

## Chapter-IV

### 4. Transaction audit observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies and Statutory corporations have been included in this Chapter.

#### Government companies

#### City and Industrial Development Corporation of Maharashtra Limited

##### 4.1 *Loss of revenue*

**By charging lease premium at less than market rates, under recovery of service charges and allowing excess discount, the Company passed on undue benefits of Rs.32.60 crore to a private builder, co-operative housing societies, school trust and others.**

City and Industrial Development Corporation of Maharashtra Limited (Company) allots plots for various uses like residential, commercial, schools, to builders, trust and co-operative housing societies. Undue benefits of Rs.32.60 crore were extended to a private builder, co-operative housing societies and a school trust by collecting premium at less than market rates, non collection of additional transfer charges and allowing excess discount to the steel merchants as discussed below:

##### **Allotment of plots to a builder**

**4.1.1** The Company allotted (October 2003) plots (Vashi, Navi Mumbai) measuring 30,582.87 square metres for residential-cum-commercial purpose to K. Raheja Corporation Private Limited (builder) at the rate of Rs.10,250 per square metre with 1.5 floor space index\*. The Company received total lease premium of Rs.31.35 crore.

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\*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.

Audit observed as under:

- The plots were situated in prime locality opposite Vashi railway station. Surprisingly, no tenders were invited for disposal of the plots.
- The rate realised in sale of plots during October 2002 in Vashi sector through tender was Rs.20,791 per square metre. The Company however, allotted (October 2003) the plots to the builder at a low rate of Rs.10,250 per square metre.

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prime locality  
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resulted in  
of revenue of  
6.74 crore.

Thus, the sale of plots in a prime locality without calling for tenders and below the market rate amounted to undue favour to a private party which resulted in loss of revenue of Rs.26.74<sup>^</sup> crore to the Company.

The Company stated (July 2004) the following:

- No tenders were invited as rules permitted sale by considering individual applications.
- New Bombay Disposal of Land Regulations permit the Company to dispose plots by public auction or tender by considering individual applications.
- The rate of Rs.20,791 per square metre received through tender was for small plots and cannot be considered for comparison with the sale of bulk land plot.
- Plot is not located in a developed sector in Vashi and infrastructure development is still in progress. By going in for bulk sale to builder the Company would obtain benefit of larger saleable area and would not incur expenditure on internal development.

The reply is not tenable in view of the following:

- The procedure for sale through applications would have been appropriate only if a large number of plots were for sale and the price was already predetermined. This is not the case here. It is for this reason, while approving (April 2003) conversion of land use in respect of this plot from information technology to residential *plus* commercial, the Board of the Directors of the Company had specifically stated that disposal should be through open tender only.
- Transparency demands that sale should have been through tender to obtain market rate for sale instead of disposing the plot at the rate of Rs.10,250 per square metre.

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<sup>^</sup>Rs.20,791 – Rs.10,250 x 30,582.87 = Rs.32.24 crore less internal development cost (intimated by the Company) Rs.5.50 crore.

- The note (September 2003) submitted to the Board of Directors of the Company clearly indicated that the plots have full advantage of developed node in all respects. The loss has been worked out after taking into account the cost of internal infrastructure development of Rs.5.50 crore, as intimated by the Company.

### Allotment of plots to a co-operative housing society

**4.1.2** The Company allotted (December 2001) a plot of land measuring 4,186 square metres at Nerul, Navi Mumbai for a value of Rs.2.50 crore\* to Prathamesh Co-operative Housing Society. The society was formed by 17 members who were senior officers of the Company including directors. The plot was sold at the rate of Rs.6,250 per square metre with floor space index-one which was far below the prevailing market rate of Rs.10,235\* per square metre.

Audit observed that the allotment of plot was irregular as the plot allotted to the society was not earmarked for co-operative housing societies. Thus, the allotment of plot below the market rate resulted in revenue loss of Rs.1.57\* crore to the Company.

### Allotment of plots to a co-operative society

**4.1.3** The Company allotted (June 2002) four^ plots of land measuring 8,114.89 square metres situated in Nerul sector at Navi Mumbai to Shribaug Sahakari Madhyavarti Grahak Mandal Limited (Raigad Bazar), Alibaug at the rate of Rs.12,750 per square metre for setting up a departmental stores. Total sale price of the four plots was Rs.10.35 crore.

Audit observed the following:

- The rate received through tenders in December 2001 was Rs,13,700 per square metre for residential cum commercial plots situated in the sector. Yet the plots were allotted to the society at the rate of Rs.12,750 per square metre.
- As per the policy laid down, initial payment being 10 *per cent* of agreed lease premium is to be paid by a buyer of plot of land alongwith application and balance 90 *per cent* was payable in two monthly equal instalments (45 *per cent* of agreed lease premium each) from the date of receipt of allotment letter from the Company. The time of payment of first instalment can be extended by two months based on the request of allottee by charging interest at the rate of 15 *per cent* per annum, provided the extended period does not exceed three months from the date of allotment. The time prescribed for the second instalment can be extended further for a period of 16 months. The extension can be

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• Arrived at after allowing discount of Rs.0.13 crore for prompt payment.

\*The prevailing market rate for 1.5 floor space index (FSI) was Rs.15,353 which has been proportionately reduced for one FSI *i.e.* Rs.15,353 x 1/1.5 = Rs.10,235 per square metre.

\* 4,186 square metres x Rs.10,235 – five *per cent* discount = Rs.4.07 crore *minus* value received on sale of plot Rs.2.50 crore = Rs.1.57 crore.

^ No.88 to 91 Sector-19.

granted by charging interest at the rate of 15 *per cent* per annum up to three months, 18 *per cent* per annum for the period between three and six months and 21 *per cent* per annum for the period beyond six months. The contract stands determined if the payment is not made in the extended period.

In the instant case, the offer letter was issued to the society on 11 October 2001 and initial payment of Rs.1.02 crore being 10 *per cent* value of agreed lease premium was to be made by November 2001. Instead, the Company issued letter of intent on 14 June 2002 asking the society to pay first instalment of Rs.4.67 crore on 15 July 2002 and second instalment of Rs.4.66 crore on 14 August 2002. Thus, there was a departure from the dates specified in the allotment letter. The society failed to make the payments even after these relaxation in dates and actual payment of first instalment was made on 16 December 2002 (after 154 days) and second instalment on 30 December 2003 after a delay of 501 days. As per terms of allotment, the society was liable to pay interest at the rate of 21 *per cent* for delay in payment beyond six months. The Company was therefore required to recover interest of Rs.1.34 crore from the society for delay of 501 days in payment of second instalment. However, the Company recovered only interest of Rs.3.99 lakh and a benefit of Rs.1.30 crore was passed to the co-operative society on account of non levy of interest.

Thus, the total benefit extended to the party was Rs.2.07 crore due to charging rate below the market rate (Rs.77.09 lakh) and not levying interest for delay in receipt of payment (Rs.1.30 crore).

The Company stated (July 2004) that the plots were not sold at market rate as the rate of Rs.12,750 per square metre was the negotiated rate and the interest was not recovered on second instalment as the extension for payment was given to the party.

The reply is not tenable in view of the following:

- Sale at negotiated rates was violative of the principle of transparency. The sale should have been made at least at the rate of Rs.13,700 per square metre, the rate which was offered for the same plot by Ambica Associates, through its Board Member. The loss on this account was thus Rs.77.09 lakh.
- In order to maintain the sanctity of laid down rules, the relaxation in payment should have been restricted to a maximum period of six months as per the terms of contract. Failure to do so resulted in passing on additional benefit of Rs.1.30 crore to the society.

#### **Allotment of school plots to a trust**

**4.1.4** Shevantabai and Shankarrao Foundation, a trust, requested (September 2002) the Company for allotment of land to establish a residential school on Kharghar Hill plateau.

Subsequently, the trust informed (March 2003) that they have decided to set up a day school and hence required a plot of land for composite school in Kharghar sector. The Company

accepted (July 2003) the request of the trust and allotted a plot of 4,000 square metres for rupees three lakh at the rate of Rs.75 per square metre being the concessional rate of five *per cent* of the reserve price of Rs.1,500 per square metre. This resulted in concession of Rs.57 lakh to the trust.

As per the Company's policy, the plot reserved for schools was to be allotted only to the educational institutions having minimum 10 years experience in running a school, secondary school certificate results in past three years above 85 *per cent* and sound financial position to pay lease premium of plot so as to complete the project within stipulated time limit.

Audit noticed that the trust had no experience in establishing and running any school. As per the Company's policy, concessional rate was payable provided the trust fulfilled the eligibility criteria. The trust did not fulfil eligibility criteria and hence the concession of Rs.57 lakh was not justified.

