 2008 was under process.

The fact that the Corporation had to introduce OTS scheme for settling dues and that recovery was done when allottees approached for transfer, indicated that dues were not recovered regularly.

### ***Distribution loss in water supply***

***Corporation suffered loss of Rs 4.13 crore in supply of water to units***

**7.2.32** The Corporation is supplying water drawn from PWD to the industrial units. Scrutiny of water bills in respect of 17 estates revealed heavy distribution loss in 13 estates. As against bills for Rs 11.71 crore raised by PWD on the Corporation for supply of 53.25 lakh cubic metre of water during 2003-08, the field offices raised bills for Rs 7.58 crore for 34.67 lakh cubic metre only indicating distribution loss of 18.58 lakh cubic metre (35 per cent) resulting in loss of Rs 4.13 crore. The scrutiny was not exhaustive as the Corporation did not furnish details in respect of all the industrial estates for the entire period of audit. The quantum of loss indicated possibility of pilferage and defective metering.

The Management stated (August 2008) that apart from normal reasons such as leakages in pipelines, defective valves, seepage in water sumps and defective meters, poor quality of water and irregular supply by PWD and resultant pressure of air column formed inside the pipeline which led to defective metering were the reasons for loss in water supply to the units. Besides, PWD raised bills on minimum demand assured initially and not on actual consumption. It was further stated that steps had been taken to curtail the loss except defective metering due to air pressure.

The fact, however, remains that the action taken had not brought about the desired results and the Corporation continued to incur loss in water supply in all the years. The loss being persistent and apparently beyond the control of the Corporation, it could have dispensed with the system of supplying water by leaving it to the units to draw water directly from PWD sources.

### **Corporate Governance**

**7.2.33** The Corporation is a body corporate with perpetual succession and shall consist of 12 Directors (nine up to March 2006). The responsibility of good governance rests on the Corporate Board which has the primary duty of ensuring that principles of Corporate Governance expected by the stake holders are scrupulously and voluntarily complied with and the stake holders' interest are kept at the highest level. For this purpose, regulations have been framed. Audit scrutiny revealed that:

***Corporate Governance was not effective due to continued absence of Government Directors in the Board meeting***

- The management failed to comply with the regulations in regard to convening of meetings. During the period 2003-2007 (60 months) only 35 meetings were held, that too at an interval of two to three months as against one meeting in a month envisaged in the regulations.
- The Government ensures its role and responsibility in achieving the objectives of the Corporation through the official directors<sup>φ</sup> representing the Government on the Board. The Government Directors, however, did not attend most of the meetings and were granted leave of absence. Their continued absence indicated lack of active participation of Government in

<sup>φ</sup> Secretary (Finance), Secretary (Industries), Director of Industries and Chief Electrical Engineer.

the management of affairs of the Corporation and in the decision making process.

- As per regulations, four members present in the meeting will form quorum for a meeting, provided that at least one of the members<sup>¶</sup> nominated under section 4(1)(d) of the GDDIC Act 1965, other than the Chairman is present. The Act was amended in 1991 and 2006, in which the four members described under section 4(1)(d) of the original Act were separately provided as 4(1) - (e), (f), (g) and (h). Section 4(1)(d) was substituted as 'Director of Industries'. The number of Directors also has been increased from nine to 12. The Government, however, had not made clear whether the presence of Director of Industries was essential to form the quorum of the meetings nor made any change in the regulation in respect of quorum in proportion to the increase in the number of Directors.
- The meetings discussed and took decisions which involved financial matters without prior circulation of the Agenda (vide instances in *Appendix 7.10*) contrary to the regulation that no financial matter not specifically included in the agenda should be considered without prior notice. As the non-circulation of agenda notes of such items in advance would deprive the Directors of adequate time for effective and critical scrutiny of financial implications of such items, inclusion of such items of financial importance as 'additional items with the permission of Chairman' was against the spirit of regulations framed by the Corporation in regard to circulation of the agenda. The non-compliance of regulation assumes importance in a scenario where the active participation of Government Directors in the decision making process was lacking.
- No system existed to specifically include in the agenda note an item "action taken reports on decisions taken in earlier meetings", to monitor the compliance of decisions taken.

