

Chapter IV

4. Transaction Audit Observations

Government Companies

Andhra Pradesh State Irrigation Development Corporation Limited

4.1 *Nugatory Expenditure*

The Company's failure to ascertain the areas affected by the reservoir project before incurring expenditure on Lift Irrigation Scheme led to incurring of avoidable expenditure of Rs 2.70 crore.

In order to provide irrigation facilities from Gundlakamma river through lift irrigation scheme with an ayacut of 4,950 Acres, Government of Andhra Pradesh (GoAP) accorded sanction (February 2000) for Nagulupallapadu – I Lift Irrigation scheme (LIS) under Rural Infrastructure Development Fund (RIDF) – V of National Bank for Agriculture and Rural Development (NABARD) at a cost of Rs 8.24 crore (Rs 6.29 crore from RIDF as loan assistance and balance Rs 1.95 crore from GoAP). The LIS consisted of construction of intake well to collect water from the river, laying of intake pipeline, construction of sump well, pump house, pressure main and delivery cistern and delivery of water thereafter through main canals.

Andhra Pradesh State Irrigation Development Corporation Limited (Company), the executing agency, grounded the scheme in April 2000 and went ahead with works of construction of head works, pressure works, gravity mains and delivery cisterns etc.

In August 2002, Chief Engineer, Irrigation Department (CE) intimated the Company that GoAP was considering to construct a reservoir across Gundlakamma River (GRP) near Mallavaram Village under Nagullupallapadu Mandal, to irrigate 80,000 acres of land and to provide drinking water facility. The CE, accordingly, advised the Company not to take up any LIS in the command area or submerged area of the project, by which time the Company had already incurred an expenditure of Rs 4.49 crore under the LIS.

The Company, instead of seeking clarification to either continue or foreclose the LIS being executed by them, continued the work incurring further expenditure of Rs 0.71 crore (Rs 5.20 crore – Rs 4.49 crore) till November 2003. In November 2003, the GoAP while reiterating the instruction of CE intimated the Company the details of villages/Mandals that would be affected/benefited by the construction of the reservoir. The Company, completed (April 2005) all the works at a cost of Rs 7.19 crore required for the

LIS except construction of main canals to carry water, as beneficiaries failed to hand over the land required for executing the canals.

As efforts to construct main canals did not fructify, the Company proposed formation of Gravity main in place of open canals. Since Gundlakamma Project authorities have also started formation of canals pertaining to GRP, the Company felt a need to reexamine its decision to take up the gravity main. Therefore, the Company took up the matter (November 2008) with the Executive Engineer of GRP and realized that with the construction of GRP, the ayacut that can be covered by this LIS has been reduced to 471.49 Acres as against 4,950 Acres originally contemplated. The Company further, realized that balance 471.49 Acres were also scattered and could not be fed through the LIS.

In the meantime, the Company without constructing the canals issued completion certificate to NABARD indicating final cost of the project as Rs 7.19 crore.

Thus, the case would reveal the following:

- ❖ Though Irrigation Department instructed the Company in August 2002 not to take up any LIS in the command and submerged areas of Gundlakamma project, the Company instead of seeking clarification went ahead to execute balance works of LIS on the plea that the instructions were applicable only to the new projects which were not grounded, resulting in an avoidable expenditure of Rs 2.70 crore.
- ❖ The entire LIS completed at a cost of Rs 7.19 crore also proved nugatory, as main canals to carry water were not constructed.

The Government stated (June 2009) that the project was grounded much earlier to the receipt (November 2003) of instructions by which time 80 *per cent* of the works were completed and only in December 2008 they were notified that 90 *per cent* of the ayacut of the LIS is covered under GRP. It was further stated that in case GRP cannot supply water to the tail end area of the ayacut, LIS would be utilized as supplementation scheme. The reply is an after thought to utilize the LIS as supplementation scheme but was not contemplated while taking up the LIS. The necessity to have the scheme to serve tail end ayacut area was also not part of the Scheme.

There is need for the Company to seek clarification from the authorities concerned before incurring expenditure on such schemes instead of going ahead with implementation on the plea of lack of clarity in Government orders.

Andhra Pradesh Industrial Infrastructure Corporation Limited

4.2 Undue benefit to an allottee

Allotment of alternate land to an allottee at a concessional rate resulted in loss of Rs 20.17 lakh and consequential undue benefit to the allottee.

In order to set up readymade garments factory at Kukatpally Industrial Development Area (KIDA), Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) allotted (January 1979) land admeasuring one Acre (4,047 Square Metres) to Konark Engineering Company (allottee) at a rate of Rs 15,000 per acre and allottee paid 50 *per cent* of land cost amounting to Rs 7,500. The sale agreement was executed (May 1979) and the land without any encroachments was handed over (May 1979) to the allottee. The allottee represented (March 1982) that the allotted plot was encroached by hut dwellers in December 1979. The allottee requested (March 1986) for allotment of alternate plot in KIDA itself. As there were no vacant plots in KIDA, the efforts made by the Company to offer alternate land in Industrial Development Area at Cherlapally and Pashamylaram did not fructify as the allottee insisted for allotment at KIDA itself. Finally the allottee applied (November 2007) for an alternate land.

