

Chapter-IV

4. Transaction audit observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

Government companies

City and Industrial Development Corporation of Maharashtra Limited

4.1 *Loss of revenue*

There was loss of revenue of Rs.71.65 crore due to sale of plots below the market rates, allotment at concessional rates to ineligible parties and short recovery of land premium.

City and Industrial Development Corporation of Maharashtra Limited (Company) sells plots for various uses like residential, commercial and educational purposes. As per the New Bombay Disposal of Lands Regulation 1975, the Company may dispose off plots of land by public auction or tender or by considering individual applications, as the Company may determine from time to time. As per the Company's policy, a plot of land earmarked for Residential cum Commercial/Commercial use can be disposed off through tender or at fixed rates. As per the Board of Directors (BOD) decision of November 2003 whenever any proposal for allotment of plot without invitation of tenders is being considered, the facts relating to the highest rate quoted/received in response to recent tenders in the same/similar locality should be incorporated in the Agenda Note so as to facilitate the Board to take an appropriate decision in the matter. While allotting plots based on individual applications, wide publicity should be given, fixing a starting date and a last date for receipt of applications followed by fair and transparent selection procedure. As per the delegation of powers, except sale of plots by tender, all allotments of plots are required to be approved by the BOD.

Audit noticed that the Company extended undue benefit of Rs.71.65 crore to private parties due to sale of plots below the market rates, short recovery of land premium and allotments made to ineligible parties, by not following prescribed procedures in this regard. The individual cases are discussed below:

Allotment of plots below the market rate

4.1.1 The Board of Directors (BOD) of the Company had initially approved (February 2002) the proposal of sale of 552 residential apartments (1.70 lakh square metres) of a project called Beverly Park at Koperkhairane (at the rate of Rs.1,150 per square feet) of total value of Rs.65.55 crore to Reliance Group of Industries. The Company allotted (November 2003) a plot of land measuring 38,557.70 square metres in Sector-14 at Koperkhairane to Reliance Industries Limited (RIL) for residential cum commercial use instead of apartments and received (November 2003) a total land lease premium of Rs.18.78 crore. The matter was not referred back to the BOD for approval, though it involved a major change in the earlier decision of the BOD.

The market price of the plot (August 2001) sold during 2001-02, based on tenders in the same area, was Rs.12,242[#] per square metre for residential cum commercial use. Based on this market price the total lease premium worked out to Rs.47.20 crore. Due to sale of the plot at below the market price (earlier realised) there was loss of revenue of Rs.28.42 crore to the Company. The sale of plot at a rate substantially below the market price was without any recorded justification.

The management in its reply (April 2006), which was also endorsed by the Government (October 2006), stated that its own project was developed by RIL and the allotment could not be treated as sale of plot for residential cum commercial purpose and that the apartments would have been offered to the public at the same rate that was offered to RIL had the Company constructed the apartments at its own. The reply is factually incorrect. As per the Agreement entered (8 April 2004) into with RIL, the plot was allotted for construction of apartments, shops and clubhouse exclusively for use of the allottee. No public interest was involved and, therefore, sale of the plot at below the market rate lacked justification.

[#] Proportionately worked out for 1.39 floor space index (FSI) on the tender rate of Rs.13,211 per square metre for 1.5 FSI.

Allotment of plots for multiplexes below the market rate

4.1.2 The Company allotted (June-July 2004) two plots of land for multiplexes, which is a commercial activity, as detailed below:

Name of the party	Area of plot (square metre) and location	Lease premium received (Rupees in crore) month of allotment	Premium receivable based on tender rates received for plots sold earlier (Rupees in crore)	Loss of revenue (Rupees in crore)
Popcorn Entertainment Corporation	8,099.14 Kharghar, Sector-2, One FSI ^{&}	Rs.2.23 (Rs.2,750 per square metre) June 2004	Rs.13.64 [#] (Rs.16,834 per square metre) April 2004	11.41
Platinum Entertainments	6,716.32 Airoli, Sector-11, One FSI ^{&}	Rs.2.08 (Rs.3,100 per square metre) July 2004	Rs.9.65 (Rs.14,371 per square metre) April 2004	7.57
Total				18.98

Audit scrutiny revealed that the allotments were based on *suo-moto* applications received from the parties, as the Company had not advertised the sale of these plots.

The market rate of commercial plots in the respective nodes, considering the rates received through tenders in April 2004, were much higher as indicated above. The prevailing market rates in the same area were not included in the Agenda Notes put up to the BOD, as was required to be done as per the BOD's decision of November 2003. Considering the market rates the loss of revenue to the Company was Rs.18.98 crore.

The management in its reply (April 2006), which was also endorsed by the Government (May 2006), stated that the sale of plots considering individual applications is one of the approved procedures. The management also stated that allotments in both the cases have been cancelled. The cancellation has been challenged by the parties in the court of law. The reply is not tenable as in the case of allotment of plots especially for commercial purpose, wide publicity should have been given fixing the time schedule for receipt of applications, followed by a fair and transparent selection procedure, which was not done by the Company.

[&] Floor space index fixed by local authority. It is the *ratio* of the combined gross floor area of all floors (excluding areas specifically exempted) to the total area of the plot.

[#] The tender rate of Rs.25,251 per square metre for commercial use with 1.5 FSI was proportionately worked out for one FSI.

Allotment of a plot for commercial purposes to a private party at below the reserve price

4.1.3 The Company, without inviting tenders, allotted (23 June 2004) a Commercial plot measuring 4,485 square metre in Sector-20, (Turbhe) Vashi, Navi Mumbai alongwith Bombay Municipal Transport Corporation building to Himgiri Dealcom Private Limited (Party) at the rate of Rs.16,650 per square metre with 1.5 FSI for commercial use based on tender rate received for the plot in July 2002, and received total lease premium of Rs.8.02 crore (including Rs.55 lakh for the cost of existing building).

It was noticed during audit that the base reserve price of the node was Rs.21,010[#] per square metre for 1.5 FSI. Yet the plot was allotted to the party at the rate of Rs.16,650 per square metre *i.e.* below the reserve price, resulting in loss of revenue to the Company of Rs.1.96^s crore.

The management in its reply (November 2005 and April 2006), which was endorsed by the Government (May 2006), stated that it had made efforts to sell the property through tender during 2000-01 but there was no response. The plot does not have advantage of prime location as the Turbhe area is predominantly inhabited by the lower income group societies. The plot was allotted on the basis of weighted average of tender rates received in July 2002 instead of the base rate. The reply is not tenable, since the plots were sold in 2004 and market rates should have been considered as on that date. Besides, as per the Company's records the plot is situated in a prominent location.

Reallotment of cancelled plots for commercial/residential purposes, at below the market rates

4.1.4 In the two cases detailed below, the Company had reconsidered the cancelled allotments and reallotted plots at substantially lower than the prevailing market rates, for commercial/residential purposes, resulting in undue favour to the parties concerned and loss of revenue to the Company:

- The Company, based on a *suo-moto* application, allotted (June 2000) a plot at Vashi measuring 12,677.30 square metre with unit floor space index (FSI) for setting up a multiplex and family entertainment complex, at a negotiated rate of Rs.3,600 per square metre *i.e.* total lease premium Rs.4.56 crore, to Premnath. Earnest Money (EM) of Rs.60 lakh was deposited by Premnath. The applicant was required to form a separate Company within a period of three months of the allotment as per the terms and conditions prescribed by the Company. The applicant, however, failed to form a company within three months. He also failed to pay the balance lease premium of Rs.3.96 crore within the stipulated time. The Company cancelled the allotment (September 2002) but did not forfeit the EM. Having cancelled the allotment, the Company should have put the plot to sale through tender. Instead the Company reconsidered the

[#] The reserve price is 450 *per cent* of the base of Rs.4,669 per square metre for the year 2004-05 for plots having location advantages.