The reply from the Company (July 2004) did not dispute the fact that the trust did not fulfil the eligibility criteria.

### **Excess discount to co-operative housing societies**

**4.1.5** Board of Directors (BOD) of the Company accorded (November 2002) approval for sale of 125 plots in Kharghar, Panvel and Kalamboli sectors of Navi Mumbai to co-operative housing societies (CHS) at fixed rates ranging from Rs.2,205 to Rs.4,800 per square metre.

Further, BOD specifically directed to allow prompt payment discount at two *per cent* on balance amount of 90 *per cent* of lease premium (after deducting earnest money deposit equivalent to 10 *per cent* of lease premium to be paid along with the application for allotment), if the balance amount was paid within 30 days from the date of acceptance of the offer to sale.

The Company allotted (January-March 2003) plots to 58 CHS and allowed discount of Rs.42.98 lakh to 24 CHS at the rate of five *per cent* instead of the rate of two *per cent* as per BOD's resolution. This was due to issue of a booklet by the Marketing Manager-II (MM-II), in charge of allotment of plots containing the conditions, *inter-alia*, that the prompt payment discount would be at five *per cent* in violation of the decision of the BOD to give two *per cent* discount. The Company had not taken any action against the erring staff for the loss of Rs.25.79 lakh.

The Company stated (July 2004) that the Board modified its earlier resolution of offering only two *per cent* rebate on the ground that the same was based on an inadvertent error in the proposal and the five *per cent* rebate was fixed in 1997.

The reply is not correct as the recorded reason for the modification was that it was difficult to recover the excess discount of five *per cent* as mentioned in the booklet. The figure of two *per cent* was not an inadvertent error but was a conscious decision of the Board, as the interest rates in 2002 were much less than that in 1997.

### Under recovery of transfer charges

**4.1.6** The Company allotted (1987) 711 residential plots in Panvel at fixed rate of Rs.100 per square metre on lease basis to various steel merchants who had shifted their steel business from Mumbai to steel market, Kalamboli. The average area of each plot ranged between 200 and 400 square metres.

Audit scrutiny revealed that 74 steel merchants transferred 109 residential plots during April 1997 to March 2000. These transfers were outside the steel trade. As per rule 3VII(A) of New Bombay Disposal of Land Regulations 1975, in case of transfer of plots, transfer charges equivalent to 50 per cent of difference between declared premium on the date of transfer and premium actually paid at the time of purchase was to be recovered. The Board of Directors of the Company decided (March 1997) that if the transfer of plots is outside the steel trade additional 50 per cent of normal transfer charges was to be charged. The Company, however, did not recover the additional 50 per cent transfer charges from the merchants which resulted in short recovery of Rs.1.39 crore towards transfer charges.

The Company stated (May 2004) that these transfers were treated within steel trade on the basis of certificates of membership obtained by the purchasers from various steel associations in Mumbai. Total reliance on certificates issued by steel associations without further scrutiny by the Company was not acceptable as:

- The concession involved for a trader was running into a few lakh. The Company was already aware of misuse in transfer of plots and had introduced the 50 per cent additional transfer charges to restrict the transfers to bonafide parties within steel trade. The Company should therefore also have done its own verification to ascertain the genuineness of the status of the transferee by verifying the business details such as sales tax registration number, shop and establishment licence number, turnover details *etc.*
- The residential plots in Panvel are located near Kalamboli Steel Market (KSM). As the plots in Panvel were offered to steel merchants to decongest Mumbai by facilitating shifting their business to KSM the original allotment clearly stipulated that the purchasers of plots in Panvel had to possess a plot allotted by the Company at KSM. The Company failed to check up with Iron and Steel Market Committee, Kalamboli, Navi Mumbai to ensure that the purchaser had a steel business in Kalamboli steel market developed by the Company.
- Audit scrutiny of 52 out of 109 plots revealed that the Company transferred 52 residential plots to 14 purchasers treating them as steel traders. However, there was no allotment/transfer of plots in KSM to them. The non levy of additional 50 per cent transfer charges was therefore irregular as these transfers were outside the steel trade.

The matter was reported to the Government in March-May 2004, but the replies of the Government in respect of all cases had not been received (December 2004).

Correct rate of transfer charges to short recovery of Rs.1.39 crore.

## 4.2 *Purchase of luxurious cars*

**The Company incurred expenditure of Rs.29.03 lakh in purchase of two luxurious cars in violation of Government's directives.**

The Company purchased two "Skoda" make luxury airconditioned cars (July 2003) for Chairman and Joint Managing Director.

Audit observed the following:

- The Company had already purchased two new cars (AC Ambassador and AC Lancer) one each for Chairman and Managing Director in April and August 2000 respectively for Rs.14.47 lakh. The purchase of the two new vehicles was in violation of the directives of the Finance Department issued in June 1998 to observe economy measures.
- Given the austerity measures imposed by the Government, the purchase of vehicles should have been restricted to models of cars which are not too highly priced.
- The purchase was made without prior approval of the Government of Maharashtra.

The Company while justifying the purchase of luxurious cars stated (May 2004) that the cars were malfunctioning; and the Company being a profit making was itself financing the cost. It further stated that the Government of Maharashtra was represented in the Board of Directors by the Principal Secretary and Secretary, Urban Development Department and the Board's approval for purchase was obtained on 7 January 2003. The decision of the Board was conveyed to the Government on 17 January 2003.

The reply is not tenable as subsequent to purchase of new cars, the old cars were in running condition and State Government's directives were applicable to all public sector undertakings including profit earning PSUs. The Principal Secretary and Secretary were present in the meeting as *ex-officio* Board members. It cannot be construed that due to their presence on the Board, all Board's decisions have automatic approval of the Government. Mere intimation to Government was not sufficient. Prior approval of Government should have been obtained as per austerity instructions.

The matter was reported to the Government (March 2004); the reply had not been received (December 2004).

**Maharashtra Film, Stage and Cultural Development Corporation Limited**

## 4.3 *Irregular financial assistance to a private firm*

**The Company extended irregular financial assistance of Rs.8.03 crore to a private firm in contravention of the agreement.**

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) entered into (August 2000) an agreement with a private firm Montage (firm) for conducting a cultural programme called 'Hum Ek Hain' (HEH) involving leading film personalities. As per the agreement, the Company was to render assistance in selection of programmes and artists and obtaining requisite permission from various Government departments. The Company was to receive service charges of Rs.25 lakh for the assistance rendered.

Audit observed the following:

- Prior approval of the Board of Directors for entering into this agreement was not obtained.
- The agreement stipulated that the firm would organise the programme at its own risk and cost. In contravention of this clause, the Company extended financial assistance to the firm. The modus operandi included opening (September 2000) of a joint account in Bank of Maharashtra (BOM) in the name of 'HEH-Film City' to be operated by the proprietor\* of the firm and the Company through its Financial Advisor & Chief Accounts Officer.
- The Company transferred (February 2001) Rs.1.80 crore from its account in BOM to 'HEH-Film City' account. Subsequently, the proprietor withdrew (February 2001 to December 2002) this amount in the form of cash and cheques. Thus, opening of a joint account with a private party facilitated the proprietor of the firm to withdraw fund from the joint account.
- The Managing Director of the Company authorised (January 2001) BOM to grant loans up to the limit of rupees seven crore to the firm against the security of Company's fixed deposits (FDs) of Rs.13.50 crore. On the basis of this authority, the firm availed (January-May 2001) a loan of Rs.6.72 crore. As the firm repaid only Rs.4.34 crore, BOM encashed (April-November 2001) Company's FDs worth Rs.2.38 crore to make good the shortfall.
- The matter of telecast of HEH programme was taken up (February 2001) with Prasar Bharati. Instead of the firm giving the bank guarantee of rupees four crore towards minimum guaranteed payment of Rs.80 lakh per telecast, the Company provided (March 2001), on the instructions from the then Managing Director, a bank guarantee of rupees four crore against security of its FDs with BOM. Subsequently, the firm failed to make payments to Prasar Bharati for telecast of HEH programme in April-May 2001. Prasar Bharati invoked the bank guarantee provided by the Company for rupees four crore. The firm repaid (February 2001) only Rs.15 lakh to the Company and the balance Rs.3.85 crore remained unrecovered (August 2004).

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\* Shri Shahab Ahmed.



Thus, the Company extended (January-February 2001) irregular financial assistance of Rs.8.03 crore to a private firm in contravention of the agreement, which stipulated no financial involvement of the Company.

The Government/Company stated (May 2004) that action has been initiated against the officials concerned and the private firm.