The Management stated (August 2008) that Board Meetings had been convened as and when there was sufficient business to transact. The earlier provisions in regard to quorum of the meeting had been continued in the absence of any directives from the Government.

The fact, however, remains that Regulations in respect of convening the meetings and its procedures had not been strictly adhered to. Further, the position in regard to compulsory presence of Director of Industries to form the quorum has not been clarified.

## **Internal Audit and internal control**

### *Internal audit*

**7.2.34** The Corporation does not have its own Internal Audit (IA) Wing. IA was being got done by a firm of Chartered Accountants who have submitted

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<sup>¶</sup> Section 4(1)(d) - Four members nominated by the State Government from amongst persons appearing to Government to be qualified as having had experience of, and having shown capacity in industry or trade or finance or who are in the opinion of the State Government capable of representing the interest of persons engaged or employed therein.

*Deficiencies reported by Internal Auditors were not reported to BOD*

their report up to September 2007. No IA manual exists prescribing the areas to be covered/aspects to be examined during IA. The IA reports were also not being placed before the BOD and there was no system of reporting the deficiencies contained in the IA report to the top management. Irregularities of persistent nature like improper maintenance of Premium and Leasehold Rent Register, Fixed Asset Register and huge pendency of premium/rent arrears were not reported to the Management.

The Management stated (August 2008) that the scope of internal audit has since been widened and the reports would be placed before the Board.

### **Internal control**

*Upkeep of records to ensure internal control procedures was not satisfactory*

**7.2.35** The following deficiencies were noticed in the internal control systems.

- The Corporation had not formulated internal control procedures/functional manual.
- The allotment registers were in a deteriorated condition, calling for urgent need for computerisation of data.
- The Corporation had not maintained land register to monitor the availability and disposal of land in different estates at a particular point of time. As per progress of activities furnished to the Board, the Corporation as on 31.03.2008 held vacant land, area aggregating 3.75 lakh square metre in seven Industrial Estates. The availability of land as informed to the Board was not factually correct and did not provide the true position of availability as on that date. Based on the area details as per layout plan, progress reports furnished by the field offices and the allotment registers the availability in the four industrial estates was short reported to the extent of 2.27 lakh square metre.

The Management stated (August 2008) that internal control had been exercised. Computerisation of the allotment registers maintained was under process. However, in the absence of land register and allotment register in proper condition the effective monitoring would not be possible and internal controls would be ineffective.

### **Conclusion**

The Corporation did not prepare a perspective plan for industrialisation in the State. Allotment of land for industrialisation, one of the prime activities of the Corporation, contained several irregularities. The Corporation has also been deviating from its role of developer by allotting land to firms for development and subsequent allotment to others. The Corporation has not been either monitoring or evaluating performance of individual units, creation of employment, etc. The record keeping in the Corporation is deficient. The Corporation has also not been raising ALR promptly to safeguard its financial interest. Thus, the Corporation has not been managing its activities satisfactorily, though due to creation of industrial estates industrial development has taken place in the State.

## **Recommendations**

The Corporation should:

- Prepare a perspective plan defining both short term and long term plans for development of industrial infrastructure.
- Evolve a policy for fixation of lease premium and timely revision of premium and annual lease rent.
- Define its role in setting up SEZs.
- Create database in respect of acquisition of land, allotments, post allotment performance of units, employment generation, etc.
- Ensure attendance of directors in Board meetings for effective corporate governance.
- Strengthen internal controls in the area of allotment and recovery.

The matter was referred to the Government in June 2008, their reply had not been received (September 2008).

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## SECTION B – TRANSACTION AUDIT OBSERVATIONS

### GOVERNMENT COMPANIES

#### Goa State Infrastructure Development Corporation Limited

### 7.3 *Engagement of consultants and contractors for infrastructure development activities*

#### *Introduction*

**7.3.1** Goa State Infrastructure Development Corporation Limited, incorporated in February 2001, is engaged in development of infrastructure facilities for Government of Goa and other local self-governing bodies.