^s Rs.21,010 per square metre - Rs.16,650 per square metre x 4,485 square metre.

allotment subsequently and allotted (August 2003) the same plot to Mohan Entertainment Co Limited where Premnath was only a shareholder with no controlling stake, at Rs.4,000 per square metre for a total lease premium of Rs.5.07 crore. The party was asked to pay Rs.4.47 crore after adjusting the earlier EM.

At the time of reallocation, the Company was aware that the market rate was Rs.20,792 per square metre on the basis of tender rate received for a plot in the same area for FSI of 1.5. The reallocation was, however, made at the rate of Rs.4,000 per square metre for unit FSI resulting in loss of revenue of Rs.13.10 crore (Rs.17.57* crore-Rs.4.47 crore).

The management in its reply (April 2006), which was endorsed by the Government (May 2006), stated that it was a considered decision of the Board, based on the legal opinion and failure in earlier two attempts made by the Company to dispose of the plot through tender. The reply is not tenable. Since, the Company had received (September 2002) a market rate of Rs.20,792 per square metre for similar plot in the same area, this plot should also have been reallocated at the current market rate.

- The Company allotted (April 1998) a plot measuring 1,676.13 square metre with 1.5 FSI for residential cum commercial use at the rate of Rs.15,557 per square metre to Superior Builders.

Audit scrutiny revealed as under:

The party was required to pay Rs.2.46 crore in two monthly instalments by 22 June 1998 apart from EM of Rs.15 lakh. It failed to make full payment by the stipulated date and the Company, after a period of two years, cancelled the allotment in September 2000. The amount to be forfeited was EM *plus* 25 *per cent* of the lease premium, which worked out to Rs.80 lakh (Rs.15 lakh + Rs.65 lakh). The amount actually paid by the party was Rs.75 lakh and hence the entire amount should have been forfeited by the Company.

Any further sale of the plot should have been through open tender. The rate received in April 2004 for residential cum commercial plots in the same sector was Rs.21,556 per square metre with FSI of 1.5. The above fact was not included in the Agenda Notes to the BOD as was required to be done as per the Board decision of November 2003. Instead, the same party was reallocated (July 2004) the plot at the old rate of Rs.15,557 per square metre and in addition the earlier payment made of Rs.75 lakh was adjusted. Thus, the total benefit passed on to the party was Rs.1.76 crore.

The management in its reply (August 2006), which was also endorsed by the Government (October 2006), stated that the revocation of cancellation of

* The tender rate was Rs.20,792 per square metre and Rs.13,861 is proportionate rate for one FSI x 12,677.30 square metres = Rs.17.57 crore.

allotment of the plot in favour of the party, as directed by the Government, is a considered decision of the Company.

The reply is not acceptable. Since, the allotment was cancelled in September 2000 and EM of Rs.0.75 crore stood forfeited, the plot should have been put to retender immediately thereafter in a transparent manner to get the current market rate. The delay by the Company for nearly four years, and reallocation of the plot at a loss of Rs.1.76 crore lacked justification.

Allotment of encroached plot to a builder

4.1.5 The Company allotted (May 2003) a plot measuring 1,969.73 square metre to Siddhivinayak Builders and Developers at the rate of Rs.11,001 per square metre for commercial *plus* residential use with 1.5 FSI.

Audit scrutiny revealed that the plot allotted had the advantage being in a prime location. The tender rate received in May 2003 was Rs.13,700 per square metre. Yet the plot was allotted at the rate of Rs.11,001 per square metre on the ground that a portion of the plot (200 square metre) had been encroached by the local Shivsena Shakha.

The management in its reply (April 2006), which was also endorsed by the Government (May 2006), stated that tenders were not called as the plot had an encroachment and the allotment was made at 36 *per cent* above the base price and as such there was no loss.

The reply is not tenable. The encroachment should have been got removed and the plot should have been sold through open tenders. Even if some concession was considered necessary, the encroachment was only of 200 square metre, which did not justify a loss of Rs.53.16 lakh to the Company.

Allotment of a plot to an ineligible party for a petrol pump

4.1.6 As per the prevailing Land Pricing and Disposal Policy of the Company, the plots reserved for petrol pumps could be allotted at fixed rate to Oil Companies or their Authorised Agencies/Distributors. The base rate for allotment of such plots was 400 *per cent* of the reserve price. Normally the Company allots such plots by public advertisement.

Bharat Petroleum Corporation Limited (BPCL), a public sector undertaking made (October 2003) an application to the Company for allotment of 'two/three' plots for petrol pumps. No action was taken on this and the reasons for not considering the request of BPCL were not on record. On the basis of a *suo-moto* request from one Shri V.B. Shinde (October 2003) received for direct allotment of a plot, the Company allotted (May 2004) a plot measuring 1,419.12 square metre to him for setting up a Petrol Pump/Fuel Station with commercial complex, at Rs.12,000 per square metre which is Rs.500 more than the 400 *per cent* of the base price of the node of Rs.2,875 per square metre, valid up to 31 March 2004.

It was noticed in audit that the applicant was not eligible as he was not a licensee or distributor of any Oil Company. The reason for allotment to an ineligible party was not on record. The plot allotted was situated on Palm Beach Marg and had the advantage of being a prime location. Though the base price of the area was Rs.18,328[@] per square metre due to revision of reserve price from 1 April 2004, the plot was allotted to the party at the rate of Rs.12,000 per square metre. The loss of revenue to the Company was Rs.89.80 lakh. The allotted plot was subleased for 30 years by the party in October 2004 itself to BPCL by paying necessary transfer charges to the Company.

The management in its reply (May 2006), which was also endorsed by the Government (May 2006), stated that the sale of plots by considering individual applications was one of the methods approved by the Company. The reply is silent as to why the plot was allotted to an ineligible party at less than the current reserve price. It also did not state why no allotment was made to BPCL.

Allotment of school plot to an ineligible party

4.1.7 Reliance Industries Limited (RIL) requested (December 2001) for a plot of land for setting up of a School and play ground under a package deal[§]. The Company allotted (March 2002) a plot for school measuring 3,842.43 square metre and allotted (March 2004) another plot for playground measuring approximately 5,000 square metre in Sector-14 of Koperkhairane to the RIL. The Company received a lease premium of Rs.20.07 lakh.

As per the Company's policy, the land reserved for Schools was to be allotted at a concessional rate (10 *per cent* of reserve price) subject to fulfilment of the following eligibility conditions.

- The party should have a minimum of 10 years experience in running a School.
- Secondary School Certificate examination results in the past three years should be 85 *per cent* or above.

Audit scrutiny revealed that when the allotment was made to RIL there were six applications pending with the Company from other eligible educational institutions for allotment of land. The plots valuing Rs.2.01 crore were, however, allotted at 10 *per cent* of the reserve price to RIL, which did not satisfy the eligibility criteria. This resulted in passing of undue benefit of Rs.1.81 crore to an ineligible party.

The management in its reply (July 2006), which was also endorsed by the Government (September 2006), stated that the allotment was made to RIL under package deal and in exceptional cases the Board considers allotments by

[@]Base price from 1 April 2004 was Rs.3,100 per square metre *plus* 45 *per cent* of base price = Rs.4,522. 400 *per cent* of revised base price = Rs.18,328.

[§]This deal included sale of 162 Apartments in NRI complex, a plot for construction of 552 Apartments at Beverly Park in Koperkhairane and a plot for public school.

relaxing/exempting some of the eligibility criteria taking into consideration merits of the applicant institution.

The reply of the management is not tenable as no reason for relaxation in eligibility criteria was on record at the time of allotment and hence it was not a considered decision of the Board. The party did not fulfil the basic eligibility criteria. The reply is silent as to why the six eligible institutions were ignored and an ineligible party considered.

Short recovery of premium from a cooperative housing society

4.1.8 The Board of Directors of the Company fixes on annual basis, the reserve price for the various land nodes. The approved reserve prices are valid up to the end of the relevant financial year.

A proposal for revision of rates for the year 2004-05 was moved by the management in April 2004 (15 April 2004). The Board approved the revised rates for the year 2004-05 on 10 May 2004 to be made effective from 1 April 2004.