#### **4.4 Irregularities in production of Superstar dhamaka**

**The Company is stuck with a liability of Rs.4.50 crore payable to SET India Private Limited and Garnet Paper Mills Limited due to drawal of money by proprietor of Montage from joint account.**

Maharashtra Film, Stage and Cultural Development Corporation Limited (Company) entered into (April 2002) an agreement with SET India Private Limited (SET) to telecast between June 2002 and February 2003 star studded 13 episodes (Superstar dhamaka) to be produced by the Company. The exclusive selling rights would be with SET and in turn the Company was to receive Rs.12.78 crore from SET with effect from April 2002.

Audit observed the following:

- Approval of the Board of Directors was not obtained for this agreement.
- Though the agreement was between the Company and SET, a handwritten amendment stipulated that the amounts payable by SET would be drawn in favour of 'Hum Ek Hain - Film City' (HEH) account, an account which was not exclusively operated by the Company but was a joint account operated by the proprietor of Montage, a private firm and Financial Advisor & Chief Accounts Officer of the Company.

It is not clear why this handwritten amendment was inserted into the agreement as no reasons were available on record. SET remitted (April-May 2002) rupees three crore to the account of HEH. Proprietor of Montage withdrew the amount in cash/cheque during April 2002 to December 2003.

- The Company produced only one out of the 13 episodes planned. The Company entered into (August 2002) an agreement with Garnet Paper Mills Limited (GPML) for obtaining finance for production of the balance episodes to the extent of rupees nine crore in three instalments of rupees three crore each. The Company was to pay service charges of Rs.35 lakh for every rupees three crore. A cheque of Rs.1.50 crore received from GPML in the name of the Company was credited (August 2002) into *HEH* account instead of the Company's exclusive account. Consequently, Rs.1.50 crore received from GPML was also withdrawn by Shri Shahab Ahmed.

The clause stipulating payment of money by SET into *HEH* account in the agreement entered into by the Company and SET and depositing of cheques received from GPML into *HEH*

account although there was no agreement with Montage for the production of the 13 episodes, was highly objectionable.

None of the remaining 12 episodes was produced and the Company is struck with liability to repay Rs.4.50 crore to SET and GPML besides payment of service charges of Rs.17.50 lakh to GPML.

The Government/Company accepted (May 2004) that the agreement was not in the interest of the Company and action was being taken against the proprietor of Montage and the erring officials of the Company.

### **Haffkine Bio-Pharmaceuticals Corporation Limited**

#### **4.5 Non surrender of unutilised lease premises**

**The Company has not surrendered lease premises even after vacating it in 1997 thereby resulting in rental liability of Rs.20.29 lakh.**

The Fisheries Technological Laboratory (FTL) of Haffkine Bio-Pharmaceuticals Corporation Limited (Company) was functioning in the premises leased from Mumbai Port Trust (MbPT). The prevailing lease rent was Rs.22,242 per month *plus* municipal taxes. The Company shifted FTL to its own existing premises at Parel in April 1997.

Audit observed the following:

- Although the Company vacated the premises in April 1997 it decided to surrender the leased premises to MbPT only in December 1998. The decision was not implemented without any reasons on record as the premises continued to remain vacant but not surrendered.
- Failure of the Company to surrender/utilise the leased premises resulted in rental liability of Rs.20.29 lakh including municipal taxes for July 1997 to March 2004.
- Further delay in surrendering leased premises would result in avoidable rental liability including municipal taxes of Rs.2.99 lakh per annum.

The Company stated (June 2004) that it has taken up the matter with MbPT and expressed its intention to hand over the vacant possession of the premises with a request to waive the arrears of rent on account of increase in rent. However, the MbPT insisted upon the payment of arrears of lease rent before taking over the vacant possession of the premises.

It was also stated that many of the lessees/tenants, approached the Honourable High Court against the unilateral decision of the MbPT to increase the rent manifold.

The reply is not tenable. The premises should have been surrendered way back in April 1997 by making full payment. The delay in making payment to MbPT only increased the rental liability. A reduction in rent, if any, arising out of Court decision would have resulted in getting the excess rent back from MbPT.

The matter was reported to the Government (April 2004); the reply had not been received (December 2004).

## **Maharashtra State Road Development Corporation Limited**

### **4.6 Consultancy contract**

#### **The Company incurred infructuous expenditure of Rs.7.97 crore due to non finalisation of basic design relating to type of link.**

The Company appointed (December 1998) M/s. Sverdrup (firm 'S') as prime consultant in respect of the Worli-Bandra sea link project of a single eight lanes link. The scope of work comprised survey, investigation, planning and design (Phase-I) and project management services (Phase-II). The Company paid (January 1999 to May 2003) Rs.16.65 crore (Phase-I:Rs.7.97 crore and Phase-II:Rs.8.68 crore) to firm 'S'. The contract was to be executed by March 2003. On expiry of the existing contract with firm 'S', the Company took a decision to revise the design and construct two carriageways of four lanes each and appointed (March 2003) M/s.DAR Consultants (firm 'D') as prime consultant (on the basis of offer received in October 1998). At the time of appointment of firm 'D', work relating to Phase-I was completed. The work relating to Phase-II was under progress and completed to the extent of 21.87 *per cent*, amounting to Rs.1.63 crore. While awarding the work to firm 'D', the work already executed was, however, not excluded from the scope of work. As per contract entered into by the Company, firm 'D' was to be paid Rs.20 crore (Phase-I: Rs.6.27 crore; Phase-II:Rs.7.44 crore and additional works: Rs.6.29 crore).

Audit observed the following:

- The Company, after incurring Rs.7.97 crore on Phase-I, took (February 2003) a decision belatedly to revise the design and construct two carriageways of four lanes each instead of a single eight lanes link. Consequently, the entire work pertaining to Phase-I had to be taken up afresh by firm 'D'. Thus, the payment to firm 'S' on account of Phase-I *i.e.* Rs.7.97 crore proved to be infructuous.

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The Company stated (August 2004) that the revision in design was effected because it would result in early realisation of benefits as the first four-lane carriageway completed could be utilised straightaway even before the project was completed fully. The reply is not tenable as the Company failed to firm up its design plans before entrusting the design contract to firm 'S'.

- The Company did not invite fresh tenders for change of design and entrusted the work to firm 'D' on the basis of offer received in October 1998 for earlier design. Further, at the time of award of contract to firm 'S' in 1998, there were seven parties including firm 'D' whose offers were evaluated. The Committee while evaluating (1998) the tenders recommended that in the event of firm 'S' not accepting the contract, firm 'D' should not be invited. This was, however, ignored while awarding the contract to firm 'D' in 2003.
- Phase-II of the work (Rs.8.68 crore) awarded to firm 'S' comprised project management charges in respect of packages I, II, III and IV of the sealink. At the time of award of contract to firm 'D', construction of packages I, II and III amounting to Rs.1.63 crore (21.87 per cent of the cost of the Phase-II) had been completed by firm 'S'. Work already completed by firm 'S' should have been eliminated from the scope of work awarded to firm 'D'.

The Company stated (August 2004) that an amount of Rs.30 lakh was reduced on this account and fees of Rs.6.27 crore was reduced from the total fees.

The reply is not correct as the reduction of Rs.30 lakh effected pertains to different items of work arising out of change of design. Records of the Company show that no such reduction in fees (Rs.6.27 crore) was made in the contract. There was no proportionate reduction in amount to be paid to firm 'D' for the work of Phase-II already completed by firm 'S'.

The matter was reported to Government (May 2004); the reply had not been received (December 2004).

#### **4.7 Construction of Nagpur-Sinner-Ghoti-Mumbai Road**

**The Company paid for extra items at higher rates resulting in undue benefit of Rs.1.51 crore to contractors.**

For construction of Nagpur-Sinner-Ghoti-Mumbai Road, Maharashtra State Road Development Corporation Limited (Company) awarded (February-December 2001) package-XII to Rajdeep Construction and package-XIV to Ajaydeep Constructions.

During construction, Audit observed that the material to be obtained from the excavated portion of the road way was not sufficient for embankment and there was a need to obtain material from borrow areas (other area than road way).

Clauses 51 and 52 of the contract provide for fixation of rates when there is change in the character, quality or kind of work. Since the term 'borrow area' was not included in the bid document, the Company paid the contractors for the two works at the rate of Rs.125 and Rs.136 per cum respectively.

Audit observed the following:

- Specifying the 'borrow area' for material required for embankment is a standard item of work, which is prescribed in such contracts but the Company failed to do so.
- The Company, while fixing the rates, overlooked the fact that rates for these works as per the then prevailing District Schedule of Rates were only *i.e.* Rs.75 and Rs.78 respectively. Further, the Company failed to restrict the rates to its own estimated rates. The estimated rates were Rs.105 and Rs.98.93 per cum respectively.