The Company allotted (January 2008) one acre in the Industrial Park, Jadcharla at a special rate of Rs 500 per square metre (psm) even though the prevailing land rate was Rs 1,000 psm. The allottee paid the entire cost of land (Rs 20.30 lakh) and took possession of the land by entering into an agreement (September 2008). Surprisingly, the alternate land was allotted to a different unit under the same management which envisaged for other activity of manufacture of “Elevator Assembly”.

The case would thus reveal that:

- ❖ the Company allotted the land at a lesser rate of Rs 500 psm against the prevailing rate of Rs 1,000 psm thereby leading to a loss of Rs 20.17 lakh (Rs 40.47 lakh – Rs 20.30 lakh).
- ❖ the alternate land was allotted to a different unit under the same management for setting up different activity of manufacture of “Elevator Assembly”, instead of setting up a ready-made garment factory as contemplated earlier.

The Government stated (July 2009) that subsequent to allotment (January 1979) and execution of sale agreement (May 1979), the plot was encroached by the hut dwellers and all efforts made to remove the encroachment failed. Hence, it was decided to allot alternate plot at a reduced rate of Rs 500 psm. Further there is no loss to the Company in allotment of alternate land at a cost of Rs 20.30 lakh as against original plot which is now worth Rs 2.02 crore.

The reply indicates that the Management's decision was unjustified as plot was encroached subsequently due to delay in setting up of unit by the allottee. The

Company instead of taking action for cancellation of plot as per allotment regulations, considered the case for allotment at concessional rate. Further the contention that original plot worth Rs 2.02 crore is hypothetical as Company was unable to get the plot vacated from encroachers for more than 27 years.

Thus, undue benefit of allotment of alternate land to an allottee who was not interested in starting small scale industry even after 28 years resulted in a loss of Rs 20.17 lakh due to collection of lower land rate.

The Company should invariably follow the allotment regulations even for allotment of alternate land and collect the rates fixed. The Company should also take into account any abnormal delay in starting the industry in the land allotted earlier and also the changed business priorities of the allottee before any decision is taken to allot alternate land.

4.3 Loss of interest due to non-deposit of demand drafts

Company retained the cancelled Demand Drafts for an year resulting in loss of interest of Rs 26.78 lakh.

In order to set up a Cement Packaging Unit at Kakinada, Andhra Pradesh Industrial Infrastructure Corporation Limited (Company) allotted (March 1995 and January 1996) 72 Acres and 14 cents of land to Gujarat Ambuja Cements Limited (allottee) for Rs 2.24 crore. The allottee without taking possession of land or executing sale agreement paid the land cost.

The allottee requested (July 1997) for transfer of allotment of land to their subsidiary company which was acceded in September 1997. Later the allottee requested (October 1998) to restore the allotment back to them. The request of the allottee was agreed (November 1998) in principle on the condition that the allottee would remit restoration charges at the rate of one *per cent* on prevailing land cost, along with enhanced compensation at the rate of Rs Four lakh per acre and frontage charges of 15 *per cent* on present land cost. As the allottee failed to pay the restoration charges, the Company withdrew the restoration orders (March 2006) resulting in allottee filing a petition in the Court.

Though the Hon'ble High Court of Andhra Pradesh ordered to maintain status quo (31 May 2006), the Company returned (22 September 2006) Rs 2.23 crore being the land cost after deducting the EMD by way of Demand Drafts (DDs). The allottee, however, returned the payment immediately (28 September 2006). But these DDs were retained by the zonal office of the Company and credited to Company accounts only on 5 September 2007 after a lot of correspondence between the Zonal office and Head office.

The case would thus reveal that:

- ❖ Despite an order of the court to maintain status quo, the company refunded Rs 2.23 crore to the allottee in September 2006.

- ❖ Instead of paying the refunded land cost by cheque, payment was made by DD in September 2006.
- ❖ Though the DD was returned immediately by the allottee in September 2006, the company retained the DD without crediting back to their account, resulting in loss of interest of Rs 26.78 lakh.

The Government stated (June 2009) that it was felt appropriate to refund the amount by way of DDs to show the intention of the Company in refunding the amount. The reply is not relevant as the Company failed to encash the DDs returned by the allottee and retained for one year in their office losing the interest on the same.

There is need for the Company to evolve a system to see that delays are avoided.

Andhra Pradesh Beverages Corporation Limited

4.4 Loss due to under insurance

Due to failure of the Company to enhance the insurance cover sufficient to the existing stock, it suffered a loss of Rs 1.04 crore.

Andhra Pradesh Beverages Corporation Limited (Company) purchases Indian Made Foreign Liquor (IMFL) from different distilleries and later sells it through retailers by storing stocks in its godowns established across the State of Andhra Pradesh. The stocks are insured against loss/damage with different insurance companies through standard Fire and Special Perils Policy (material damage). The depot managers (in-charge of godown) are required to send the peak value particulars every month to the Branch of Insurance Company concerned and also to the Corporate office of the Company for insurance purpose as per Corporate office instructions.