It was noticed in audit that an application of Vanashree Co-operative Housing Society (Society) dated 22 April 2004 was received by the Company on 9 June 2004 for change of use from residential to residential cum commercial and increase in FSI from one to 1.5 for two plots measuring 10,802.45 square metre which had been allotted to them in May 1993. Due to change of use and increase in FSI, the increased in area was 5,401.225 square metre and the premium payable by the party worked out to Rs.7.68* crore. The Company, however, approved the change in use/increased FSI at the previous year's rates, instead of the increased applicable rates and collected only Rs.3.49* crore, resulting in short recovery of Rs.4.19 crore from the Society.

The management in its reply (April 2006), which was also endorsed by the Government (May 2006), stated that the additional premium had been charged as per the policy of the Company and the revised lease premium came in to effect from 11 May 2004.

The reply is factually incorrect as the revised rates were applicable from 1 April 2004. Moreover the application from the society was received by the Company in June 2004 *i.e.* after the date of revision of rates and hence the additional premium for change in use/increased FSI was recoverable at the revised rates.

* Worked out at 450 *per cent* of Rs.3,160 per square metre = Rs.14,420 on the increased area of 5,401.225 square metres.

*450 *per cent* of Rs.2,875 per square metre divided by two on the area of 5,401.225 square metres.

Maharashtra State Electricity Distribution Company Limited

4.2 Purchase of wind energy

Extra payment of Rs.61.22 crore was made to private parties in procurement of wind energy.

Maharashtra State Electricity Board/Maharashtra State Electricity Distribution Company Limited (Company)^s purchases wind energy from private producers. The tariff fixed by the Maharashtra Electricity Regulatory Commission (MERC) in November 2003 for purchase of wind energy, classified wind projects into different categories based on the year of commissioning of the projects. Audit scrutiny of purchase cases of wind energy revealed that the tariff fixed by the MERC, for payment to private producers was on the higher side as discussed in the following cases.

Projects commissioned between 1999-2000 and 2002-03

4.2.1 The tariff fixed by MERC for purchase of wind energy was as follows:

Year	1	2	3	4	5	6	7	8
Purchase rate (Rupees per unit)	2.91	3.02	3.13	3.24	3.35	3.46	3.57	3.68

The following factors were taken into account in the fixation of tariff payable:

- Cost of the project at rupees five crore per Megawatt (MW).
- Debt equity *ratio* of 70:30.
- Interest on loan at the rate of 14 *per cent*.
- Return on equity at 16 *per cent*.

Taking the same factors into consideration the tariff as computed by Audit (Details are in **Annexure-8**) in respect of projects commissioned in 2000-01 was as follows:

Year	1	2	3	8 18	19	20
Purchase rate computed by Audit (Rupees per unit)	2.87	2.87	2.87	2.87	2.87	2.87

^sAfter splitting in June 2005 of Maharashtra State Electricity Board, the procurement function is handled by Maharashtra State Electricity Distribution Company Limited.

The computation done by Audit is based on a life period of 20 years with salvage value of five *per cent* as against salvage value of 33.86 *per cent* at the end of eight or 13 years adopted in fixing of tariff payable by the Company.

Since the life period is 20 years the methodology adopted for fixing of tariff was incorrect. As a result the tariff fixed is high. For the first eight years of purchase, the extra payment made by the Company worked out to Rs.3.40 for every eight units purchased (one unit each year) for a project commissioned in 2000-01. The total number of units purchased in Satara and Dhule circle up to March 2006 was 510.17 Million Units (MUs). The extra expenditure thus incurred by the Company was Rs.21.68 crore during the period 1999-2006.

Projects commissioned in 2003-04 onwards

4.2.2 In the fixation of tariff payable by the Company the cost of project was taken as rupees four crore per MW and an interest rate of 12.5 *per cent* on the loan.

The purchase rates fixed were as follows:

Year	1	2	3	4	5	6	7	8	9	10	11	12	13
Purchase rate (Rupees per unit)	3.50	3.65	3.80	3.95	4.10	4.25	4.40	4.55	4.70	4.85	5.00	5.15	5.30

Taking the same factors into consideration the tariff as computed by Audit (Details are in **Annexure-9**) in respect of a project commissioned after 2002-03 was as follows:

Year	1	2	3 12	13	19	20
Purchase rate computed by Audit (Rupees per unit)	3.52	3.52	3.52	3.52	3.52	3.52

The computation done by Audit is based on a life period of 20 years with salvage value of five *per cent* as against 33.86 *per cent* salvage value at the end of 13 years adopted in fixation of tariff payable by the Company. As the actual life period is 20 years the incorrect methodology has resulted in higher tariff. For the first 13 years of purchase, the extra cost worked out to Rs.11.44 for every 13 units purchased (one unit each year). The total number of units purchased in Satara and Dhule circle up to March 2006 was 92.29 MUs. The extra expenditure thus incurred was Rs.8.12 crore.

4.2.3 Parameters adopted/ignored in fixation of tariff

Sl. No.	Parameters	Methodology adopted in fixation of tariff payable by the company	Audit Remarks
1	Capacity Utilisation Factor (CUF)*- projects commissioned between 1999-2000 and 2002-03.	A CUF of 18 <i>per cent</i> was adopted by taking the average of CUF for 1999-2000 (15.96 <i>per cent</i>), 2000-01 (13.09 <i>per cent</i>), 2001-02 (23.33 <i>per cent</i>) and 2002-03 (21.04 <i>per cent</i>).	As the number of units generated each year was different, the weighted average should have been adopted. This would have given a CUF of 21 <i>per cent</i> . The incorrect methodology adopted resulted in fixation of the purchase price higher by 16 <i>per cent</i> . The total payment made to the projects commissioned between 1999-2000 and 2002-03 in Satara circle up to March 2006 was Rs.163.89 crore. The excess expenditure worked out to Rs.22.61 crore.
2	Return on equity (ROE) - projects commissioned between 1999-2000 and 2002-03 and projects commissioned after 2003-04 onwards.	16 <i>per cent</i> considered in the cash flow.	The ROE of 16 <i>per cent</i> was fixed when interest rate was 20 <i>per cent</i> . While interest rate has come down to 14 <i>per cent</i> /12.5 <i>per cent</i> there has been no corresponding decrease in ROE resulting in higher benefit to the producers.
3	Refund of advance towards power evacuation*, by the Company to wind energy producers of projects commissioned after 2003-04 onwards.	Excluded from the cash flow for fixation of tariff.	The expenditure on evacuation facilities has already been included in the capital cost. Once a refund is obtained the same should be factored in the cash flow used for fixing tariff. Failure to do so resulted in higher tariff charges to the extent of the advance refunded.
4	Cash subsidy by Government of Maharashtra for projects commissioned between 1999-2000 and 2002-03 and projects commissioned after 2003-04 onwards.	Excluded from cash flow.	Should have been included. Failure to do so resulted in higher tariff charge to the extent of cash subsidy.

Other deficiencies relating to purchase of energy from private producers are as under:

Varying base year tariff (projects commissioned between 1999-2000 and 2002-03)

4.2.4 The tariff in the base year should have been the same irrespective of the year of commissioning in respect of the same group of projects. It was, however, noticed that for a project commissioned in 2000-01 the tariff was higher than that for 1999-2000 by Rs.0.88 for every eight units purchased. The

* CUF is the percentage of actual generation *vis-a-vis* capacity to generate.

♦ Advance payment made by the wind energy producers to the Company towards evacuation facilities.

total number of units purchased up to March 2006 in respect of projects commissioned from 2000-01 onwards was 471.22 MUs. The extra expenditure thus incurred was Rs.5.18 crore.