Thus, payment at higher rates resulted in undue benefit of Rs.1.50 crore (package-XII : Rs.26.40 lakh\*<sup>£</sup> and package-XIV : Rs.1.24 crore<sup>£</sup>) to the contractors.

The Company stated (August 2004) that it could not be concluded that contractor would have quoted lower rates if the item had been included in the bid document. The reply is not tenable as the Company failed to incorporate such important item of work in the contracts as done in other cases and payments have not been correctly regulated as brought out above.

The matter was reported to the Government (May 2004); the reply had not been received (December 2004).

#### **4.8 Payment of idling charges**

**The Company incurred avoidable expenditure of Rs.2.72 crore due to stoppage of work despite having approval from Ministry of Environment and Forests.**

Maharashtra State Road Development Corporation Limited (Company) awarded the construction work of phase-III of Bandra-Worli Sealink for a total amount of Rs.43 crore to Prakash Construction and Engineering Company. The work was commenced from July 1999 and stopped from January 2000 on the directions from Government due to protests by NGOs on the ground that the Company reclaimed 27 hectares land instead of 4.7 hectares land permitted by Ministry of Environment and Forests (MOEF).

The Company had already received permission for reclaiming 22.3 hectares of land under coastal zone regulations and the permission of MOEF for balance 4.7 hectares was received in January 1999. Since the Company was having permission of reclaiming entire area, the

\*<sup>£</sup> Package-XII -Quantity cum 1,32,020 x (Rs.125 - Rs.105) = Rs.26.40 lakh.

<sup>£</sup> Package-XIV-Quantity cum 3,34,859 x (Rs.136 - Rs.98.93) = Rs.1.24 crore.

fact should have been brought to the notice of Government and there was no necessity to stop the work.

The Company paid Rs.2.72 crore to the contractor on account of idling of plant and machinery for a period of 3.5 months (21 January-2 May 2000).

The Company stated (August 2004) that work was started on the understanding that the condition imposed by MOEF pertained to additional reclamation (4.7 hectares) only and not to total reclamation required for the project as permission for the remaining 22.3 hectares had already been obtained but the work was stopped due to the instructions of State Government.

The reply is not tenable. The stoppage of work was not justified as the permission for reclaiming entire 27 hectares was received by the Company and there was no necessity to make further reference to MOEF for revised approval.

The matter was reported to the Government (May 2004); the reply had not been received (December 2004).

#### **4.9 Toll collection contract**

**The Company passed on irregular benefit of the toll collection of Rs.41 lakh to the contractor in violation of the contract.**

The Maharashtra State Road Development Corporation Limited (Company) appointed (September 2002) Seema Construction and Kothari Enterprises as contractor for collecting toll at four toll stations at Nagpur. The contractor was to remit Rs.12.81 lakh per week to the Company with effect from May 2003. The first instalment was payable on 8 May 2003. The same was not paid. The party also defaulted on payment of second, third and fourth instalments due on 15, 22 and 29 May 2003, respectively.

Only on 2 June 2003 the first payment of Rs.20.46 lakh against the due amount of Rs.38.50 lakh was made. The total shortfall on that date was Rs.18.04 lakh. The Company did not take action for prompt receipt of the dues. The contractor continued to delay remittances and the amounts remitted were less than stipulated in the contract. As per the terms of contract the shortfall should have been immediately adjusted from the security deposit (SD) of Rs.77.49 lakh.

By not taking timely action there was accumulation of dues to the extent of Rs.1.18 crore (October 2003). The adjustment from SD was made only in November 2003 *i.e.* after completion of contract. The amount recovered was only Rs.77.49 lakh and the balance dues of Rs.41 lakh was irregularly waived.

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The Company stated (August 2004) that timely action was taken as stipulated in the contract and the rebate of Rs.41 lakh was due to various factors like reduction in toll rates *etc.*

The reply is not borne by facts. Though the contractor was a defaulter from the initial stage itself, the Company allowed dues to accumulate. The contractor was already given (May 2003) a substantial concession of Rs.63.70 lakh<sup>^</sup> in the form of reduction in toll and further rebate of Rs.41 lakh after closure of contract was not warranted.

The matter was reported to the Government (May 2004); the reply had not been received (December 2004).

## **Maharashtra State Textile Corporation Limited**

### **4.10 Implementation of Voluntary Retirement Scheme**

**The Company incurred extra expenditure of Rs.4.78 crore in implementation of voluntary retirement scheme.**

The State Government decided (January 2001) to close down all textile mills belonging to the Company including its subsidiaries and formulated a voluntary retirement scheme (VRS). Under the VRS, prescribed benefits in addition to normal retirement benefits payable to an employee were as follows:

- Salary of 35 days for every completed year of service, and
- For the remaining service, Rs.2,500 per year or 25 days salary per year whichever was higher. However, the minimum amount paid would be Rs.25,000 or 250 days salary, whichever was higher.

As the compensation was in addition to the normal terminal benefits, the VRS should have prescribed that the amount can not exceed the salary payable to them for the balance service period even if the employees had stayed at home. The Company however, did not fix such limit. As a result, the Company paid compensation of Rs.4.78 crore to 397 employees in excess of the salary that they would have earned, had they remained in service.

The Company stated (September 2004) that the VRS was implemented as per the cabinet decision of the Government of Maharashtra and the cabinet decision was not on the basis of any proposal moved by the Company. The Company further stated that they are in agreement in principle with audit's view with regard to fixing the limit on the VRS package and Government was informed to consider this aspect while formulating VRS in future.

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<sup>^</sup> Toll reduced from Rs.15.26 lakh per week to Rs.12.81 lakh per week from May 2003 up to October 2003, Rs.15.26 - Rs.12.81 lakh = Rs.2.45 x 26 weeks = 63.70 lakh.

Company  
incurred extra  
expenditure of  
Rs.4.78 crore due  
to VRS payments  
being higher than  
salary payable  
during remaining  
service.

The Government while accepting the view point of audit stated (October 2004) that the audit observation will be kept in view at the time of framing VRS in future for closure of any Government undertaking.

## **General**

### **4.11 Delay in finalisation of accounts by working Government companies**

#### ***Statutory provisions for finalisation of accounts***

**4.11.1** According to the provisions of Section 210(3) read with Section 166 of the Companies Act, 1956, audited accounts of a company should be placed in the annual general meeting (AGM) of the shareholders within six months of the close of financial year. Further, as per provisions of Section 619A(3) of the Act, *ibid*, the State Government should place an annual report on the working and affairs of each State Government company together with a copy of the Audit Report and comments thereon made by the Comptroller and Auditor General of India (CAG) before the State Legislature within three months of AGM.

#### ***Management's/Government's responsibility for preparation of accounts***

**4.11.2** Under the provisions of Section 210(1) read with Section 216 and 218 of the Companies Act, 1956, the Board of Directors of a company is required to lay in every AGM an audited copy of the annual accounts *i.e.* balance sheet and profit and loss account for the financial year along with the Auditors' Report and other specified annexures. Therefore, it was the responsibility of the management of respective companies to finalise the accounts in time.

The administrative departments concerned have also to oversee and ensure that the accounts are finalised and adopted by the companies within the prescribed period.

#### ***Procedure for finalisation of accounts***

**4.11.3** The annual accounts prepared by the companies are approved by their Board of Directors and are then audited by the Statutory Auditors appointed by the CAG. As per provisions of Section 619(4) of the Companies Act, 1956 the CAG conducts supplementary audit of the accounts of the companies. Such accounts along with comments of the CAG and the report of Statutory Auditors are placed before the AGM of the companies for adoption.

#### ***Risk involved due to delay in finalisation of accounts***



**4.11.4** The finalised accounts of the companies reflect their overall financial health and efficiency to conduct their business. If the companies fail to finalise the accounts in time, the CAG cannot conduct the audit of the accounts of the PSUs and thus, Government's investment remains outside the scrutiny of State Legislature. Besides, the delay also makes the system prone to risk of fraud and leakage of public money.

***Extent of arrears***

**4.11.5** Out of 55 working Government companies and five working Statutory corporations as on 31 March 2004, only nine working companies and four working Statutory corporations had finalised their accounts for the year 2003-04 within the stipulated period. The accounts of the remaining 46 working companies and one Statutory corporation were in arrears for one to 14 years as on 30 September 2004 (**Annexure-12**).

***Comparative position of clearance of arrears***

**4.11.6** The table given below indicates the position of number of accounts in arrears and clearance thereof (up to September in each year) relating to working Government companies during the five years ending 2003-04.

Year	Total No. of accounts due	No. of accounts cleared	Balance of accounts in arrears	Percentage of accounts cleared to accounts due
1999-2000	164	60	104	37
2000-01	147	31	116	21
2001-02	159	32	127	20
2002-03	175	27	148	15
2003-04	212	52	160	25

The above table reveals that the percentage of clearance of arrears of accounts of these companies ranged between 15 and 37 per cent.