During the period from September 2001 to December 2007, the Company awarded 179 works to various contractors for execution. The works awarded included 29 works each estimated to cost more than rupees five crore and the aggregate cost of these 29 works constituted 73 *per cent* of the total estimated cost (Rs 510.01 crore) of the 179 works awarded for execution. The matters related to selection of consultants and contractors in respect of above 29 works were examined in audit and the main findings were as follows:

#### *Selection of Consultants*

**7.3.2** Each project taken up by the company involves pre-tender activities such as techno-feasibility studies, preparation of estimates and tender documents, evaluation of bids etc., and post tender activities namely, project management including measurement and certification of bills of contractors. The Company entrusts all these activities to consultants and is wholly dependant on them for such services, as the duties of the Company's technical/managerial staff are confined to oversee the activities entrusted to consultants/contractors. The Company started maintaining a panel of consultants since November 2001. However the system of competitive bidding for the selection of consultants from the panel started in January 2006 only. Out of 29 works selected for audit scrutiny, consultants for 14 works were appointed without following competitive bidding process. The average consultancy fees for those 14 works was 5.58 *per cent* of cost of works whereas the average fees for the consultants selected through bidding process in the remaining 15 cases was only 4.27 *per cent*. Thus the fee agreed for 14 works was higher by Rs 2.46 crore.

The Company maintains a panel of consultants who are selected based on prescribed eligibility criteria. As at December 2007, 47 consultants were in the panel for various categories of works. During 2005-07, competitive offers for 12 works were invited from empanelled consultants but the average number of consultants who submitted their offers was only two. The Company received only one offer each in seven cases and the consultancy was awarded to the respective single bidder. The Company may consider resorting to open tenders as well, in addition to calling offers from empanelled consultants to make the bidding process meaningful and more competitive.

***Adoption of market rates for preparation of estimated cost / reasonable cost***

**7.3.3** The reasonable cost is worked out by the consultants based on Goa Schedule of Rates (GSR) as adjusted for price increase and market rates in respect of items not available in GSR. The market rate is adopted based on three quotations collected by consultants from the market. The Company has not evolved a system for independent verification of the market rates furnished by the consultants. As the reasonable cost is used for comparison of offers received and thus has a bearing on the cost of works, it is necessary that the company devises an in house system of independent verification of market rates so as to get assurance on reasonableness of 'reasonable cost'. The Company stated (September 2008) that a Material Rates Review Committee has been constituted (February 2008) to ascertain the rates of major items of materials from source of supplies.

***Selection of contractors***

**7.3.4** The Contractors are selected through two bid system (technical bid and financial bid) under open tender procedure. The responses to tender invitations showed a declining trend over the years. An analysis of 29 selected works revealed that average number of bids received per tender declined from six in 2002-03 to two in 2006-07 and the average number of valid financial bids decreased from four in 2002-03 to two in 2006-07. There was only one valid financial bid in 10 cases. Though four out of 10 works were re-tendered due to single / no bidder, the response was not encouraging. The poor response culminated in awarding 10 works (one each in 2002-03, 2004-05 and 2007-08 and seven in 2006-07), in favour of single tenderer. Thus, competitive bidding for selection of contractors cannot be said to have taken place in spirit. The Company has not analysed the reasons for poor response to the Notice for Invitation of Tenders. The bidders have been quoting higher rates leading to extra expenditure. Out of 29 works awarded, 13 works were at cost more than five percent of the reasonable costs computed by the Company/Consultant and the excess cost thereon aggregated to Rs 26.56 crore. Inability of the Company to inspire confidence among prospective bidders and get competitive rates resulted in dwindling competition and excess expenditure. The Company needs to analyse the poor response and take measures to increase competitiveness so as to secure the price within reasonable cost. The Management stated (September 2008) that the Company being a Special Purpose Vehicle (SPV), it had to execute the works entrusted to it at a greater speed maintaining the quality and hence the chances for getting cheaper offer on re-tendering were rare and likely to end up with higher offer or no offer at all. The fact remains that the company was not able to inspire confidence among prospective bidders, leading to dwindling competition and excess expenditure.