Extra expenditure in purchase of wind energy

4.2.5 It was seen that the wind energy producers who had set up plants for captive power generation/sale to third parties were allowed to supply power to the Company. The Company purchased, during 2005-06, 121.95 lakh units at the rate of Rs.3.46 per unit from 65 parties in Satara circle who had commissioned their projects in 1999-2000 and 2002-03. As per the tariff fixed, the selling rate of energy during the year was Rs.2.10/2.15 per unit. Thus, the Company incurred extra expenditure of Rs.1.60 crore in purchase of wind energy (Rs.3.46 – Rs.2.15 per unit x 121.95 lakh units). This constituted undue favour to the wind energy producers as it was advantageous for them to sell the energy generated at Rs.3.46 per unit to the Company and purchase energy required for their own consumption as well as for sale to third parties at a lower tariff rate of Rs.2.15 per unit from the Company. The Company should have restricted its purchase of energy for requirement of its own consumers.

Under billing to parties under third party sale arrangement

4.2.6 As per the tariff order for the year 2003-04, in case of wind energy projects not provided with Time of the Day (TOD) meters, the energy wheeled for sale to third party or self-use by the wind energy producers, is required to be adjusted against the lowest energy tariff slab/time slot. Scrutiny in audit revealed that instead of adjusting the energy self consumed/wheeled against lowest tariff, it was adjusted at the higher tariff slot resulting in under billing to the extent of Rs.65.17 lakh in respect of three consumers in Aurangabad Rural circle, during the period June 2002 to June 2005.

The management stated (July 2006) that the rates would be revised as per the wind policy within a short period.

Meter reading

4.2.7 The Company paid for the wind power purchased based on the meter reading taken at the wind generators end instead of at the sub-station end resulting in extra payment of Rs.1.38 crore to the wind producers during 2004-05 and 2005-06 in Satara circle.

The management in its reply (July 2006), which was endorsed by the Government (November 2006), stated that the tariff had been fixed by the MERC. The reply is not tenable as the Company can appeal against decisions that are detrimental to its financial interests. Infact, it was noticed that, after obtaining Government approval in this case, the decision of MERC was challenged by the erstwhile, Maharashtra State Electricity Board in the Mumbai High Court (November 2004), but the case was subsequently withdrawn without recording any reasons for withdrawal. The Government has also not furnished reasons for withdrawing the Court case (December 2006).

4.3 Procurement of transformers

The Company irregularly procured transformers worth Rs.23.09 crore from a single bidder with specifications other than the tender specification.

The Company called (November 2004) tenders for procurement of 25 KVA and 15 KVA transformers with CRGO core. The lowest rate received was Rs.30,065.75 for 25 KVA and Rs.22,900.94 for 15 KVA transformer. Apart from placement of order for supply of 25 KVA and 15 KVA transformers with CRGO core, the Company also placed an order on a single party (Vijai Electrical) for supply of 4,685 transformers of 25 KVA with amorphous metal core at the rate of Rs.36,172.45 and 2,300 transformers with amorphous metal core of 15 KVA at the rate of Rs.26,690.28. Thus, transformers worth Rs.23.09 crore were procured with amorphous metal core which was not in accordance with the tender specifications. This had the effect of purchasing transformers worth Rs.23.09 crore without obtaining competitive rates.

The management stated (June 2006) that amorphous metal core transformers were advantageous in the long run because of lower load loss as compared to the CRGO transformers. The reply is silent regarding not calling tenders for obtaining competitive rates for transformers with amorphous metal core. The purchase of 4,685 transformers of 25 KVA and 2,300 transformers of 15 KVA from a single purchaser, by not following competitive purchase procedures, was irregular.

The matter was reported to the Government (March 2006); reply had not been received (December 2006).

4.4 Utilisation of defective meters

The Company did not return defective meters worth Rs.14.01 crore.

The Company procured (September 2003-March 2005) single phase/three phase electronic meters from 13* suppliers. Without waiting for the test reports relating to the quality of the meters, the Board issued 2,44,021 meters worth Rs.14.01 crore to its field offices for installation.

Subsequently, the tests carried out during June 2003 to December 2004 at Electronics Regional Test Laboratory, Mumbai revealed that the meters were defective. Since the samples had failed in tests with reference to the specified requirements, the entire lot should have been rejected by the Company.

Instead of rejecting and returning the defective meters the Company obtained a 10 per cent rebate over the cost of meters.

* Havells India Private Limited, Modern Instruments Private Limited, TTL Limited, Accurate Meters Private Limited, Genus Overseas Electronics Limited, Avon Meters Private Limited, Espirit Switchgear Limited, R.C. Energy Metering, Avenir Power Technologies Private Limited, EMCO Limited, EMCO Limited, Larson & Toubro Limited and EMCO Limited.

It was further noticed that the Company issued 8,720 meters (Rs.0.75 crore) for consumption even after receipt of adverse test reports instead of returning the defective meters and obtaining free of cost replacement of these meters as per the terms of the contract.

The management stated (July 2006) that as per the tender condition the meters already issued for installation were not eligible for replacement and only 10 *per cent* rebate was available there on. The reply is not tenable as the Company had issued meters to the field offices without test reports despite it being aware of the tender conditions and impact of defective meters on revenue generation. The reply is silent on the reasons for issuing meters without obtaining test reports and even after receipt of the adverse test report.

The matter was reported to the Government (March 2006); reply had not been received (December 2006).

4.5 *Default in payment by HT consumer*

Failure to take criminal action under the Negotiable Instruments Act, 1948 for bounced cheques resulted in accumulation of arrears of Rs.2.62 crore.

Karan Alloy Steel Private Limited (Consumer) was a High Tension (HT) consumer of the erstwhile Maharashtra State Electricity Board* (Board). The amount due from the consumer as on April 2001 was Rs.81.16 lakh. The cheques worth Rs.1.85 crore submitted by the consumer during April 2001-March 2003 were dishonoured on 16 occasions. The supply was disconnected temporarily in March 2003 and permanently in December 2003.

The management did not take action under Section 138 of the Negotiable Instruments Act, 1948 and continued to accept payment by cheques despite repeated “bouncing”. Thus, due to laxity on the part of the Board, arrears increased to Rs.2.62 crore (energy charges Rs.2.10 crore and interest/delayed payment charges Rs.0.52 crore) by May 2006.

The matter was reported to the Government/management (March 2006); reply had not been received (December 2006).

4.6 *Loss due to inadequate security deposit and one time settlement of arrears scheme*

The Company suffered loss of Rs.1.74 crore due to failure to obtain adequate security deposit and giving one time settlement of arrears due.

Girija Steel Private Limited was an HT consumer of the Board. The amount due from the consumer as of November 2002 was Rs.1.28 crore. The monthly

*After splitting of Maharashtra State Electricity Board, the distribution function is handled by Maharashtra State Electricity Distribution Company.

average bill of the consumer was Rs.58.11 lakh. The security deposit (SD) available was Rs.37.09 lakh only. The conditions and miscellaneous charges for supply of electrical energy provides that SD equal to three months' average energy bill should be collected at the time of release of connection. The SD should be subsequently increased if there is increase in monthly energy charges. The SD available with the Board was thus inadequate. Supply should have been continued only after ensuring the arrears were paid and shortfall in SD was made good. Only at a belated stage the Board temporarily disconnected the supply on 28 March 2003 by which time the arrears had increased to Rs.1.66 crore. It was noticed in audit that the supply was restored in July 2003 by accepting part payment of Rs.57.64 lakh against the dues of Rs.1.66 crore. The supply was again disconnected in October 2003 when the arrears accumulated to Rs.2.53 crore. The supply was permanently disconnected in September 2004 when the arrears had increased to Rs.2.95 crore by 31 May 2005. The Company reconnected the consumer in May 2006 by accepting Rs.1.21 crore as one time settlement (OTS) of dues.

The management stated (July 2006) that the package for payment of bill was granted in April 2003, and as per the decision of Nagpur Bench of Mumbai High Court, reconnection was made on 23rd April 2003. The second package was offered on the basis of Supreme Court order dated 30 June 2003. Due to OTS the supply was reconnected (May 2006) on payment of Rs.1.21 crore. The reply is silent regarding non obtaining of adequate security deposit up to March 2003. Had the Company obtained the SD as per the rules, the arrears could have been adjusted against this at the initial stage itself. Further, despite reliefs given by the Court the consumer repeatedly defaulted in payment of arrears. The OTS for Rs.1.21 crore as against the due of Rs.2.95 crore resulted in loss of Rs.1.74 crore to the Board.