Records of 18 Government companies whose accounts were in arrears ranging from two to 14 years were scrutinised and the position of delay in finalisation of accounts and holding of AGM in respect of these companies/corporation is detailed in **Annexure-12**.

The extent of delay in respect of 18 PSUs is summarised below:

Sl. No.	Name of the Company	No. of accounts in arrears as on 30 September 2004	Delay in finalisation of accounts (in months)	Delay in holding of AGM (in months)*
1	2	3	4	5
1	Mahatma Phule Backward Class Development Corporation Limited (MPBCDC)	14	164-171	167-172
2	Vasandrao Naik Vimukta Jatis and Nomadic Tribes Development Corporation Limited (VNVJNTDC)	11	120	124
3	Sant Rohidas Leather Industries and Charmakar Development Corporation of Maharashtra Limited (SRLICDCM)	9	78-100	80-84
4	Kolhapur Chitranagari Mahamandal Limited (KCML)	7	29	54
5	Lokshahir Annabhau Sathé Development Corporation Limited (LASDC)	14	142-145	146
6	The Maharashtra Fisheries Development Corporation Limited (MFDC)	9	52	52
7	Mahila Arthik Vikas Mahamandal Limited (MAVIM)	12	87-142	87
8	Maharashtra Rajya Itar Magas Vargiya Vitta Ani Vikas Mahamandal Limited (MRIMVVM)	3	14	11-23
9	Maharashtra State Powerlooms Corporation Limited (MSPC)	4	40-51	47-53
10	Godavari Garments Limited (GGL)	5	37-63	37-50
11	Maharashtra State Farming Corporation Limited (MSFC)	4	45-51	46-51
12	Punyashlok Ahilyadevi Maharashtra Mendhi Va Sheli Vikas Mahamandal Limited (PAMMSVM)	3	34-46	36-46
13	Development Corporation of Konkan Limited (DCKL)	7	49-82	51
14	Maharashtra Tourism Development Corporation Limited (MTDC)	4	28-52	43-44
15	Development Corporation of Vidarbha Limited (DCVL)	5	36-61	37-66
16	Shivshahi Punarvasan Prakalp Limited (SPPL)	5	43	*
17	Anna Saheb Patil Arthik Magas Vikas Mahamandal Limited (ASPAMVM)	5	59	*
18	Shabari Adivashi Vitta Va Vikas Mahamandal Limited (SAVVM)	6	First accounts awaited	*

\* Delay has been computed after providing for the notice period of 21 days for calling Annual General Meeting.

\*Information awaited.

### *Factors responsible for delay/arrears*

**4.11.7** The management attributed the delay in finalisation of accounts to:

- Shortage of experienced and qualified manpower (MPBCDC, SRLICDCM, MAVIM, DCVL and SAVVM).
- Non production of records by MPBCDC who transferred some of its projects to the Company and non availability of field level staff (MRIMVVM).
- Dispute with Statutory Auditors with consequent delay in commencement of audit by Statutory Auditors (KCML, MFDC, GGL and SAVVM).
- Delay in holding the Board of Directors' meetings for approval of accounts (LASDC and MTDC).
- Delay in holding the AGM for adoption of earlier year accounts (VNVJNTDC and ASPAMVM).

### *Steps taken by the State Government*

**4.11.8** The State Government exercises its control over the companies through the concerned Administrative/Finance department. In terms of the Memorandum and Articles of Association of the companies, the Government had the power to issue directives in the interest of companies. Besides, most of the directors of the companies are nominees of the State Government. So, in case of failure of the companies to finalise their accounts, the Government was expected to take concrete step to ensure that the accounts of the companies are finalised in time. Despite the position of arrears being pointed out by the Audit regularly to the Administrative departments, State Government had not taken concrete steps to liquidate the arrears in accounts.

The matter was reported to the Government (August 2004); the reply had not been received (December 2004).

**Statutory corporations**

**Maharashtra State Electricity Board**

### **4.12** *Bulk discount to industrial consumers*

**Due to improper formulation of bulk discount scheme the Board suffered loss of revenue of Rs.53 crore during 2000-03.**

Maharashtra State Electricity Board's (Board) tariff effective from May 2000 provides for bulk discount to industrial consumers having monthly consumption of more than one million units.

The bulk discount is payable at the rate of one *per cent* on the energy bill for every one million units subject to maximum of five *per cent*. The scheme was stated to have been introduced to dissuade consumers from switching to captive power generation. The incentive scheme is effective only if Board's power is costlier than captive power generation cost by less than one *per cent* in the range of 1-2 million units. Similarly, for consumption in the range of 2-3 million units, 3-4 million units, 4-5 million units and more than five million units, the scheme would be effective only if the price difference is less than two, three, four and five *per cent* respectively. There were no cost records to show that the Board's power was costlier than cost of captive generation.

The Board allowed (2000-03) discount of Rs.77.40 crore under this scheme. As per tariff, bulk discount was payable provided the energy bill is paid by the consumer within seven days from the date of bill as against the normal period of 15 days allowed for payment. The only benefit derived from the above scheme was thus early realisation of payments by eight days. Interest on cash credit availed by the Board was 14.5 *per cent* per annum. However, the rebate offered for early realisation of dues by just eight days works out to 46 *per cent* per annum at the lower end for one *per cent* rebate and 228 *per cent* per annum at the higher end for rebate of five *per cent*. Thus, the benefit of earlier realisation was much lower than the quantum of rebate allowed.

Despite the benefit of early realisation of payments by eight days the loss of revenue due to grant of bulk discount was more than Rs.53 crore\* up to March 2003.

The Board in its reply (July 2004) endorsed by Government (August 2004) stated that the scheme was introduced by Maharashtra Electricity Regulatory Commission (MERC). However, the Board failed to point out the above lacunae in the scheme to MERC for remedial measures.

#### 4.13 *Non recovery of service line charges*

**The Board did not recover the additional service line charges of Rs.1.30 crore from high tension consumers.**

Clause 31(f) of conditions and miscellaneous charges for supply of electrical energy, provides that the consumers shall at all times restrict their actual maximum demand within the sanctioned contract demand. In case, actual maximum demand of the consumer exceeds

\*Rebate given was Rs.77.40 crore. Even if the 46 *per cent* interest is considered, the extra payment was  $\text{Rs.}77.40 \times (46 - 14.5)/46 = \text{Rs.}53$  crore.

the contract demand three or more times in a calendar year, then the consumer is liable for payment of additional service line charges (ADSLC).

Audit observed (2002-03) that in six\* operational and maintenance circles of the Board, 201 high tension consumers had exceeded contract demand by three to 19 times in a calendar year during 1999-2003 and were liable for payment of ADSLC of Rs.1.30 crore. The Board had not recovered ADSLC and as a result the Board was deprived of revenue of Rs.1.30 crore.

The Board stated (July 2004) that it was advantageous to levy penalty charges than to insist on payment of ADSLC. It stated that charging of ADSLC is linked with sanctioning of additional load on permanent basis which is further linked to the required infrastructure capacity being available on permanent basis and unless load is sanctioned, ADSLC cannot be recovered.

The reply is not tenable. The procedure adopted above is violative of the principle behind insisting of ADSLC whenever the actual load exceeds the contracted demand. The purpose of this rule is to ensure that the load management is not adversely affected. Levy of penalty is only an interim measure for discouraging overdrawal whereas ADSLC is a tool for better load management.

The matter was reported to the Government (April 2004); the reply had not been received (December 2004).

#### **4.14 Procurement of 630 KVA distribution transformers**

**Procurement of transformers from a supplier who defaulted in an earlier order resulted in extra expenditure of Rs.40.09 lakh.**

The Board placed (September 2000) a purchase order for supply of 30 numbers of 630 KVA dry type distribution transformers on Shriram Switchgears, Akola (firm) at the rate of Rs.3.38 lakh per transformer. The firm supplied only 10 transformers during October 2000 to January 2001.

Audit observed the following:

Even though the firm defaulted in supplies of 20 transformers against the purchase order placed in September 2000, the Board did not take any action against the supplier either for recovery of liquidated damages or procurement of material at the risk and cost of the defaulting supplier. On the contrary, the Board procured in subsequent tender (April 2002) these transformers from the same defaulting firm at higher rate of Rs.5.49 lakh per transformer and incurred extra expenditure of Rs.40.09 lakh.<sup>^</sup> Thus, the benefit was passed on to the defaulting supplier and the Board failed to safeguard its financial interests.

\* Bhandup, Kalyan, Osmanabad, Ratnagiri, Satara, Urban Zone and Vasai O&M.