The Company which was holding stock worth Rs 3.59 crore (October 2006) in their Kurnool godown had taken an insurance cover worth Rs Four crore valid for one year from 25 November 2006. The depot manager of Kurnool unit while sending the peak value statement every month to the Branch of the insurance company, though requested to enhance the insurance cover, did not indicate the amount by which it has to be increased. There is no record to show that the corporate office initiated action to enhance the insurance cover despite getting a copy of peak value statement every month. Despite a notice (April 2007) from the Insurance Company to intimate the amount by which the insurance cover has to be enhanced, the management failed to do so.

In June 2007, due to heavy rainfall, the godown was inundated causing damage to the stored stock of IMFL worth Rs 5.59 crore. Of the damaged stocks Company recovered stocks worth Rs 1.01 crore and declared balance stock of Rs 4.58 crore as damaged. The Company, accordingly, filed (July 2007) a claim of Rs 4.68 crore (including Rs 10 lakh spent on salvaging) with the Insurer. While assessing the damage as Rs 4.11 crore the Insurance

Company restricted the claim to match the insurance coverage and paid (April 2009) Rs 2.80 crore.

The Government stated (July 2009) that insurance claim of Rs 4.68 crore includes Rs 1.92 crore of excise duty. Matter for waiver of excise duty was under process. It was also stated that Company was permitted to send the damaged stocks for reprocessing and it was estimated that the same would be worth Rs 43.48 lakh. Hence, the Government contention was that the net gain would be Rs Four lakh i.e., Rs 2.76 crore loss less Rs 2.80 crore claim amount. But the fact remains that gain of Rs Four lakh is based on realisation of Rs 43.48 lakh on reprocessing which is not certain. The amount of Rs 1.92 crore when waived off is required to be paid back as per subrogation clause to the Insurance company.

Thus, the failure of the Company to increase the insurance cover resulted in a loss of Rs 1.04 crore being the difference between the actual claim amount of Rs 3.84 crore based on the stock existing (May 2007) and the admitted claim amount of Rs 2.80 crore.

The Company should evolve a system to monitor the sufficiency or otherwise of the insurance cover based on the value of stocks maintained in its depots.

The Singareni Collieries Company Limited

4.5 Wasteful expenditure

The Company spent Rs 80.20 lakh on matters related to acquisition of land for Peddampeta shaft project but dropped the same since the technology to be employed was not finalized.

The Singareni Collieries Company Limited (Company) is extracting coal from its mines by way of open cast (OC), Continuous and Longwall Mining Technology. As the OC mines of Ramagundam area were fast depleting and conventional mining technology was not considered suitable to extract coal from deeper seams, the Company proposed (June 2003) to implement three deep shaft projects (Adriyala, Jallaram and Peddampeta) with high capacity Longwall technology for extracting coal lying beyond 300 Metre depth.

For this purpose the Company conducted (June 2003) a feasibility study on Peddampeta shaft project (project) for extracting coal and found that 1.46 Million Tons (MTs) of coal can be mined per annum out of the total extractable reserves of estimated 41.40 MTs. The Board accordingly sanctioned (December 2003) an estimate (Rs 356.86 crore) for working on the project in three seams¹ by Longwall² and continuous miner³ technology.

¹ It is stream of coal formation having dimensions of thickness, width and length embedded between the earth crust.

² It is a sophisticated machine with a rotating drum that moves mechanically back and forth across a wide coal seam.

³ It is a machine used to cut through the coal and immediately load the coal onto a shuttle car which takes it to a conveyor belt, finally transporting it to the surface.

For the project, the Company required land admeasuring 65.98 Acres (26.70 hectares) for diversion of Jallaram vagu⁴, out of which the Company was already in possession of 16.56 Acres (6.70 hectares). The Company therefore decided to procure balance 49.42 Acres (20 hectares) of land. Subsequently, the Company to avoid subsidence effect over villages requisitioned (March 2006) additional land admeasuring 137.05 Acres with Land Acquisition authorities by depositing necessary charges. While the Company did not acquire 49.42 Acres (20 hectares) land required under diversion of Jallaram vagu, it went ahead with acquisition of 137.05 Acres.

However, without ascertaining the efficacy of high production Longwall Technology being executed elsewhere, Company incurred an expenditure of Rs 80.20 lakh between September 2005 to September 2006 (Rs 45.40 lakh towards publication charges of Draft Declaration (DD) and Draft Notification (DN) for the acquisition of land admeasuring 137.05 Acres and Rs 34.80 lakh on clearances and public hearing related to land acquisition). Later, the Board decided (September 2007) to defer the project until it ascertained the efficacy of high production Longwall Technology from Adriyala and Jallaram projects resulting in withdrawal of land acquisition proposals. The approval for withdrawal of the Peddampeta shaft project was already received (April 2007) from the Ministry of Coal, Government of India, New Delhi.

Further, the expenditure incurred on clearances and public hearing related to land acquisition (Rs 34.80 lakh) and the expenditure incurred on publication of DD/DN (Rs 45.40 lakh) was accordingly written off in 2007-08 and 2008-09 respectively.

A scrutiny of records of Adriyala and Jallaram projects indicated that the developmental works are at an infant stage and sinking of Return Air Shaft work is in progress and procurement action of Longwall equipment is also under process and the extraction of coal with Longwall technology is likely to commence only from 2011-12.