The matter was reported to the Government (March 2006); reply had not been received (December 2006).

Maharashtra Film, Stage and Cultural Development Corporation Limited

4.7 Loss of Revenue due to delay

Delay in repairing a studio damaged in a fire at Film City resulted in loss of revenue of rupees five crore.

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) gave studio No.16 on hire to Applause Bhansali Films Private Limited (party) for the period from 22 December 2003 to 29 February 2004 (70 days).

It was noticed during audit that the studio was damaged in a fire on 18 February 2004 due to Liquefied Petroleum Gas cylinders unauthorisedly brought by the party. The Company suffered loss of Rs.2.49 crore on account

of damage to the premises and equipment. The party should have been asked to undertake repairs immediately and restore the studio to its original condition. This was not done. The Company belatedly filed a civil suit for recovery of loss on 14 August 2005 after delay of almost a year.

It was also noticed during audit that although the Company was aware of the high revenue earning potential of the studio, it took no action for repairs for 22 months (February 2004-November 2005). In November 2005 it finally awarded the contract at a cost of Rs.2.50 crore for the repair of the studio. The loss of revenue at the rate of Rs.20 lakh per month for the period March 2004 to March 2006 worked out to rupees five crore (repairing works were incomplete till March 2006).

The management in its reply (May 2006), which was endorsed by the Government (June 2006), stated that the delay in repair of the studio was due to weak financial position of the Company. The reply is not tenable, as even if the Company had borrowed funds for immediate repairs it could have benefited financially because as per their own estimates the studio had an earning potential of Rs.20 lakh per month for the Company. Besides, the Company's insurance claim was under process and a payment of Rs.91 lakh was received in May 2005. Hence funds were not a constraint.

4.8 Loss due to defective agreement

Defective revenue sharing agreement resulted in loss of revenue of Rs.1.15 crore.

The Company awarded a contract (January 2002) to Trimitik (firm) to run two studios on revenue sharing basis.

The revenue sharing arrangement between the firm and the Company was as follows:

Terms of revenue sharing		
Year	Firm (per cent)	Company (per cent)
First	70	30
Second	65	35
Third	60	40
Fourth	50	50
Fifth	40	60

Audit scrutiny revealed that the Company was already earning revenue from the studios. As the purpose of engaging an outside party was to improve the revenue, the existing revenues should have been protected. The revenue sharing arrangement should, therefore, have been restricted to the sharing of incremental revenue. The actual arrangement violated this basic principle.

It was also noticed during audit that the contract was awarded to the firm without inviting tenders. There was, therefore, not only lack of transparency, but the Company lost the benefit of getting better competitive offers. Consequently, during February 2002 to November 2004 the revenue received by the Company as its share was Rs.31.09 lakh. Prior to the revenue sharing arrangements, the Company's revenue earning was higher. The revenue earned for 12 month period prior to the revenue sharing arrangement was Rs.55 lakh. As compared to the revenue already being earned by the Company prior to this arrangement there was lower revenue realisation of Rs.1.15 crore.

The Company terminated the contract in November 2004, but did not take any action against the officials responsible for the defective revenue sharing arrangement.

In its reply (June 2006), which was endorsed by the Government (August 2006), the management stated that considering the firm's reputation and resourcefulness and expecting boost in the Company's business the management had decided to enter into the agreement. The reply is not tenable, as the arrangement did not even protect the existing revenue.

Maharashtra State Road Development Corporation Limited

4.9 Bandra-Worli sea link project

The Company made inadmissible payment of Rs.7.49 crore to a contractor in violation of the contractual provisions.

Maharashtra State Road Development Corporation Limited (Company) made payment of Rs.7.49 crore in June 2005 towards claims relating to obtaining geo-technical information (Rs.5.46 crore) and casting yard development charges (Rs.2.03 crore) of package-IV of Bandra-Worli sea link project to Hindustan Construction Company Limited.

As per clause 8.3.2 of the contract conditions, it was for the contractor to satisfy itself regarding all aspects of site conditions and to collect all information necessary for the construction and completion of the works and no claim was admissible on account of any error or insufficiency in the site information given in the tender documents.

Further, as per clause 42.4 of the contract conditions, land development, if any, was to be carried out by the contractor at his cost.

Despite these clear contract conditions the Company accepted claims which were inadmissible as per the contract condition and paid Rs.7.49 crore.

The management stated (May 2006) that the claims were accepted based on the recommendations of the Technical Advisory Committee of the Company. It was further stated that according to the contractor he was entitled for compensation of expenses regarding geo technical exploration primarily on

account of non inclusion of this item in the bill of quantities of this item rate contract as well as the wordings of the contract and items within the scope of specifications for the item of pile foundations. Regarding the claim of strengthening of casting yard the management stated that the contractor contended that due to non availability of the jetty in time the contractor had to per force locate his casting yard near the BMC jetty and hence had to incur expenditure on land development. The reply is not tenable as both the claims were in violation of the contract conditions, resulting in inadmissible payments to the contractor.

The matter was reported to the Government (April 2006); reply had not been received (December 2006).

4.10 Toll collection contracts

Loss of Rs.5.39 crore due to delay in award of toll collection contract.

The Company after call of bids, awarded a toll collection contract for a period of 12 weeks ended 24 February 2003 in respect of Thane-Ghodbunder Road, for a total value of Rs.1.40 crore. The Company called fresh bids (April 2003) and issued work order at a belated stage giving the exiting toll collection contract an extension for a further period of 52 weeks from 25 February 2003 to 29 February 2004.

As traffic volume increases with the efflux of time, any delay in finalisation of tenders and extension of contract results in favour to the existing contractor and loss of revenue to the Company and it is therefore vital in the financial interest of a Company to call for and finalise tenders well before the expiry of the existing contract. Delay in finalisation of the new contract in this case and giving extension of 52 weeks to the existing contractor resulted in collection of tariff at the rate Rs.11.66 lakh per week instead of Rs.19.44[∅] lakh per week. Thus, the Company suffered a loss of Rs.3.63 crore during February 2003-04.

For the award of toll collection contract for the subsequent period, tenders were invited on 20 January 2005 and the work order was issued after a period of 92 days with effect from 2 July 2005. This delay resulted in loss of revenue of Rs.1.76 crore during March-July 2005.

Thus, total loss of revenue due to delay in toll collection contracts was Rs.5.39 crore.

The management stated (July 2006) that there were some problems with the location of the toll plaza. The reply is not convincing as the toll was already being collected at the existing location.

The matter was reported to the Government (March 2006); reply had not been received (December 2006).

[∅]As per the rate received in the tender invited in April 2003 which was finalised in February 2004.

4.11 *Contract for Toll Collection at Sawangi, Aurangabad*

Faulty contract management led to non recovery of Rs.55.05 lakh from a contractor.

The Company awarded a contract for a period of one year ended September 2001 for toll collection, at Sawangi on Aurangabad-Jalgaon road, to Balaji Enterprises, (contractor) for Rs.1.65 crore.

The contractor was required to pay to the Company Rs.3.22 lakh per week as toll collection. The contractor did not pay the installments regularly resulting in accumulation of arrears of Rs.16.70 lakh as on April 2001. As per the terms of the contract, in case of default in payment of installments the Company was empowered to terminate the contract. The contractor's security deposit was to be adjusted towards dues recoverable. The Company did not take action to terminate the contract or adjust the available security deposit (Rs.8.25 lakh). The contractor was allowed to accumulate dues to the extent of Rs.23.87 lakh (September 2001) to the detriment of the Company's financial interest. The outstanding dues as at the end of April 2006 were Rs.55.05 lakh (Principle:Rs.23.87 lakh and Interest : Rs.31.18 lakh).