<sup>^</sup> Rs.5.49 lakh - Rs.3.38 lakh x 19 transformers.

The Board in its reply (July 2004) endorsed by Government (August 2004) stated that risk purchase action could not be taken against the firm due to delay in payment for quantity already supplied. From the details furnished by the Board, it is seen that only after opening of tenders in April 2002, the party sought (July 2002) for the cancellation of previous order (September 2000). The party was to supply three transformers in October 2000 and six transformers every month thereafter. Except for the first lot of three transformers there was enormous delay in supply and the party supplied seven transformers only in January 2001. The delays in payment by the Board facilitated the party to offer an excuse to get out of its contractual obligations right at the beginning (November 2000). After the first default, the Board should have initiated action against the supplier.

#### 4.15 Lack of transparency in procurement of transformers

**The Board exhibited lack of transparency besides incurring extra expenditure of Rs.12.74 lakh in procurement of transformers.**

The Board invited tenders for procurement of 34 power transformers (220 KV) of eight different capacities which include procurement of seven transformers of 25 MVA 132/22/33 KV to meet the requirement of EHV transmission sub stations and placed (October 2001) orders as detailed below:

Sl. No.	Description of capacity of power transformer	Quantity ordered and procured	No. of offers received	No. of parties on whom orders placed	Distribution of Quantities				Remarks
					Name of the firm	No. of transformer	Rate	Extra expenditure	
							(Rupees in lakh)		
1	25 MVA 132/22 KV	3	8	2	IMP Power Limited (L-1)	2	48.71	-	L-2 = Rs.51.69 lakh but did not match L-1 rate.
					Bharat Bijli (L-2)	1	51.69	2.98	
2	25 MVA 132-110/33 KV	4	8	3	IMP Power Limited (L-1)	2	52.77	-	L-2 = Rs.57.45 lakh L-3 = Rs.57.85 lakh but did not match L-1 rate.
					Andrew Yule (L-2)	1	57.45	4.68	
					Bharat Bijli (L-3)	1	57.85	5.08	
<b>Total</b>		<b>7</b>	<b>-</b>	<b>-</b>		<b>7</b>	<b>-</b>	<b>12.74</b>	

Audit observed that:

- There was lack of transparency as the number of parties on whom the orders were to be placed and quantities thereagainst was not pre decided and recorded in the file prior to issue of NIT.

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- The placement of orders on other than the lowest tenderer despite not matching L-1 rate is objectionable and resulted in extra expenditure of Rs.12.74 lakh to the Board. It also resulted in L-1 not supplying the ordered quantity.

The Board stated (July 2004) that performance of L-1 was not satisfactory and hence orders were placed on L-2 and L-3 firms. It was further stated that views of audit on transparency requirements are noted and the tender conditions would be suitably modified. The Board's reply regarding placement of orders on L-2 and L-3 is not tenable since orders on all three firms were placed simultaneously and without getting the prices of L-2 and L-3 matched with L-1.

The matter was reported to the Government (March 2004); the reply had not been received (December 2004).

## **Maharashtra State Road Transport Corporation**

### **4.16 Investment of contributory provident fund and gratuity fund**

**The Corporation is liable to bear losses due to injudicious investment of Rs. 16.04 crore made by its contributory provident fund and gratuity fund trust.**

The Vice Chairman & Managing Director of Maharashtra State Road Transport Corporation (Corporation) is the Chairman of the Maharashtra State Road Transport Corporation's Contributory Provident Fund and Gratuity Fund Trust (CPF/GFT). The Chief Accounts Officer of the Corporation is the Secretary of the trust. The entire loss caused to the trust in investments must be made good alongwith up to-date interest by the Corporation in accordance with the provisions of Employees Provident Fund Act.

CPF/GFT invested (April-July 1998) Rs.11.78 crore in 15.75 *per cent* bonds of Uttar Pradesh Co-operative Spinning Mills Federation Limited (UPCSMFL). The trust further invested (December 1999) Rs.4.26 crore in 16 *per cent* bonds of UPCSML through an intermediary. UPCSML defaulted in payment of interest from 20 August 1999 and the total interest not paid up to March 2004 was Rs.12 crore.

The Corporation stated (June 2004) that investment in UPCSML was made by the trust considering high rate of return and as it had made profits during 1996-97 and 1997-98. It further stated that a suit would be filed for invoking the Government guarantee for recovery of the amounts invested.

The reply is not tenable as:

- Security of investment was of prime importance. The 15.75 *per cent* bonds of UPCSMFL were not only unsecured but also did not have any rating. UPCSMFL had incurred a huge loss of Rs.33.97 crore during 1995-96. The profit of Rs.9.99 crore during 1996-97 and Rs.14.54 crore for the period 1997-98 (up to December 1997) was due to prior period adjustment of Rs.29.61 crore for 1996-97 and Rs.30.65 crore for 1997-98. But for these adjustments the loss during these years would be Rs.19.62 crore and Rs.16.11 crore. Hence, investment in UPCSMFL was not in the interest of the Trust/Corporation.
- The investment was in violation of the investment guidelines (July 1998) which stipulate investment up to 10 *per cent* of total investment during the year in private sector bonds/securities which are risk free and must have an investment grade rating from atleast two credit rating agencies. Audit scrutiny revealed that there were AAA rated bonds giving interest between 13-14 *per cent* and fit for consideration as the interest was above the interest rate of 12 *per cent* payable to the subscribers of CPF.
- Further investment of Rs.4.26 crore in the 16 *per cent* bond of UPCSMFL was made on the ground that it was guaranteed by Government of Uttar Pradesh. However, the guarantee has not been invoked to recover this part of the investment made.

Thus, the Corporation would be liable to bear the total loss of Rs.28.04 crore (principal : Rs.16.04 crore and interest : Rs.12 crore) due to injudicious investment made in UPCSMFL by the Trust.

The matter was reported to the Government (May 2004); the reply had not been received (December 2004).

#### **4.17 Provision of buses to a political party**

**The Corporation has not recovered dues of Rs.27.15 lakh from a political party for providing buses on contract carriage.**

Maharashtra State Road Transport Corporation (Corporation) provided 62 buses on contract carriage to the Secretary, Maharashtra Pradesh Congress Committee, Mumbai for Youth Congress rally to be held at Sabarmati, Gujarat on 30 January 2000. The instructions (November 1999) on contract carriage provided that the Corporation was to collect a deposit of 120 *per cent* of the estimated bill before providing buses on contract carriage.

In the instant case, instead of collecting Rs.31.96 lakh (being 120 *per cent* of estimated charges amounting to Rs.26.63 lakh) in advance, the Corporation obtained (29 January 2000) only one cheque of rupees nine lakh. Even this cheque was dishonoured but no action was taken under section 138 of Negotiable Instrument Act, 1938. The Corporation received another cheque of rupees nine lakh on 31 January 2000 after release of buses. The Corporation preferred (8 March 2000) a final claim of Rs.26.63 lakh including interest against the party. Due to further interest implication, the balance amount increased to



Rs.27.15 lakh (principal: Rs.17.63 lakh, interest: Rs.9.52 lakh). The Corporation stated (May 2004) that full amount was not insisted upon because the activities of the Corporation were supervised and controlled by the Government of Maharashtra. As the Corporation's efforts to recover the amount failed, a summary suit was filed for recovery of dues in the Mumbai High Court.

The reply is not tenable as the provision of buses merely on the basis of the verbal assurance was in violation of the laid down instructions.

The matter was reported to the Government (March 2004); the reply had not been received (December 2004).

#### **4.18 Accident compensation**

**The Corporation failed to discharge its statutory obligation to make timely payment to accident compensation claimants.**

Section 168(3) of the Motor Vehicles Act, 1988 prescribes payment of accident compensation within 30 days of the date of announcing the award by Motor Accident Claims Tribunal (MACT). In case of delay in payment of accident compensation claims, interest is payable as prescribed in the award.

Test check of payment of 1,099 claims in 18 divisions during 1999-2003 revealed that there were delays in payment up to three years (beyond 30 days from the date of award). There was delay of more than one year in 40 cases, up to one year in 397 cases and up to 90 days in 662 cases. The Corporation had to incur interest cost of Rs.5.08 crore.

The Corporation stated (October 2003) that the rate of interest charged by the MACT was less than the rate of interest paid by the Corporation on borrowings. The reply is not tenable. The Corporation should not have tried to take advantage of the rate of interest on delayed payment being less than its own cost of funds. The Corporation being a public sector unit had failed to discharge its statutory obligation to make timely payment.

The Corporation in its reply further stated (July 2004) that efforts are being made to make the statutory payments in time.

The matter was reported to the Government (May 2004); the reply had not been received (December 2004).