Thus, the case would reveal the following:

- ❖ Company has grounded multiple Longwall projects without ascertaining the efficacy of the technology in either of the other two projects (Adriyala and Jallaram).
- ❖ Company subsequently withdrew Peddampeta shaft project, which resulted in wasteful expenditure of Rs 80.20 lakh.

The Management stated (April 2009) that in order to implement the projects as per the schedule the proponents obtained clearances and initiated certain advance action ahead of project approvals. The reply is not convincing as land acquisition and related clearances should commence only after determining the technology to be employed. Expenditure incurred, if any on determination of technology, ascertaining the coal deposits etc., can alone be treated as preliminary expenditure. This expenditure was incurred in haste by the

⁴ A stream of water/nala.

Company even before determining the technology to be employed, hence avoidable.

Whenever a new technology is to be implemented, the Company should not ground multiple projects at a time. The Company on an experimental method should ground one such project and only after the new technology is proved successful, may go ahead with other projects.

The matter was reported to the Government (March 2009); their reply had not been received (September 2009).

4.6 *Infructuous expenditure*

Failure of the Company to give right specifications for the Double Roll Crushers and inability to modify the specifications led to idling of three crushers valued Rs 69.93 lakh.

The Singareni Collieries Company Limited (Company) is presently supplying crushed coal of (-)^π 200 mm size from its existing Coal Handling Plants (CHPs). However, in order to supply 100 *per cent* crushed coal to consumers as a part of institutional reforms, the Company proposed (October 2004) to modify the existing CHPs by installing secondary crushers for crushing of coal upto (-) 50 mm size as it facilitates washing of coal for quality improvement for consumers. The Committee constituted for this purpose recommended (October 2004) crushing of coal upto (-) 100 mm size instead of (-) 50 mm size as associated losses like dust at CHPs and storage losses were attributed with supply of (-) 50 mm size. Besides, the Company also anticipated enough demand for 100 *per cent* crushed coal.

The Board approved (March 2005) the change in crushing of coal from (-) 50 mm to (-) 100 mm. Accordingly, the Company called for (July 2005) tenders for the supply of crushers from various suppliers.

Without assessing the market demand for (-) 100 mm product size of coal and without inviting interests for crushed coal of (-) 100 mm from the existing consumers of coal, the Company placed (September 2006) a purchase order with Sayaji Iron and Engineering Company Private Limited, Baroda, Gujarat for supply of four (4 Nos.) – 300 Tons per hour (TPH) Double Roll Crushers (DRC) (two for Srirampur and two for Ramakrishnapur).

All four DRCs valuing Rs 93.24 lakh (at the rate of Rs 23.31 lakh each) were received in June 2007. As per purchase order, crushers were guaranteed for material, design and workmanship for a period of 12 calendar months from the date of issue/commissioning or 18 calendar months from the date of dispatch, whichever was earlier.

However, the Company without installing the crushers requested (January 2008) the supplier to modify DRCs to increase their crushing capacity from

^π (-) indicates size of coal less than

300 to 500 TPH and to modify the input size (from 1080 mm X 765 mm to 1500 mm X 1500 mm) and output size (from (-)^π 100 mm to (-) 250 mm) to suit their requirement. The supplier, however, expressed his inability (April 2008) to modify the same as the Toothed Roll Crushers were tailor made to suit each application. Due to changed requirement of the Company, only one out of four crushers was installed (January 2009) at CHP Ramakrishnapur and the remaining three DRCs are lying in stores/site without utilisation from the date of receipt (June 2007). In the meantime, warranty of the equipment expired in June 2008.

Thus, the failure of the Company to assess market demand for crushed coal of (-) 100 mm product size before placement of purchase order has not only resulted in non-installation of remaining three DRCs but has also resulted in infructuous expenditure of Rs 69.93 lakh to the Company.

The Government in reply stated (June 2009) that the crushed ROM coal of (-) 200 mm size supplied from these two CHPs were meeting their requirement and as there was no specific demand for (-) 100 mm size of coal, the remaining three DRCs were not installed. It was also stated that the DRC commissioned at Srirampur, CHP was working satisfactorily and the crushed coal of (-) 100 mm size was being mixed and dispatched with (-) 250 mm size.

The reply does not address the fact that the Company advanced procurement of DRCs without assessing the demand for (-) 100 mm crushed coal and thereafter requested the supplier to modify the crushers which was not possible as they were tailor made. Further, the objective of the Company was to supply (-) 100 mm crushed coal for washing of coal for quality improvement to consumers and not to mix up with (-) 250 mm size which was against the objectives of institutional reforms to be brought in, thus defeating the very purpose of procurement of DRCs. As a result, the expenditure of Rs 69.93 lakh became infructuous.

There is need for the Company to assess the market demand for any new product before placing orders for machinery to produce it.

Andhra Pradesh State Police Housing Corporation Limited

4.7 Additional expenditure

Company's failure to use the economical concrete mix in civil works led to avoidable additional expenditure of Rs 31.49 lakh.

The standards prescribed by Bureau of Indian Standards stipulate using of design mix concrete in the construction of civil works in place of nominal mix. While in the design mix lower quantity of cement is used by controlling the water cement ratio correctly to obtain the desired strength of concrete, thereby

^π (-) indicates size of coal less than

saving around 80 Kgs of cement per cubic metre of concrete, the cement content in the nominal mix (1:1.5:3) is more and hence expensive. The average difference in cost between two kinds of concrete mix per cubic metre was Rs 339.17 (2005-06) and Rs 472.69 (2006-07).