The management in its reply (July 2006), which was endorsed by the Government (December 2006), stated that the contractor had intimated that he was facing difficulties in revenue collection and hence the payment to the Company was irregular. It further stated (July 2006) that a suit had been filed against the contractor for recovery of the outstanding amount of Rs.43.59 lakh alongwith interest of Rs.19.71 lakh at the rate of 24 *per cent* till full realisation of the entire outstanding amount.

The reply is not tenable. Failure of the Company to collect adequate security deposit from the contractor as also not taking action for termination of the contract resulted in non-realisation of outstanding dues to the extent of Rs.55.05 lakh (April 2006).

4.12 *Delay in sale of machinery*

Loss of Rs.3.12 crore due to delay in disposal of machinery.

The Company had purchased (1998) tunnel machinery for Pune-Expressway for Rs.11.62 crore. The book value of the machinery as on July 2001 was Rs.8.68 crore. Tenders were invited (July 2001) for sale of this machinery. No upset price was fixed before opening of the tenders. The highest offer received (November 2001) was Rs.3.65 crore. The Company rejected (July 2002) the same stating that the offer was very low compared to the book value of the machinery. Tenders were re-invited in November 2002 but the Company again did not accept the highest offer of Rs.1.09 crore within the validity period. The party refused to extend the validity of the offer. Tenders were invited for the third time in February 2004 when the highest offer obtained was Rs.68.77 lakh. There was delay in acting on this offer also. As a result the validity period of the offer expired. Subsequently, on the basis of tenders

invited in December 2004, the machinery was sold for Rs.52.52 lakh. Thus, due to delay of three years, the Company suffered loss of Rs.3.12 crore (Rs.3.65–Rs.0.53 crore) compared to the first offer received.

Fixing of upset price was essential because the value of used machinery decreases with the efflux of time and any rebid is beset with the risk that the new offers may be lower than the offers already received.

The management stated (June 2006) that the first tender was not accepted in expectation of better realisation as depreciated value of the machinery was Rs.8.68 crore. The second re-invited offer was even lower than the first offer and the Company did not finalise the same within the validity period. The third re-invited offer which was further lower was not finalised on the ground of model code of conduct of elections. The reply is silent as to why the upset price was not fixed before calling the bids and how the Company expected a better price by delaying the auction. Thus, the delay in disposal of the machinery ultimately resulted in loss of Rs.3.12 crore to the Company.

The matter was reported to the Government (March 2006); reply had not been received (December 2006).

4.13 Non utilisation of bridge across Kanhan river for over three years

Delay in construction of approach road resulted in non utilisation of the bridge for over three years.

The Company took up construction of a bridge across Kanhan river along with approach road on Khaparkheda Parseoni Road, Nagpur on Build, Operate and Transfer basis. The cost incurred on the project by the Company was to be recovered through toll collection. The construction of the main bridge was completed in December 2001 at a total cost of Rs.6.71 crore (Public Works Department (PWD): Rs.2.13 crore MSRDC: 4.58 crore). The work relating to approach road to the main bridge was not synchronised with the completion of the main bridge. The work of approach roads to the main bridge valued at Rs.2.33 crore was taken up only in September 2002 and completed in March 2005 at a cost of rupees two crore. The delay in commencement and completion of the approach road resulted in non utilisation of the main bridge for a period of more than three years. The interest on the unutilised asset worked out to Rs.2.08 crore[§].

The management stated (June 2006) that it was only a financier and PWD had initiated the work and had the prime responsibility for construction of the bridge, approach road *etc.* The reply is not tenable. The Company should have ensured synchronisation of construction of approach road with the construction of bridge, as it was the main client. Failure to do so resulted in assets worth Rs.6.71 crore remaining unutilised for more than three years.

The matter was reported to the Government (April 2006); reply had not been received (December 2006).

[§]At the rate of 10 *per cent* per annum for the period January 2002 to March 2006 (51 months).

Shivshahi Punarvasan Prakalp Limited

4.14 Non utilisation of buildings constructed for slum dwellers

Due to improper project execution, buildings constructed at a cost of Rs.11.23 crore remained unutilised since September 2001.

Shivshahi Punarvasan Prakalp Limited, Mumbai (Company) constructed (September 2001) four buildings at Dharavi at a cost of Rs.11.23 crore under Slum Rehabilitation Scheme. Under the scheme the tenements constructed were required to be handed over to the slum dwellers.

The tenements had not been handed over (March 2006) to the eventual users even after a lapse of four and half years due to non-availability of approach road. The interest at the rate of 10 *per cent* per annum* on the unused assets of Rs.11.23 crore for 54 months (October 2001 to March 2006) worked out to Rs.5.05 crore. Further, the objective of rehabilitation of slum dwellers had also not been achieved.

The management in its reply (May 2006), which was endorsed by the Government (August 2006), stated that the approach road could not be taken up due to obstruction by the slum huts existing there. The reply is not tenable, as after construction of the tenements the actual users should have been given the possession, through the existing approach road which was used for construction. The Company further spent Rs.23.84 lakh on watch and ward of the premises. Thus, the objective of rehabilitation/housing of slum dwellers was not achieved despite huge expenditure.

Maharashtra Tourism Development Corporation Limited

4.15 Operation of Deccan Odyssey

The Company incurred loss of Rs.66.99 lakh during 2004-05 in operating Deccan Odyssey.

Maharashtra Tourism Development Corporation Limited (Company) operates a tourist train 'Deccan Odyssey' for tourists visiting the State. The train started functioning from October 2004.

Audit scrutiny of the operation of Deccan Odyssey Train for 2004-05 revealed the following:

- The operating loss for the above period was Rs.66.99 lakh. One major component of expenditure was commission to the booking agents amounting to Rs.38.83 lakh. For a journey ticket for seven days of tour,

* Based on the interest rate on capital.

the commission given at the rate of 17 *per cent* of the ticket value worked out to Rs.18,000 per ticket^o. The Company in its reply stated (July 2006) that the “Palace on wheels”^ψ is following a similar practice and the consultant had factored in the commission in fixing the ticket price. The reply is not tenable. The Company is having its own web site and modern day technology offers an effective way of reducing transaction costs by internet booking, which is also very popular amongst foreign tourists and targeted domestic population. The saving achieved could have been used to reduce the cost of the ticket making it cheaper than that of “Palace on wheels”^ψ for increased demand. The commission paid to the booking agents was not commensurate with the volume of work involved.

- During the operating period 2004-05, 57 persons were permitted to travel without having to pay for the tickets. The value of free tickets worked out to Rs.62.84 lakh[∞]. In reply the management stated (July 2006) that these persons had contributed articles on Deccan Odyssey in their respective magazines and that Company had saved considerable expenditure on advertisement and publicity. The reply is not tenable as audit scrutiny revealed that a large number of persons (36) were not journalists and were mostly Government officials.
- The Company had spent Rs.15.63 lakh on hiring of buses in connection with the operation of Deccan Odyssey. The hiring of the buses was not done through competitive bidding on long term basis. Thus, competitive price for hiring of the buses was not ensured.

The management stated (July 2006) that tendering would be done for transport services.

The matter was reported to the Government (May 2006); reply had not been received (December 2006).

Statutory corporations

Maharashtra State Road Transport Corporation

4.16 *Payment of Motor Vehicle Tax*

The Corporation remitted excess Motor vehicle tax of Rs.283.63 crore to the Government than that collected from the passengers.

The Bombay Motor Vehicle (Taxation) Act, 1958 prescribes that motor vehicle tax at the rate of 17.50 *per cent* of net revenue from the fare should be

^o Dollar 350 per day x seven days x Rs.45 per dollar x 17 *per cent*.

^ψ This is a tourist train run by Rajasthan State Tourism Development Corporation.

[∞] 57 persons x dollar 350 x Rs.45 per dollar x seven days.

levied and collected for out of city vehicle/passengers and at the rate of 3.50 *per cent* on the net revenue from passengers within the city. The Maharashtra State Road Transport Corporation (Corporation) collects motor vehicle tax from the passengers on behalf of the State Government and is required to remit the tax so collected to the Government.