#### **4.19 Lack of transparency in procurement of tyres and tubes**

**The Corporation exhibited lack of transparency besides incurring extra expenditure of Rs.33.55 lakh in procurement of tyres and tubes.**

The Corporation invited tenders for procurement of tyres and tubes and placed orders during April 2003 as detailed below:

Sl. No.	Description of tyres and tubes	Quantity ordered and procured	No. of offers received	No. of parties on whom orders placed	Distribution of Quantities				Remarks
					Name of the firm	No. of tyres	Rate	Extra expenditure	
1	Nylon crossply tyres 9 x 20	43,000	5	3	MRF (L-1)	27,950	4,705.00	-	L-2 = Rs.4,856.67 per tyre did not match L-1 rate.
					J.K. Industries (L-2)	6,450	4,856.67	9.78	
					Vikrant (L-2)	8,600	4,856.67	13.05	
2	Radial tyres 9x 20	5,000	5	2	MRF (L-1)	3,500	6,901.84	-	L-2 = Rs.7,481.33 per tyre but did not match L-1 rate.
					Vikrant (L-2)	1,500	7,481.33	8.69	
3	Tubes for radial tyres 9 x 20	7,500	5	2	Vikrant (L-1)	6,000	537.33	-	L-2 = Rs.568.34 but did not match L-1 rate.
					MRF (L-2)	1,500	568.34	0.46	
4	Nylon tyres 7.50 x 16	2,000	5	2	MRF (L-1)	400	2,977.04	-	L-2 = Rs.3,072.09 but did not match L-1 rate.
					Vikrant (L-2)*	1,600	3,072.09	0.57	
5	Tubes for nylon crossply tyres	15,050	5	2	Vikrant (L-1)	8,600	423.67	-	L-2 = Rs.439.16 but did not match L-1 rate.
					J.K. Industries (L-2)	6,450	439.16	1.00	
<b>Total</b>		<b>72,550</b>	<b>-</b>	<b>-</b>		<b>72,550</b>	<b>-</b>	<b>33.55</b>	

Audit observed that:

- There was lack of transparency as the number of parties on whom the orders were to be placed and quantities thereagainst was not pre decided and recorded in the file prior to issue of NIT.
- The placement of orders on other than the lowest tenderer despite not matching L-1 rate was objectionable and resulted in extra expenditure of Rs.33.55 lakh to the Corporation.

The Corporation stated (September 2004) that as the quantity offered by tenderer was uncertain, it was difficult to freeze the number of sources prior to opening of tender and for procurement from multiple sources the necessary provisions as suggested would be incorporated in NIT henceforth.

Reply is not tenable as any problem arising on account of the parties not having the capacity to supply the quantity as determined by pre-fixed formula could be taken care of by distribution of balance quantities to the remaining parties in the order of price quoted by them subject to their matching with L-1 party.

\*Actually supplied 600 tyres only and extra expenditure calculated on actual supplied quantity.

The matter was reported to the Government (May 2004); the reply had not been received (December 2004).

#### 4.20 Procurement of tarpaulin

**The Corporation failed to recover Rs.33.17 lakh towards rejected tarpaulin.**

Maharashtra State Road Transport Corporation (Corporation) invited (February 2002) tenders and entered (June 2002) into rate contract with Kohinoor Proofing Industries, Pune (firm) for procurement of 1,965 tarpaulin at total value of Rs.30.08 lakh (533 Type-I tarpaulin<sup>♦</sup> at the rate of Rs.1,950 per piece and 1,432 Type-III at the rate of Rs.1,375 per piece).

Audit observed as under:

- The Corporation's past experience with the firm was unsatisfactory. Therefore, payment terms should have stipulated release of amount only after thorough testing of material and not merely by visual inspection. Instead, as per the terms of payment of rate contract, 90 *per cent* payment (Rs.22.32 lakh) was made (5–23 July 2002) on acceptance of material based merely on visual inspection. The Corporation should have at least safeguarded its interests by taking bank guarantee for the amount released without lab report. The Corporation took bank guarantee for only Rs.3.20 lakh.
- The samples were sent (7 August 2002) for laboratory testing and test results received on 26 August 2002. The samples failed in testing. The dimensions and thickness of the tarpaulin were considerably different from that prescribed and water penetration test revealed wetting of the lower surface. The material did not meet nine out of 16 parameters.

Out of the total rejected quantity valuing Rs.22.32 lakh, the firm paid Rs.10.39 lakh (February 2003) and the Corporation encashed the bank guarantee of Rs.3.20 lakh. The balance amount of Rs.8.73 lakh was still (September 2004) to be recovered from the firm.

- As per the terms of rate contract, the rejected material was to be replaced by the firm within 30 days, otherwise interest at the rate of 21 *per cent and* ground rent at the rate of one *per cent* per week on the net value of rejected material in addition to interest was to be charged. The Corporation was yet to recover Rs.5.69 lakh towards interest and Rs.18.75 lakh towards ground rent from the firm. Thus, total amount recoverable from the firm towards rejected material was Rs.33.17 lakh<sup>^</sup> as on 30 April 2004.

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<sup>♦</sup> Used to cover the luggage of passengers.

<sup>^</sup> Rs.8.73 lakh + Rs.5.69 lakh + Rs.18.75 lakh.

Corporation  
not  
covered  
3.17 lakh  
towards rejected  
tarpaulin.

The Corporation stated (June 2004) that the matter of recovery of damaged tarpaulin was being pursued and would be followed by legal action against the supplier in the event of non recovery.

The matter was reported to the Government (April 2004); the reply had not been received (December 2004).

## Maharashtra Industrial Development Corporation

### 4.21 Leasing of buildings

**Non collection of premium in terms of Memorandum of Understanding from Rolta India Limited resulted in outstanding dues of Rs.9.37 crore.**

Maharashtra Industrial Development Corporation (Corporation) entered into (March 1999) Memorandum of Understanding (MOU) with Rolta India Limited (firm) for lease of two buildings for total lease premium of Rs.10.60 crore<sup>♦</sup> in Millennium Business Park (MBP) at Mahape, Thane district under exchange\* scheme.

The firm was to pay Rs.10.60 crore as total lease premium of two buildings as under:

Five *per cent* of the lease premium at the time of signing of MOU, five *per cent* at the time of allotment, 10 *per cent* at the time of handing over the possession and 80 *per cent* in quarterly instalments spread over seven years with interest of 14 *per cent* on reducing balance. The licensee was liable to pay interest at the rate of 16 *per cent* on all delayed payments.

Audit observed as under:

- As per the terms of MOU, the firm was to pay total lease premium of Rs.10.60 crore. Accordingly, the firm paid Rs.53 lakh (five *per cent* of Rs.10.60 crore) at the signing of MOU. But the Corporation wrongly mentioned (April 1999) the total premium payable as Rs.8.40 crore in the allotment letter instead of Rs.10.60 crore as per MOU. This was a clear benefit of Rs.2.20 crore to the firm.
- Further, the Corporation carried out (February-May 2001) customisation of buildings as per the requirement of the firm and spent Rs.85 lakh on it. The firm paid (January 2002)

Non collection of premium from firm resulted in outstanding dues of Rs.9.37 crore.

<sup>♦</sup> Worked out as Rs.8.80 crore (80,000 square feet x Rs.1,100 per square feet) + (20,000 square feet x Rs.900 per square feet)

\* In exchange of plots, the built up area in the building at MBP was allotted to the firm.

Rs.6.23 lakh only towards customisation work. The balance amount of Rs.78.77 lakh has not been recovered from the firm so far (July 2004).

- As on 31 March 2004 premium of Rs.7.87 crore remained to be collected from the firm. The interest due on unpaid premium works out to Rs.71.42 lakh.

The Corporation in its reply (July 2004) endorsed by Government (July 2004) stated that there was no under recovery of Rs.2.20 crore and intimated that it decided to cancel the allotment in April 2004 but could not do so because of case filed by the firm in High Court against the cancellation. The reply is not tenable as the allotment order clearly stated the total premium payable as Rs.8.40 crore instead of Rs.10.60 crore as mentioned in MOU.

#### **4.22 Construction of common effluent treatment plant**

<b>Defective Memorandum of Understanding led to non completion of common effluent treatment plant despite expenditure of Rs.4.27 crore.</b>
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In order to set up common effluent treatment plant (CETP) at an estimated cost of rupees seven crore at Butibori Industrial Area, Nagpur, Maharashtra Industrial Development Corporation (Corporation) entered into Memorandum of Understanding (MOU) in April 1999 with Butibori Manufacturers' Association (BMA) and Green Spice India Limited (GSIL). The total investment of Rs.4.27 crore made by the Corporation on CETP remained idle as the work was still (March 2004) incomplete.