In December 2005 the Andhra Pradesh State Police Housing Corporation Limited (Company) instructed all its Executive Engineers to execute the vibrated reinforced concrete cement works by using design mix in civil works costing more than Rs One crore and use nominal mix if design mix cannot be used for any reason in case of works costing upto Rs One crore. Despite the instructions, the Company accepted contractors' request in 14 works (Rs 20.51 crore) each costing more than Rs One crore for use of nominal mix instead of design mix thereby incurring an avoidable expenditure of Rs 31.49 lakh.

Thus, use of nominal mix despite instructions to use design mix led to avoidable expenditure of Rs 31.49 lakh.

The Management should follow the standards fixed by Bureau of Indian Standards and ensure compliance with its own instructions.

The matter was reported to the Government/Management (March 2009); their replies had not been received (September 2009).

Andhra Pradesh Rajiv Swagruha Corporation Limited

4.8 Undue benefit to contractors

Reimbursement of insurance charges in contravention of terms and conditions of the NIT/agreement resulted in undue benefit to the contractors – Rs 1.14 crore.

Government of Andhra Pradesh (GoAP) through Andhra Pradesh Rajiv Swagruha Corporation Limited (Company) launched (March 2007) Rajiv Swagruha Programme with an aim to provide affordable housing equipped with all modern facilities at 25 per cent less than the prevailing market value.

The Company for execution of the works in three projects⁵ under the said programme, awarded works (February – November 2008) to six contractors. As per the terms and conditions of the Notice Inviting Tender (NIT)/agreements, contractors are required to provide insurance cover from the start date to the end of the defects liability period (24 months after completion) for any loss or damage to the works, plant and materials, equipment, property in connection with the contract and personal injury or death of persons employed for construction. It was however seen that in

⁵ Pocharam, Bandlaguda and Nellore.

respect of one project (Chandanagar) transferred (August 2007) to the company after grounding by Andhra Pradesh Housing Board, there was no provision for reimbursement of insurance premia since the rates finalised were inclusive of all taxes.

The NIT/agreements while enforcing the contractor to pay premium regularly and produce the receipts thereof to the Company well in advance, also provided for the Company to pay the premium in case of failure of the contractors to pay the same and recover it from the contractors' payments. Thus, it is evident that the responsibility to provide insurance cover is of the contractor. Contrary to the conditions of the contract, the Company in Part II of bill of quantities appended to the agreement provided for reimbursement of insurance premium upto 0.25 *per cent* of estimated cost value or actual, whichever is less.

It was seen (April 2009) that five out of six contractors claimed reimbursement of insurance premia and the Company reimbursed (July 2008 to March 2009) Rs 1.14 crore. As payment of insurance premia is the liability of contractors and not of the Company, reimbursement of the same resulted in undue benefit of Rs 1.14 crore to contractors.

The Management stated (July 2009) that GoAP issued orders (July 2003) to include reimbursement of insurance premium charges in the estimate and accordingly the insurance premia were paid.

The reply is factually incorrect as orders of GoAP of July 2003 pertain to Irrigation department and applying the same to Rajiv Swagruha Programme launched in March 2007 was irregular. Since the fact of reimbursement was not included in the NIT, the inclusion of same in Bill of quantities was not in order. Besides, Company did not provide for reimbursement in respect of one contractor of Chandnagar project.

The Company should ensure that the terms and conditions of NIT/ contract are unambiguous so as to avoid extending undue benefit to contractors.

The matter was reported to the Government (June 2009); their reply had not been received (September 2009).

Andhra Pradesh State Civil Supplies Corporation Limited

4.9 System Failure

Company's failure in conducting the physical verification as prescribed resulted in non-detection of misappropriation and consequent shortage of rice valued Rs 53.55 lakh.

Andhra Pradesh State Civil Supplies Corporation Limited (Company) is responsible for holding stock of rice and other commodities at each Mandal Level Stockist Point (MLS) for eventual transfer to the public distribution

system. To streamline the system of physical verification (PV) of stocks at each MLS point, the Company issued (February 1999) following instructions:

- ❖ District Managers (DMs) to conduct 100 *per cent* PV at one third of the MLS points every month and to conduct average PV at the remaining two third of the MLS points so that all the MLS points may be covered by 100 *per cent* PV in a quarter.
- ❖ DMs to submit a certificate on reconciliation of actual book balance and physical balance of stocks in MLS points along with PV report.
- ❖ DMs to verify and countersign the PV reports before submitting to the Company.