It was seen during audit that while remitting the tax to the Government the Corporation considered gross revenue (fare *plus* tax) and made the payment at the stipulated rates. This had resulted in payment of tax on the tax collected[#], resulting in excess remittances of tax than what was collected from the passengers. The amount of excess tax remitted to the Government for the period April 2001 to December 2005 was Rs.282.37 crore in mofussil area and Rs.1.26 crore in city area, respectively. Thus, total excess tax remitted to the Government was Rs.283.63 crore.

The management stated (June 2006) that the computation of tax is being done as per the Government directives. It agreed with the audit observation with regard to the anomaly and stated that the matter was being referred to the Government.

The Government stated (August 2006) that the audit point was being examined in consultation with the Finance Department.

Maharashtra Industrial Development Corporation

4.17 Construction of software technology park building

Delayed construction of software technology park building at Talawade resulted in payment of escalation of Rs.65.13 lakh.

Maharashtra Industrial Development Corporation (Corporation) entrusted (May 2000) the work of construction of software technology park building at Talawade Phase-I to Kulkarni & Company, (Contractor) at a cost of Rs.6.75 crore. The work was stipulated to be completed in August 2001 but the contractor failed to do so. The terms of the agreement provided for levy of liquidated damages at the rate of Rs.5000 per day or more up to one *per cent* of the estimated value of work. Instead of levying liquidated damages of Rs.7.18 lakh for the delay in execution of work beyond the stipulated date, the contractor was given extension up to March 2003. The project was finally completed on 30 March 2003 after a delay of 19 months. The contractor was given a benefit of Rs.65.13 lakh by way of escalation on prices beyond the stipulated date of completion of August 2001.

The management stated (May 2006) that the first extension was given due to death of the contractor, ban on lifting sand and construction of club house. The

[#] For example on a fare of Rs.100, motor vehicle tax would be Rs.17.50 which was required to be remitted to the Government. Instead the Corporation worked out 17.50 *per cent* on Rs.117.50 and thereby remitted Rs.20.56.

second extension was due to the rainy season *etc.* The reply of the management is not tenable as out of the total delay of 19 months, except for the period of three months' delay in handing over the design, the entire delay was attributable to the contractor. The price variation should have been restricted to the original scheduled date of completion extended by three months of the delay attributable to the Corporation.

The matter was reported to the Government (April 2006); reply had not been received (December 2006).

General

4.18 Public Sector Undertakings incurring losses-reasons for such losses

Six Public Sector Undertakings were continuously incurring losses due to low production, high overheads, competition with private operators, disbursement of loans to unviable projects and without adequate security. The accumulated losses as per the latest finalised accounts of these PSUs stood at Rs.1,822.03 crore.

As on 31 March 2005, the State had 82 public sector undertakings (PSUs) comprising 77 Government companies and five Statutory corporations of which 56 Government companies and five Statutory corporations were working PSUs. Of the 36 loss incurring working PSUs, six PSUs (*i.e.* four[#] companies and two* corporations) accounted for accumulated losses of Rs.1,822.03 crore. The details of their paid up capital, accumulated losses, *etc.*, are given in **Annexure-10**.

As per their latest accounts finalised, these six PSUs were incurring losses continuously for the last five years. Reasons for losses incurred by these seven PSUs are discussed in the succeeding paragraphs:

Godavari Garments Limited

4.18.1 The Company is in the textile sector and producing garments, the main product being school uniforms.

The operating expenditure exceeded the operating income by 83 *per cent*. The expenditure on wages and salaries alone was 42 *per cent* of the total operating expenditure. As per the latest accounts finalised for the year 1999-2000 the

[#] One from 'textile sector', two from 'agriculture sector' and one from 'area development sector'.

* One from 'transport sector' and one from 'financial sector'.

accumulated losses of the Company were Rs.3.63 crore which represented 15 times the paid up capital (Rs.24 lakh).

Procurement of garments (school uniforms) by Government departments and Zillah parishads from private parties led to the low level of activity and has been the main reason for overhead costs not being recovered.

The management stated (August 2006) that the Government support was completely withdrawn from 1993-94. Further, as the Company's policy was to make job opportunities available to weaker sections of society, women, *etc.* who would work from their residences the Company did not have any direct control and supervision over the work. Hence production of quality garments was not possible to compete with private parties. The reply is not acceptable. The management should have taken steps for obtaining Government support for sale of uniforms so as to control the cost by increasing the turnover. Further, the Company should have devised some mechanism for ensuring quality of production by the women as is being done by several women cooperatives.

MAFCO Limited

4.18.2 The Company has been in the business of milk, dairy products, frozen peas, sale of mango pulps *etc.* (May 2006).

The operating expenditure of the Company was 10 *per cent* more than its operating income. As per the latest accounts finalised for the year 2004-05, the accumulated losses of the Company were Rs.7.43 crore *i.e.* 147 *per cent* of the total paid up capital (Rs.5.04 crore).

The turnover of the Company, which was Rs.36.69 crore in 2000-01 decreased to Rs.12.15 crore in 2004-05.

The Company has to compete with private parties for the sale of its products. The procurement and operational costs have to be lowered in order to enable it to have a margin sufficient to recoup the overhead costs.

The management stated (August 2006) that the main reasons for losses were shortage of funds, availability of products from private enterprises at reasonable price, reduction in export *etc.*

The reply is silent on the steps planned to be taken to increase the turnover so that operating costs could be recouped fully.

Maharashtra State Farming Corporation Limited

4.18.3 The Company is engaged in cultivation of sugarcane and other agricultural products.

The operating expenditure of the Company was 39 *per cent* more than the operating income. The expenditure on wages and salaries was 57 *per cent* of the total operating expenditure. As per the latest finalised accounts for the year

2000-01, the accumulated losses of the Company were Rs.52.30 crore representing 19 times of the paid up capital (Rs.2.75 crore).

The sale proceeds of sugarcane are the main source of income of the Company. Low sugarcane production was due to insufficient and erratic water supply by the Irrigation Department, inadequate fertiliser application, deviation from ideal cropping pattern and non utilisation of entire cultivable land. The yield achieved was very low compared to the State average leading to non absorption of overheads.

Western Maharashtra Development Corporation Limited

4.18.4 The Company was set up to promote industrial development in ten^{*} districts of Western Maharashtra region.

As per the latest accounts finalised for the year 2005-06, the accumulated losses of the Company were Rs.23.33 crore more than seven times the paid up capital (Rs.3.06 crore). The operating expenditure was 46 *per cent* more than the operating income. The expenditure on wages and salaries alone was 47 *per cent* of the total operating expenditure. The Company had to meet its administrative expenditure from the one *per cent* commission earned on the amounts disbursed under various schemes. The commission earned was inadequate to meet the expenses. The distillery which was with the Company and was generating revenue has been converted into a new Company since November 2003.

Statutory corporations

Maharashtra State Road Transport Corporation (Corporation)

4.18.5 The Corporation was established with the main objective of providing an efficient, adequate, economical and properly co-ordinated system of public road transport services in the State.

The operating expenditure was 15 *per cent* more than its operating income. The expenditure on wages and salaries was 41 *per cent* of the total operating expenditure. The Corporation has a social obligation to run buses on uneconomical routes. Permission granted by the Government to private operators who do not have social obligation to operate unremunerative routes coupled with Passenger Tax loaded in favour of private operators as detailed below had led to huge losses.

(Rupees in lakh)

Type of the bus	Tax paid by Corporation per bus per year	Tax paid by private operators per bus per year
Ordinary bus	2.51	1.40
Deluxe bus	8.66	1.40
Air condition bus	16.89	2.25

^{*}Pune, Satara, Sangli, Kolhapur, Solapur, Ahmednagar, Nashik, Jalgaon, Dhule and Nandurbar.

As per the latest accounts finalised for the year 2005-06 the accumulated losses of the Corporation were Rs.1,120.37 crore *i.e.* 121 *per cent* the total paid up capital (Rs.923.81 crore).