***Negotiation as a routine part of tendering process***

**7.3.5** As per the instructions (March 2007) of Central Vigilance Commission there should be no 'Post tender negotiations' with L1 except in certain exceptional situations as such negotiations could often be a source of corruption. The Company, however, negotiated with the L1 firm in respect of



all three works awarded in 2007-08. Audit observed that negotiations were held as a part of tendering process earlier also and it had negotiated with the L1 in respect of 17 works. Though, as a result of negotiations, reduction in cost aggregating to Rs 10.94 crore (3.3 *per cent of total cost*) from originally quoted costs could be achieved in 20 cases, there was a tendency on the part of bidders to inflate their rates initially. This was evident from the fact that the quantum of reduction offered during negotiations ranged upto 22 *per cent* of quoted cost. The Company should follow the CVC guidelines and stop negotiations with contractors. Retendering can be resorted to if the quotes are not within the reasonable cost. The Management stated (September 2008) that as competition is the essence of bidding no contractors would be inflating the rates. This is not true as competition among contractors was not taking place due to less participation and the magnitude of reduction during negotiation indicated that the originally quoted rates were highly inflated.

***Loss due to payment of interest free mobilization advance***

**7.3.6** As per section 31.6 of the CPWD manual, in respect of certain specialized and capital intensive works costing not less than rupees two crore, mobilization advance limited to a maximum of 10 *per cent* of the estimated cost put to tender or rupees one crore whichever is less, shall be sanctioned to the contractors at 10 *per cent* simple interest on specific request and as per the terms of the agreement. The Company, as per conditions provided in the contract, paid interest free mobilization advance aggregating to Rs 11.53 crore to the contractors of 13 works awarded during 2002-05. As the Company is working on borrowed funds, payment of interest free mobilization advance resulted in loss of Rs 85.51 lakh towards interest. Though the company had discontinued the system of payment of mobilization advance from 2005-06, the same was re-introduced from December 2007 with 10 *per cent* simple interest. The Company should establish its own policy for mobilization advance with due regard to CPWD manual.

***Delay in completion of works***

**7.3.7** Of the 29 works awarded, though the agreed period of completion of 19 works was over by December 2007, five works were completed within the agreed period. Of the 14 works not completed within stipulated time, five works were foreclosed by the Company/Contractors and other five works were completed with delay ranging from three to 24 months. The balance four works were still in progress with an average delay of six months as of December 2007. As the delay in executing the works defeats the very purpose - *speedy execution of works* - of formation of the Company, the Management should monitor the progress closely and may consider incorporating in the agreement a very stiff penalty clause for delay in execution of works. The Management stated that more attention as suggested by Audit would be given for the system of monitoring the projects for avoiding delay in completion of work.

The matter was referred to the Government in June 2008; their reply had not been received (September 2008).

#### 7.4 *Avoidable expenditure in the construction of Sewage Treatment Plant*

**Procurement of Sewage Treatment Plant through Contractors instead of direct procurement from the supplier, resulted in extra expenditure of Rs 1.17 crore.**

The Company at the request of Sanquelim Municipal Council decided (October 2006) to install a Sewage Treatment Plant (STP) at Sanquelim, Goa at an estimated cost of Rs 7.85 crore and accordingly tenders were invited in February 2007. The scope of work included supply and erection of the STP and related civil works for drainage, pipelines, roads etc. As per the tender conditions, the bidders had to install *C-Tech process* based STP for which SFC Environmental Technologies Pvt. Ltd. (SFC), Navi Mumbai was the only supplier in the country. Though three offers were received, the rates quoted were abnormally high as it ranged from 176 to 205 per cent of the estimated cost. In view of a suspected cartel formation among the Supplier, Consultant and Bidders, the Company retendered (February 2007) the work. The lowest offer (Rs 13.21 crore) was from UPL Environmental Engineers Limited (UPL) in which the quoted price of plant alone was Rs 3.82 crore. The Company awarded (April 2007) the work to UPL at a negotiated rate of Rs 11.30 crore (144 per cent of estimated cost).

Audit observed that the estimate for the STP was prepared based on a quotation from the supplier (SFC) to supply the plant at Rs 2.10 crore. After apportioning the benefit of negotiation (Rs 1.91 crore) on pro rata basis, the price of the plant quoted by UPL worked out to Rs 3.27 crore\*. Had the company procured the plant directly and outsourced the civil works, it could have saved Rs 1.17 crore♣. The Government/Management stated (August 2008) that direct procurement of STP would have hindered the smooth implementation of the Project. This assumption is baseless as high value equipments are usually guaranteed for trouble free performance by suppliers and the Company was confident of the advantages of the plant provided by SFC.