Despite these instructions, 100 *per cent* physical verification at MLS point at Siddipet was not conducted regularly and physical verification whenever conducted was reportedly conducted on weighted average⁶ basis. Though the Head office was aware of deviation in the method of conducting PV, no corrective action was taken. Further, PV of stock was not conducted during the major period of the year 2004-05 and the reconciliation certificate in Stock register was not signed by the DM. In February 2006 the MLS point in-charge at Siddipet declared shortage and operational loss of 595 Metric tonnes (MTs) of rice since last two years. Thereafter, a team of Company and Government officials deputed to verify the loss, found out (March 2006) loss of 595 MTs of rice valuing at Rs 53.55 lakh. The team also carried out an investigation and concluded:

- ❖ that PV was not conducted at 100 *per cent* but was conducted on weighted average basis leading to serious omission as it allowed the MLS point in-charge to claim losses attributable to previous two years period,
- ❖ MLS point Stock Register and Goods Received Register for the year 2004-05 were not available in District Office for verification which shows a serious omission in the accounts of the MLS point, and
- ❖ reconciliation statement was not signed in the Stock Register for many months during the year 2005-06.

The team, accordingly, blamed the DM and the MLS in-charge for the lapse. The MLS in-charge responsible for the loss has been dismissed (May 2009) duly ordering for recovery of actual loss (Rs 53.55 lakh) as against penal recovery (Rs 1.07 crore) at double the economic cost as per the extant instructions. The DM responsible was already under suspension in another case.

Thus due to failure of Management in detection of lapse in PV by the DM and not taking any action even after non-receipt of reconciliation statements led to

⁶ Weighted average means counting the total number of bags and multiplying the quantity indicated on the gunny bag to arrive at the physical stock available.

non-detection of pilferage of stock and consequent misappropriation of 595 MTs of rice valuing Rs 53.55 lakh. Further due to failure of the management to initiate timely action for recovery as per extant orders, the company was put to loss of Rs 53.55 lakh (the penal portion of recovery) and recovery of actual value of stocks misappropriated (Rs 53.55 lakh) has been delayed since the official concerned has been dismissed.

The Government while admitting the fact stated (May 2009) that the amount would be recovered by invoking Revenue Recovery Act. The fact remains that recovery is yet to commence (September 2009).

To avoid recurrence of such cases, Company needs to strengthen the existing monitoring system and ensure that the PV is conducted regularly in the manner prescribed.

Andhra Pradesh Power Generation Corporation Limited

4.10 Excess Payment

The Company paid rail freight at higher slab resulting in excess payment of Rs 9.87 crore.

Andhra Pradesh Power Generation Corporation Limited (Company) receives its Coal supplies for its Thermal Power Station at Vijayawada (Power Station) from Bharatpur and IB Valley sidings of Mahanadi Coal Fields Limited, Orissa (Coalfield). Company transports its coal from the Coalfield to its Power station through rail. Till December 2004, railways were charging freight based on the distance of transportation by multiple rounding off at each intermediate stage to the next Kilometer (KM). However, in December 2004 Ministry of Railways, in order to remove anomalies in the method of arriving at the chargeable distance for fare and freight by different zonal railways, decided to charge transportation by rounding off the total distance to the next higher KM only once at destination point. The revised policy was effective from January 2005.

As per railways erstwhile policy of billing freight charges, Company was paying for the distance of its transportation of coal from Bharatpur siding to its Power Station under the slab 951-976 KM by multiple rounding off the

distance at each intermediate stage at 951 KM, taking into account the distance travelled as follows:

Distance Travelled	Actual distance (Kms.)	Rounded off distance at each stage (Kms.)
Bharatpur to Talcher	13	13
Talcher to Budhapank Junction	5.32	6
Budhapank Junction to Duvvada	568.47	569
Duvvada to Kondapalli	358.68	359
Kondapalli to Power Station	3.73	4
Total Distance	949.20	951
Total Distance if rounded off once at the end		950

With the revised policy of the Ministry of Railways, Company was liable to pay its freight charges at the lower slab of freight under 926-950 KM. However, the Company which has received 46.70 lakh of Metric Tonnes of Coal from Bharatpur siding of the Coalfield during the period January 2005 to April 2009, paid its freight at higher charges under the slab 951-976 KM resulting in excess payment of Rs 9.87 crore (including other levies based on percentage on freight such as Busy Seasons' Surcharge and Development Surcharge). The Company neither noticed the excess freight charge being billed nor issued any notice to railways to refund excess charge so paid within the stipulated period of six months of delivery.

Thus, failure of the Company to check the correctness of the rail freight based on the revised policy of the railways resulted in excess payment of freight charges of Rs 9.87 crore.

The Government stated (June 2009) that the payment is made in the appropriate slab from May 2009 and a claim has been preferred with railways for refund of excess freight paid.

The fact however remains that the Company will not be able to get refund of Rs 9.56 crore being the excess freight paid for the period from January 2005 to February 2009 as the time limit for claiming refund has expired. Company should evolve a system to check the correctness of application of appropriate tariff besides other checks before passing the claims.

Transmission Corporation of Andhra Pradesh Limited
4.11 Avoidable loss of interest

Company paid Guarantee commission of Rs 1.52 crore against proposed loan from REC without acquiring the land for the construction of sub-stations. This led to avoidable loss of Rs 52.44 lakh.

Government of Andhra Pradesh (GoAP), at the request (January 2005) of Transmission Corporation of Andhra Pradesh Limited (Company), sanctioned (March 2005) Government guarantee for the years 2004-05 and 2005-06 for an amount of Rs 1,131.76 crore. The guarantee was for part of loan assistance (30 *per cent*) from Rural Electrification Corporation (REC) for executing certain schemes. The sanction envisaged the Company to pay two *per cent* of the guarantee commission as consolidated upfront fee for the entire guarantee period.