Maharashtra State Financial Corporation (Corporation)

4.18.6 The Corporation was set up to provide financial assistance to Small and medium Scale Industries in the State.

The operating expenditure of the Corporation was 193.63 *per cent* more than its operating income. Loans were sanctioned to unviable projects. The disbursements were made without obtaining adequate security facilitating the borrowers to default in repayment of loans.

There was laxity in recovery of dues and the Corporation failed to take legal action to recover the dues. The poor recovery led to non availability of funds for fresh lending. During the last three years the disbursement of loan was negligible. As per the latest accounts finalised for the year 2005-06, the accumulated losses of the Corporation were Rs.614.97 crore which were more than nine times the paid up capital (Rs.62.64 crore).

The matter was reported to the Government/management (May 2006); their reply had not been received (December 2006).

It is recommended that the Government should take effective steps for increasing the turnover of these Companies so as to make them financially viable or consider their closure.

4.19 Non compliance with Accounting Standards in preparation of financial statements

Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the state of affairs of the Company and also to facilitate comparability of the information contained in published financial statements of various companies. It is obligatory under section 211(3A) of the Companies Act, 1956 for every company to prepare the financial statements (profit and loss account and balance sheet) in accordance with the AS.

A review of the financial statements and the Statutory Auditors' report thereon in respect of 27 Companies selected for audit revealed non compliance with various Accounting Standards as detailed in **Annexure-11**.

The non compliance is summarised in brief below:

- AS 1 prescribes that the significant accounting policies should form part of the financial statements and should normally be disclosed at one place. Three* companies did not comply with the requirement of AS 1 (eight instances).
- Seven# companies did not comply (thirteen instances) with AS 2 which deals with determination of the value at which inventories are carried in financial statements until the related revenues are realised and provides that inventories should be valued at the lower of cost or net realisable value.
- AS 4 lays down the methodology for dealing with the transactions/events occurring after the date of Balance-sheet. Non compliance with the requirements of AS 4 was noticed in five• companies (six instances).
- Five\$ companies (seven instances) violated methodology to be followed in respect of Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies as per AS 5.
- Five& companies (fifteen instances) did not comply with AS 6 relating to depreciation accounting for depreciable assets.
- Six@ companies (eleven instances) violated the principles of recognition of revenue as laid down in AS 9.
- Three⊗ companies (eight instances) did not follow methodology of accounting for fixed assets as prescribed in AS 10.
- Six▣ companies (ten instances) have not followed the procedure laid in AS 12 relating to treatment of government grants (capital and revenue).
- Seven♦ companies (thirteen instances) did not comply with the requirements of AS 13 relating to accounting for investments, in the financial statements and related disclosure requirements.
- AS 15 provides that the contribution payable by the employer towards retirement benefits should be charged to statement of Profit & Loss for the year on accrual basis and the accruing liability calculated according to

* Sl. No.13, 22 and 27 of **Annexure-11**.

Sl. No. 5, 6, 9, 12, 22, 23 and 27 of **Annexure-11**.

• Sl.No. 2, 6, 11, 14 and 22 of **Annexure-11**.

\$ Sl.No. 1, 6, 12, 15 and 22 of **Annexure-11**.

& Sl.No. 8, 17, 19, 22 and 26 of **Annexure-11**.

@ Sl.No. 2, 4, 5, 6, 16 and 18 of **Annexure-11**.

⊗ Sl.No. 11, 17 and 22 of **Annexure-11**.

▣ Sl.No. 5, 6, 15, 17, 22 and 26 of **Annexure-11**.

♦ Sl.No. 2, 3, 5, 6, 18, 22 and 27 of **Annexure-11**.

actuarial valuation. Thirteen[&] companies violated (twenty-seven instances) AS 15.

- AS 16 prescribes the accounting treatment for borrowing costs. Three[®] companies (five instances) did not follow the accounting treatment prescribed for borrowing costs.
- Fourteen[#] companies were not following some of the Accounting Standards persistently.

The financial implication of violation of accounting standards is of the order of Rs.1,027.02 crore as detailed in **Annexure-12**.

The matter was reported to the Government (May 2006); reply had not been received (December 2006).

4.20 Follow up action on Audit Reports

Replies outstanding

4.20.1 Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained by the various public sector undertakings (PSUs). It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Maharashtra issues instructions every year to all administrative departments to submit replies to paragraphs and reviews included in the Audit Reports within a period of three months of their presentation to the Legislature, in the prescribed format.

Though the Audit Report for the year 2003-04 was presented to the State Legislature on 21 July 2005, six out of eight departments did not submit replies to 16[§] out of 31 paragraphs/reviews as on 31 March 2006. Audit Report for 2004-05 was presented to the State Legislature on 18 April 2006 the details are given in (**Annexure-13**).

The Government did not respond even to the reviews/paragraphs highlighting important issues like system failure, mismanagement and inadequacy of recovery system. The major defaulters with regard to non-submission of replies were Industries, Energy and Labour, Urban Development and Public Works Department.

[&]Sl.No. 7, 8, 9, 10, 12, 15, 17, 19, 20, 22, 24, 25 and 26 of **Annexure-11**.

[®]Sl. No. 14, 19 and 21 of **Annexure-11**.

[#]Sl. No. 1, 2, 3, 5, 7, 8, 11, 13, 15, 17, 19, 22, 26 and 27 of **Annexure-11**.

[§]Industries, Energy and Labour Department (six paragraphs/review), Public Works Department (four paragraphs), Urban Development Department (two paragraphs), Social Welfare and Cultural Affairs Department (two paragraphs), Co-operation and Textile Department (one paragraph) and Agriculture, Animal Husbandry and Dairy Development Department (one paragraph).

Status of compliance to Reports of Committee on Public Undertakings (COPU)

4.20.2 Replies (Action Taken Notes) to 77 recommendations pertaining to 14 Reports of the COPU presented to the State Legislature between April 1995 and March 2006 had not been received (31 March 2006) as indicated below:

Year of COPU Report	Total no. of Reports involved	No. of recommendations where replies were not received
1995-96	1	7
1997-98	2	21
1998-99	3	11
1999-2000	1	11
2000-01	2	8
2001-02	1	3
2003-04	2	6
2005-06	2	10
Total	14	77

These reports of COPU contain recommendations in respect of paragraphs pertaining to eight departments* which appeared in the Reports of the Comptroller and Auditor General of India for the years 1992-93 to 2003-04.

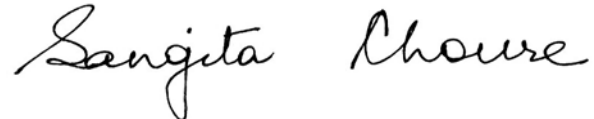
Response to inspection reports, draft paragraphs and reviews

4.20.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2006 pertaining to 48 PSUs disclosed that 2,310 paragraphs relating to 630 Inspection Reports remained outstanding at the end of September 2006. The department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2006 is given in **Annexure-14**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 16 draft paragraphs and three draft reviews forwarded to the various administrative departments during February-August 2006, as detailed in **Annexure-15**, have not been replied to so far (December 2006).

*Agriculture, Animal Husbandry and Dairy Development; Revenue and Forest; Industries, Energy and Labour; Social Welfare; Co-operation and Textiles; Urban Development; Home (Police) and Home (Tourism).

It is recommended that the Government should ensure that (a) procedure exists for action against officials who fail to send replies to inspection reports/draft paragraphs/reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule; and (c) the system of responding to audit observations is strengthened.



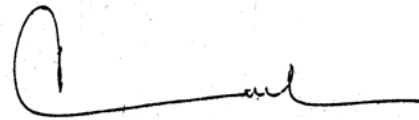
MUMBAI

The 26 March 2007

(SANGITA CHOURE)

Accountant General (Commercial Audit), Maharashtra

Countersigned



NEW DELHI

The 03 April 2007

(VIJAYENDRA N. KAUL)

Comptroller and Auditor General of India