#### 7.5 *Extra expenditure in road upgradation work*

**Injudicious decision to club three road works and put them to tender afresh as a single work, resulted in additional expenditure of Rs 38.69 lakh.**

The Company invited (October-November 2006) bids separately for the works of improvement and upgradation of existing road network- (i) at *Pilgao in Bicholim Taluka*, (ii) from *Chodan Ferry Point to Thikazem and from Chodan to Pomburpa ferry point*; and (iii) at *Curti in Ponda Taluka*. The total costs for the three works, based on the final offer by the single bidder of each work, aggregated to Rs 12.98 crore which was 41.39 per cent above the aggregate estimated costs (Rs 9.18 crore). Though the company found the offers justifiable considering the then existing market rates for materials, it was

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\* Rs 3.82 crore x 11.30 / 13.21

♣ Rs 3.27 crore – Rs 2.10 crore

finally decided (December 2006) to club the three works and to tender the work afresh as a single work. Accordingly the three works were clubbed together and tendered (December 2006) as a single work. The Company finalised (February 2007) the bid in favour of the single bidder at Rs 13.28 crore which was Rs 30.36 lakh higher than the aggregate cost offered when the works were tendered separately. Moreover, the services of the three consultants engaged separately for the three works initially were discontinued and another consultant firm was appointed at an additional cost of Rs 8.33 lakh.

The Government stated (July 2008) that the decision to club the three works was taken in order to have better competition from the contractors performing high value contracts for road works and for getting competitive and cheaper offers. However, while recording the decision no anticipated benefit was noted except to the extent of participation of major contractors. Moreover, on account of the heavy entry barrier\* for major works, the chances of getting more offers were also limited.

Audit also observed that:

- The Company was not hopeful of getting better offers if re-tendered as its Engineering Department, citing the cost trend, had recommended for acceptance of the single bids obtained in each case.
- As the works located at three distant places were combined, the single contractor required more time and thus the main objective of speedy completion of works was defeated.

Thus the assumption that the company would get more competitive offers by clubbing the three works had no basis and the injudicious decision to club and re-tender the work resulted in additional expenditure of Rs 38.69 lakh.

## **EDC Limited**

### **7.6 Avoidable payment of interest on income tax**

**Failure to pay advance tax based on estimated income resulted in avoidable payment of interest on income tax of Rs 59.08 lakh.**

As per section 208 and 211 of the Income Tax Act, 1961, companies having taxable income had to pay advance tax every quarter (15 June/September/December/March) at the prescribed rates (15, 45, 75 and 100 *per cent*) on the estimated income failing which interest was payable under section 234 C on the short paid amount. Further, if the total advance tax paid was less than 90 percent of the assessed tax, interest was payable under section 234 B also, on the short paid amount.

The Company had a total income of Rs 6.44 crore during the financial year 2005-06 and the tax payable thereon worked out to Rs 1.68 crore. Though the

\* Contractors for major works were required to have more work experience in the execution of major works and have more solvency.

Company had engaged a tax consultant, it did not make any estimate of income and pay any advance tax. The entire tax dues were paid only when Income Tax return was filed in October 2006, which necessitated payment of interest of Rs 18.80 lakh, under section 234 B and 234 C. Similarly, in the next financial year (2006-07) also the Company did not pay advance tax due in full, within the stipulated time, which resulted in payment of Rs 40.28 lakh towards interest.

Government stated (July 2008) that the Company was under the impression that long term/short term capital gain earned from sale of land during the year was available for set off against 'brought forward business loss' of earlier years and thereby tax liability could have been avoided. The fact, however, remained that the Company's failure in estimating its income promptly and correctly, resulted in payment of Rs 59.08 lakh towards interest.