Accordingly, Company accorded administrative approval (March 2005) to establish a “short gestation power transmission project” (Project) at an estimated cost of Rs 324.37 crore (Loan component Rs 252.74 crore). The project included extension of Vemagiri-Nunna 400 KV DC line from Nunna to Narasaraopet, and construction of (i) 400/220 KV Substation at Narasaraopet, (ii) 220 KV DC line from Narasaraopet to Parchur and (iii) establishment of 220/132 KV Substation at Narasaraopet and Parchur.

The Government guarantee was for Rs 75.82 crore (30 *per cent* of Loan component of Rs 252.74 crore). The Guarantee commission (upfront fee) at the rate of two *per cent* of this guaranteed amount worked out to Rs 1.52 crore. This was included in the amount of Rs 24.43 crore paid (June 2005) towards Guarantee commission in respect of other works relating to four Power Distribution companies. Though the Company proposed (December 2005) to acquire land admeasuring 70 Acres for construction of 400/220 KV substations, it could not acquire the land (March 2009), due to objections from the land owners. Meanwhile, the Company went ahead (March 2006) with execution of the loan agreement, by misrepresenting that it had already acquired the land required for the project. As per the loan agreement, REC would release the first instalment of 10 *per cent* of loan only on completion of documentation and acquisition of land for sub-station. As the Company is still to acquire the land (March 2009), it could neither avail of the loan nor start the project.

The case would reveal the following:

- ❖ Company in a haste to avail the loan, paid the guarantee commission of Rs 1.52 crore in June 2005 but could not avail loan as it had not acquired the land so far (March 2009);
- ❖ Advance payment of guarantee commission resulted in locking up of funds and consequential loss of interest of Rs 52.44 lakh (at nine *per cent* for 46 months from June 2005 to March 2009).

The Government stated (August 2009) that some of the works related to schemes could not be taken up due to non-finalisation of the site. It was further stated that the other related works are nearing completion without

drawal of the loan. Had the Company waited till finalisation of site for payment of Guarantee commission, it could have avoided the loss of interest on the amount paid as Guarantee commission.

In order to avoid such a situation in future, the Company should draw the loan or pay upfront fee thereon only after ensuring availability of all infrastructural facilities necessary for execution of any project.

Southern Power Distribution Company of Andhra Pradesh Limited

4.12 Loss of revenue

Failure of the Company to levy voltage surcharge resulted in non-realisation of revenue - Rs 2.67 crore and loss of interest- Rs 43.72 lakh.

The tariff orders and general terms and conditions of supply provide that if HT consumer with Contracted Maximum Demand (CMD) of 5,000 KVA and above intends to avail of supply on a common feeder, the supply shall be availed of at 132/220 KV as may be decided by the Southern Power Distribution Company of Andhra Pradesh Limited (Company). If the consumer avails of supply at a lower voltage level, surcharge at 12 *per cent* of demand charges and 10 *per cent* of energy charges over the normal tariff rates should be recovered from the consumer. In case of independent feeders, CMD upto 10,000 KVA can be availed of at 33 KV provided that the consumer should have an exclusive dedicated feeder from sub-station and should pay full cost of the service line.

Amara Raja Batteries Limited was availing of HT power supply (since April 1991) from the Company on a common feeder, which was an existing feeder upto 33/11 KV Karakambadi sub-station and was extended to the premises of the consumer by tapping off from the existing line. The CMD of this service was increased from 450 KVA to 14,190 KVA over a period of time upto June 2007. From June 2005 onwards the CMD of the service crossed 5,000 KVA requiring the consumer either to avail of power at higher voltage (132/220 KV) or to pay voltage surcharge for availing of supply at 33 KV. But the Company did not levy the voltage surcharge resulting in undue favour to the consumer and revenue loss to the Company to an extent of Rs 2.67 crore for the period from June 2005 to November 2007.

Thus, failure of the Company to levy voltage surcharge as per the terms and conditions of supply and tariff orders resulted in non-realisation of revenue of Rs 2.67 crore and loss of interest (at the rate of eight *per cent* per annum) of Rs 43.72 lakh to the end of March 2009.

The Management stated (August 2009) that shortfall amount of Rs 2.58 crore towards voltage surcharge was included in July 2008 CC Bill but the consumer had approached (March 2009) the Vidyut Ombudsman, Hyderabad. However, the fact remains that the amount is yet to be realised by the Company.

The Company should ensure strict adherence to the terms and conditions of supply and tariff orders in regard to billing of consumers to avoid loss of revenue and interest thereon.

The matter was reported to the Government (June 2009); their reply had not been received (September 2009).

4.13 *Unauthorised concession*

Company did not include price variation clause in the Purchase Order and also allowed price variation in excess of ten *per cent* contrary to the provisions of Purchase Manual, resulting in unauthorised payment of Rs 1.34 crore.

Company is allowing price variation on purchase orders based on the provisions of its Purchase Manual. The Purchase Manual, *inter-alia*, catered to the following:

- ❖ Where variable prices are permitted, a definite price variation formula should be indicated in the bid;
- ❖ The price variation should be subject to a ceiling of 10 *per cent* ;
- ❖ All purchase orders placed after 2003 should indicate price variation clause subject to a maximum of 10 *per cent*.