As per the terms of MOU, the project was to be financed as under:

<b>Name of the party</b>	<b>Percentage of contribution</b>
Maharashtra Industrial Development Corporation (Corporation)	25
Green Spice India Limited (GSIL)	25
Maharashtra Pollution Control Board (MPCB)	5
Butibori Manufacturers' Association (BMA)	15
Loan fund to be raised by GSIL from financial institutions	30

Thus, a major part of the fund forming 75 *per cent* of the cost was to come from GSIL, BMA and MPCB. The Corporation spent Rs.4.27 crore without any contribution from BMA, the major beneficiary of the project and other agencies. They failed to fulfil their obligation in funding the project. The work was suspended in October 2001 after termination of MOU.

The Corporation in its reply (July 2004) endorsed by Government (August 2004) stated that it plans to complete the project by selecting a new joint venture partner.

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*Audit Report (Commercial) for the year ended 31 March 2004*

The fact however, remains that CETP has not been utilised so far despite expenditure of Rs.4.27 crore. The MOU should have prescribed that initial funding should have been by the beneficiaries and followed by the Corporation. This would have ensured their commitment to the project.

#### **4.23 Payment of intermediary charges**

**The Corporation made an unwarranted payment of Rs.30 lakh to an intermediary for availing loan from a Government bank.**

The Corporation availed loan of Rs.60 crore (Rs.35 crore in November 2001 and Rs.25 crore in June 2002) from Jammu & Kashmir Bank Limited, Mumbai (bank) at the interest rate of 11.4 *per cent* per annum.

The Corporation paid (June 2002) intermediary charges of Rs.30 lakh to Chartered Financial Management Limited (firm) at the rate of 0.5 *per cent* on the amount of loan availed. The payment was made to the firm on the ground that loan proposal was initially brought (February 2001) by the firm from the bank and to fulfill the oral commitment to the firm.

The Corporation in its reply (July 2004) endorsed by the Government (November 2004) stated that the proposal given by the firm was beneficial and Corporation saved interest payable to the bank. The reply is not tenable. Payment of charges to an intermediary would have been justified had the money been raised from a large number of sources as in the case of public issue of bonds where the intermediary renders services commensurate with the commission paid. This was not the case here. The loan was secured by hypothecation of receivables from Millennium Business Park and water charges receivable by the Corporation. The payment of Rs.30 lakh to the private party was, therefore, unwarranted.

#### **4.24 Allotment of plots**

**Allotment of plots of Infotech Park, Nagpur by the Corporation below the minimum market rate resulted in loss of revenue of Rs.2.93 crore.**

The Corporation sold (February 2002 to October 2003) 28 plots measuring 29,340.10 square metres in infotech park at Nagpur to industrial units at the rate of Rs.2,000 per square metre.

Audit observed that during 2001-02, the ready reckoner rate of Town Planning Department (TPD) of the State Government indicated minimum market rate applicable in that area as Rs.3,000 per square metre. The infotech city is located in the heart of the city. The Corporation sold 28 out of 46 plots measuring 29,340.10 square metres below the minimum market price of Rs.3,000 per square metre and incurred loss of revenue of Rs.2.93 crore. The reasons for fixing the sale rate below the TPD rate were not on record.

The Corporation in its reply endorsed by the Government stated (July 2004) that the rates of land premium in developed and semi developed part of the State are higher compared to rates in developing and backward regions. The infotech park was stated to be in a backward area hence placed under 'D' category where lesser premium is chargeable. The reply is not acceptable. The methodology adopted in fixing the price lacked transparency as there was no laid down policy for fixing the sale price of plots on the basis of predetermined percentage of concession with reference to market price in each of the zones.

#### **4.25 Construction of flatted building at Satpur**

**Construction of 25 galas on second and third floor of flatted building at Satpur, Nasik without ascertaining firm demand led to idle investment of Rs.35.84 lakh.**

The Corporation constructed flatted building (ground *plus* three) with 13 galas\* on each floor in Satpur Industrial Area, Nasik. The construction was completed in December 2002 at a cost of Rs.74.55 lakh. Twenty five galas situated on second and third floor were not allotted till May 2004.

Audit observed the following:

- Location of units on second and third floor is disadvantageous due to difficulties in transporting raw materials. For this reason, the normal practice was to restrict construction of galas with only one storey (ground *plus* one). Departing from this practice, the construction of galas on second and third floor was undertaken without ascertaining firm demand for galas on second and third floor.
- As per administrative approval for the project, construction was to be taken up only after ascertaining firm demand. Pursuant to press release, the Corporation received 66 applications alongwith earnest money deposit (EMD) of Rs.5,000 each. However, the press release did not specify that the flatted building would be of ground *plus* three structures as against ground *plus* one structure in existing four flatted buildings.

The Corporation in its reply (May 2004) endorsed by Government (June 2004) stated that more galas would have been allotted but for the industrial recession. The reply is not tenable as some of the applicants withdraw the deposits as they wanted allotments for galas on ground or first floor only. As a result, the proportionate investment of Rs.35.84 lakh remained blocked from December 2002.

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\* Commercial blocks.

**General**

**4.26 Follow up action on Audit Reports**

*Outstanding action taken notes*

**4.26.1** 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 in 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 2001-02 was presented to the State Legislature in July 2003, four out of eight departments did not submit replies to 17 out of 24 paragraphs/reviews as on 31 March 2004. Audit Report for 2002-03 was presented to State Legislature on 8 June 2004.

The Government did not respond even to reviews/paragraphs highlighting important issues like system failure, mismanagement and inadequacy of recovery system. Departments largely responsible for non-submission of replies were Industries, Energy and Labour and Trade and Commerce.

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

**4.26.2** Replies (Action Taken Notes) to 152 paragraphs pertaining to 23 Reports of the COPU presented to the State Legislature between April 1995



and March 2004 had not been received (31 March 2004) as indicated below:

Year of COPU Report	Total no. of Reports involved	No. of paragraphs where replies not received
1994-95	4	32
1995-96	2	10
1996-97	2	10
1997-98	3	24
1998-99	1	20
2000-01	1	5
2001-02	6	26
2002-03	1	10
2003-04	3	15
<b>Total</b>	<b>23</b>	<b>152</b>

These reports of COPU contain recommendations in respect of paragraphs pertaining to 12 departments\* which appeared in the Comptroller and Auditor General of India's Audit Reports for the years 1989-90 to 2000-01.

#### *Action taken on the persistent irregularities*

**4.26.3** With a view to assist and facilitate discussion of paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the auditee organisation concerned and results thereof are given in **Annexure-13**.

#### *Government companies*

**4.26.4** The irregularities having financial implications of Rs.14.85 crore in unfruitful investment in construction of tenements, shops and banking complex by City and Industrial Development Corporation of Maharashtra Limited without assessing firm demand were included in the Reports of the Comptroller and Auditor General of India for the years 1999-2000 to 2000-01 (Commercial) - Government of Maharashtra. As seen from the **Annexure-13** action was yet to be taken by the Company/State Government on the irregularities pointed out.

#### *Statutory corporations*

**4.26.5** The irregularities having financial implication of Rs.61.84 crore in purchase of meters, switch gears and grinding balls at higher rates by Maharashtra State Electricity Board, construction of financially unviable depots/bus stations by Maharashtra State Road Transport Corporation and acceptance of doubtful and inadequate securities for sanction of loans by Maharashtra State Financial Corporation were included in the Reports of the Comptroller and Auditor General of India for the years 1999-2000 to 2002-03 (Commercial) - Government of Maharashtra. As seen from the **Annexure-13** persistent irregularities noticed during audit indicate that the Corporations are yet to improve their procedures.

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\* Agriculture, Animal Husbandry, Dairy Development & Fisheries; Revenue and Forest; Medical, Education and Drugs; Industries, Energy and Labour; Social Welfare; Women and Child Welfare; Co-operation and Textiles; Home (Transport); Cultural Affairs; Urban Development Home (Police) and Home (Tourism).

The matter was reported to the Government (August 2004); the reply had not been received (December 2004).

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

**4.27** Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 61 PSUs disclosed that 2,506 paragraphs relating to 582 Inspection Reports remained outstanding at the end of September 2004. The department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2004 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 22 draft paragraphs and four draft reviews forwarded to the various administrative departments during March-August 2004, as detailed in **Annexure-15**, have not been replied to so far (December 2004).

It is recommended that the Government should ensure that (a) procedure exists for action against officials who failed to send replies to inspection reports/draft paragraphs/reviews 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 the audit observations is revamped.

**MUMBAI**

**The 4 March 2005**

**(G. N. SUNDER RAJA)**

**Accountant General**

**(Commercial Audit), Maharashtra**

*Countersigned*

**NEW DELHI**

**The 11 March 2005**

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