#### *7.7 Avoidable payment of interest on wealth tax*

**Non-observance of statutory requirements in regard to filing of wealth tax returns and deferment of payment of wealth tax dues resulted in avoidable payment of interest of Rs 24.06 lakh.**

The Company owned 18,726 square meters of land (market value – Rs 936.32 lakh) and motor cars (market value - Rs 15 lakh) as on 31 March 2001, which were liable for wealth tax under section 2 (Ea) of the Finance Act, 1992. Based on the suggestions of the Statutory Auditors / Tax consultant, the Company made a provision for Rs 38.40 lakh in its accounts for the year 2002-03, towards the wealth tax liability for the three assessment years up to 2003-04. The Company, however, neither filed annual return of wealth nor paid the wealth tax dues in any of these years. The Income Tax Department issued (March 2007) notice under section 17 A of the Wealth Tax Act, 1957 directing the Company to file wealth tax returns. Accordingly the Company filed (May 2007) returns for the six assessment years up to 2006-07 and paid (May 2007) Rs 84.80 lakh as wealth tax and Rs 24.06 lakh as interest under section 17 B for belated payment of wealth tax. Thus failure of the Company in filing the wealth tax returns and in paying the statutory dues in time, resulted in loss of Rs 24.06 lakh. While confirming the audit observation, Management stated (April 2008) that action had been initiated to fix responsibility for the loss.

The matter was referred to the Government in February 2008; their reply had not been received (September 2008).

#### **Info Tech Corporation of Goa Limited**

#### *7.8 Loss due to incorrect assessment of market rate of land*

**Assessment of market rate of land at a lesser rate resulted in minimum loss of Rs 15.74 crore by way of premium and lease rent.**

The State Government transferred (June 2000) 2,85,296 square metre of land at Dona Paula, Goa to the Company, at a price of Rs 275 per square metre, for

setting up a High-tech Habitat for IT Software and ITES industries. The Company developed the land and allotted (August 2006 – October 2007) 18 plots (2,03,757 square metre), on lease basis for 30 years to 14 parties at a premium of Rs 4,600 per square metre. The premium consisted of Rs 3,100 towards land cost and Rs 1,500 towards infrastructure development charges. The land cost (Rs 3,100 per square metre) in turn was fixed based on the market rate intimated by the Revenue Department in July 2006. The market rate was assessed by the Revenue Department as the average of 20 selected sale transactions registered in the same place during the preceding three years. This was not reasonable in view of the rising trend of market rate. Had the average rate been assessed based on the transactions carried out in the preceding one year, the market rate would have been higher by Rs 483 per square metre.

Thus incorrect assessment of market rate of land resulted in loss of Rs 9.84 crore\* by way of premium and thereby undue benefit to the allottees of land. The loss would be still higher, in view of the fact that the prices at which the sale deeds are registered are generally lower than the transaction value as Government has not prescribed minimum land rates for the purpose of levying stamp duty. Further, as the lease rent is fixed at two percent of the premium amount, fixation of market rate at a lesser rate would result in loss of Rs 5.90\* crore to the Company by way of less lease rent for 30 years. Management replied (August 2008) that the rate (Rs 3,100 per square metre) was fixed at the instance of Government. Government reply was awaited (August 2008).

Audit scrutiny also revealed the following irregularities in the allotment of plots.

- Plots were available for allotment to IT firms directly as well as to Real Estate Developers (Developers) who wanted to create built up space for offering to IT firms. Out of 37 applications received for allotment of plots, 19 were from IT firms and 18 were from Developers. Allotment was made to five IT firms and nine Developers and the remaining 23 applications were rejected. Applications of seven IT firms and four Developers were rejected on the grounds such as incomplete application, absence of project report etc. whereas one of the Developers (Venkatarao Infra Projects) who had not submitted proper application and project report initially was allotted a plot. Similarly five Developers were allotted plots by relaxing the prescribed eligibility criteria.
- One of the allottees (Technology Options Pvt. Ltd.) was refunded the premium amount remitted and one of the applicants (S.A.S. Servizio Ltd) who refused to accept allotment was allowed refund of Security Deposit. As Security Deposits in these cases were not forfeited as required as per the terms of allotment, the Company incurred loss of Rs 25.63 lakh.

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\* Rs 483 x 203757

\* Rs 9.84 crore x 30 x 2%

Management stated (August 2008) that these allottees had withdrawn their applications due to their own disinterest in the project. The fact, however, remained that EMD should have been forfeited after withdrawal of offer subsequent to allotment.

The matter was referred to the Government in June 2008; their reply had not been received (September 2008).

### **Goa Antibiotics and Pharmaceuticals Limited**

#### **7.9 Loss due to non- liquidation of stock of medicine before expiry**

**Failure in taking back the stock of medicine from the Depot before its expiry resulted in loss of Rs 15.05 lakh.**

The Company appointed (April 2001) Madhur Pharma, Indore as their Clearing and Forwarding (C&F) Agent for the state of Madhya Pradesh. Goods were being dispatched from the Company's factory in Goa to its own Depot at Indore as stock transfer and later on invoiced to C&F Agent and other stockists.

As at the end of March 2005, a sum of Rs 4.07 lakh was due from the C&F Agent. At the same time, medicines worth Rs 23.85 lakh, which were dispatched by the Company between July 2002 and October 2004, were also available at the Depot. As the C&F Agent could not liquidate the stock and as the expiry dates of medicines were nearing, the Company requested (January 2005) the C&F Agent to return the goods. Meanwhile, the Company had received supply orders from the Government of Goa which would have enabled them to liquidate the stock. The Agent, however, returned medicines (value: Rs 18.69 lakh) in July 2005 only and retained the balance stock of Rs 5.16 lakh. The Company did not accept the returned stock as its expiry date was over or nearing completion and hence debited the account of the party with Rs 23.85 lakh. After adjusting the security deposit (Rs 10 lakh) and other dues payable (Rs 2.87 lakh), a sum of Rs 15.05 lakh was pending recovery from the Agent.

Audit scrutiny revealed that, though the Company had its own official posted at the Depot, it failed to exercise adequate control over the stock held at the depot. The Company also failed in monitoring the stock levels and in timely liquidation of stock of medicines which were having shelf life. The Company suffered loss of Rs 15.05 lakh, as it did not resort to any legal action to recover the dues from the Agent.

The Government/Management stated (May 2008) that the C&F Agent created hurdles to transfer the goods back to Goa. It was also stated that arbitration clause of the agreement would be invoked to realise the dues. It was however noticed in Audit that the Company has not taken any such action so far (August 2008).

## DEPARTMENTAL COMMERCIAL UNDERTAKINGS

### Goa Electricity Department

#### 7.10 Loss of revenue due to delay in replacement of faulty meter

**Inordinate delay in replacing the energy meter of a High Tension Consumer resulted in loss of revenue of Rs 1.31 crore.**

Clause 24 of the 'Condition of Supply of Electrical Energy' stipulates that a consumer should be finally billed for the period when meter was faulty, on the basis of average consumption subsequent to the replacement of faulty meter.

Electrical Division XI of the Department provided High Tension electrical connection to Airport Authority of India for their Goa Airport in June 1997. The energy meter installed at the consumer's premises became faulty in December 2003. Thereafter, the consumer was billed monthly for 2,32,445 units, which was the average consumption of the preceding three months. The meter remained faulty for 34 months and new meter was installed only in October 2006. Meanwhile, consumption of energy by the consumer had gone up drastically and the monthly average of three months' consumption subsequent to replacement of meter was 3,50,550 units. The Division, however, did not issue any revised bill for recovering energy charges on the short billed units (1,18,105 units per month) for the period of 34 months.

Audit scrutiny revealed that:

- Though the metering equipment was owned by the Department, it failed to take action to rectify/replace the faulty meter within a reasonable time. Also, the consumer had been requesting the Department to replace the faulty meter. The Department should have ensured prompt replacement of the meter in case of this big consumer.
- Had the standby meter (Check meter) as required by the Departmental guidelines been installed in the consumer's premises, the actual consumption could have been assessed, even though the main meter was faulty.
- As the faulty meter was not replaced in time and consumption during the meter faulty period was not billed as per the rules, the Department suffered loss of revenue of Rs 1.31 crore\* by way of energy charges alone. As back billing is restricted to six months period, the scope of recovering this revenue at this stage is remote.

The Department replied (August 2008) that non availability of suitable meters caused delay in replacement of the faulty meter. The fact remains that the Department could have taken action to procure new metering equipment (cost Rs 0.94 lakh). After pointed out by audit, the Department raised an additional bill of Rs 23.03 lakh for the six months' period (April 2006 to September 2006), which was yet to be paid by the consumer (August 2008).

\* For 34 months @ 1,18,105 units per month, at Rs 3.25 per unit.

The matter was referred to the Government in May 2008; their reply had not been received (September 2008).

**7.11 Extra expenditure in purchase of fuse wire**

**Delay in accepting the lowest offer for supply of fuse wire resulted in re-tendering and purchase of the same at double the rates incurring extra expenditure of Rs 24.62 lakh.**

Stores & Workshop Division of the Department invited (January 2006) eight tenders separately for supplying 'tinned copper fuse wire' of various capacities (6 Amps to 100 Amps). The dates of opening of tenders were between 3 February 2006 and 7 February 2006 and the dates of validity of offers were to expire between 4 May 2006 and 8 May 2006. However, the Division finalised the tenders and forwarded the same to the Chief Electrical Engineer for approval, by the end of April 2006 only. Thus against the total available time of 90 days for the acceptance of offer, the Division office itself took nearly 80 days to process the tender. The Chief Electrical Engineer returned the proposals (May-June 2006) as the validity period of the offers had expired. In order to meet its requirements, the Division again invited (September 2006) tenders and purchased (November 2006) 5.11 MT of fuse wire at a total cost of Rs 45.70 lakh. Based on the originally offered rates, the total cost of 5.11 MT of fuse wire would have been Rs 21.08 lakh only.

As the offers received in February 2006 were not finalised and accepted before the expiry of validity period, the Division had to purchase the material subsequently at double the rates incurring extra expenditure of Rs 24.62 lakh. The Department stated (August 2008) that the suppliers had expressed (April 2006) inability to supply the material at their quoted price due to steep increase in price of raw materials. This is factually incorrect as the suppliers had never expressed such inability. Further, in view of the rising trend in prices, the Department should have taken prompt action to accept the offers in time so as to ensure procurement of materials at the cheaper rates.

The matter was referred to the Government in May 2008; their reply had not been received (September 2008).

**7.12 Extra expenditure on purchase of transformers**

**Purchase of transformers at higher rate while a previous order placed on the same supplier was pending execution, resulted in extra expenditure of Rs 15.51 lakh.**

The Department invited (September 2004) tenders for supply of 80 numbers of 100 KVA Distribution transformers and supply order was issued (November 2004) to the lowest bidder, Stanlec Private Limited (SPL) at Rs 54,810 per unit. The price quoted was firm, inclusive of all taxes and duties and no price variation was allowable. Though the entire ordered quantity was to be supplied before 1 March 2005, the tenderer supplied 32 transformers only and the balance (48 Numbers) was not supplied.



While this supply order was pending execution, the Division invited (August 2005) fresh tenders for supply of 50 transformers of same capacity (100 KVA) and the lowest offer (Rs 73,332 per unit) from the same supplier (SPL) was accepted (November 2005). The contractor supplied the entire ordered quantity (50 numbers) by February 2008, at a total price of Rs 89,706 per unit (including price variation and VAT). For the pending quantity (48 numbers) against the first tender, the contractor requested for revised price of Rs 77,997 (including 12.5 per cent VAT) which was higher by Rs 23,187.

Government agreed (March 2008) to this request and accordingly the contractor supplied (May-July 2008) 48 transformers. Thus, instead of recovering penalty (Rs 4.38 lakh) for delayed supply, the Department allowed revised price resulting in extra expenditure of Rs 11.13 lakh<sup>⊗</sup>.

The Department stated (August 2008) that the revised price was cheaper when compared to the present market rate. The fact is that the supplier was bound to supply, three years back, the entire quantity of the first order at firm price without price variation. Moreover, due to distance of time, comparison of price with the present market price was not realistic.

The matter was referred to the Government in May 2008; their reply had not been received (September 2008).

**Panaji**  
**The**

**(MRIDULA SAPRU)**  
**Accountant General, Goa**

Countersigned

**New Delhi**  
**The**

**(VINOD RAI)**  
**Comptroller and Auditor General of India**

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<sup>⊗</sup> at the rate of Rs 23,187 per unit for 48 transformers