The Company placed (August 2005) two purchase orders for Rs 22.08 crore for supply of 25 KVA Distribution Transformers (DTRs) to be supplied between October 2005 and July 2006, on two suppliers viz., Kanyaka Parameswari Company Limited, Hyderabad (3,000 at the rate of 300 per month) and Hi-Power Electrical Industries, Patancheru (3,000 at the rate of 300 per month).

Subsequently on a representation of suppliers to remove the ceiling on price variation due to abnormal increase in the cost of raw material, the company decided (July 2006) to raise the limit of price variation to be allowed to 30 *per cent* from 10 *per cent* in respect of contracts awarded in future (after July 2006) but not to allow such raise in respect of ongoing contracts.

The suppliers delivered all the DTRs by February 2007 and out of them 1,128 DTRs were supplied after July 2006. It was seen that the Company allowed price variation between 36 and 48 *per cent* on these 1,128 DTRs instead of eligible 10 *per cent* resulting in unauthorised concession of Rs 1.34 crore.

The Government stated (May 2009) that the price variation was allowed in accordance with the decision taken in a meeting of Chairman and Managing Directors of all DISCOMs and APTRANSCO held on 26 April 2005. It was also stated that the price variation was allowed without ceiling based on amendment to purchase manual issued in May 2005.

The reply that the decision to remove the ceiling was taken in a meeting held (April 2005) by all CMDs of DISCOMs and APTRANSCO is doubtful since

no records to that effect were produced. Further, the amendment of May 2005 is not held valid in audit as the same was neither taken in a meeting of Board of Directors nor was ratified later. It can also be seen that the meeting held later (July 2006) by all the CMDs at DISCOMs and APTRANSCO maintained that the price variation will be allowed at 10 *per cent* for ongoing contracts as per the existing provisions of purchase manual. Hence, allowing price variation beyond 10 *per cent* on these ongoing purchase orders on the plea that supplies were made after July 2006 tantamounts to extending unauthorised concession to the suppliers to the tune of Rs 1.34 crore.

There is need for the Company to keep in view its financial interests before acting on representations of the suppliers.

4.14 Undue benefit

The Company instead of penalizing the contractor for non-completion of work, awarded the left over work to the same contractor at a higher rate resulting in undue benefit of Rs 30.38 lakh.

Company concluded (March 2006) a contract agreement (CA) with Variegate Projects Private Limited (Contractor) for 'Electrification of villages/habitations and households under Rajiv Gandhi Grameena Vidyutikaran Yojana (RGGVY) in Rayachoti Division in Kadapa District' at a cost of Rs 5.14 crore. The contract, *inter alia*, catered for erection of 277.2 Kilo Metre (KM) 6.3 KV line, erection of 442.2 KM LT AB cable, erection of 660 single phase 15 KVA Distribution Transformers (DTR) and giving 41,660 Nos Service Connections to Below Poverty Line (BPL) households. The contract period of the agreement which was up to March 2007 was extended till September 2007, due to delay in conducting detailed survey, preparation of estimates, obtaining sanctions and work orders. Though the purchase manual stipulated inclusion of risk and cost clause indicating that if the contractor fails to execute the work at the rate agreed to, the work not executed by the Contractor would be executed at his risk and cost, the Company failed to include such clause in the CA.

When the contract was under extended period of execution, the Divisional Engineer (Construction), Kadapa, initiated (May 2007) a deviation proposal for the CA to revise the quantities and to add extra items not covered in CA. The CA was, accordingly, amended (July 2007) to Rs 4.79 crore. In the meantime, Company invited (May 2007) fresh tenders for RGGVY Phase-II in six districts except Rayachoti Division since the Contractor had agreed to complete the balance work in Rayachoti under the same agreement.

Despite this, the Contractor stopped the work (September 2007) and decision was taken by the Company (October 2007) to call for fresh tenders for RGGVY for Rayachoti under Phase-II of the project including the work that had been left incomplete by the contractor. Instead of debaring the Contractor for his failure to carry out his earlier agreement concluded in March 2006, the Contractor was again issued with tenders and he became the lowest tenderer in Phase-II also. The Company concluded (February 2008) CA with the

Contractor for an amount of Rs 10.41 crore for erection of 622.2 KM of 6.3 KV line, erection of 1,193.7 KM of LT cable, erection of 1,037 numbers (Nos) of single phase 15 KVA DTRs and giving 18,341 BPL connections. This revised quantity of work to be executed also included unfinished works in earlier CA, erection of 179 Nos of DTRs and 6,391 BPL connections in earlier contract.

The Company in September 2008 released retention money of the Contractor amounting to Rs 23.38 lakh held with them under the earlier contract, by indicating that the contractor had completed all the works in all respects in his earlier contract and the maintenance period also completed.

Thus, the case would reveal the following:

- ❖ Despite clear stipulation in the contract manual to include risk and cost clause, Company failed to include such clause in CA.
- ❖ Absence of risk and cost clause in the contract resulted in non-invoking of penal provision for completing the balance work of earlier contract.
- ❖ Instead of debaring the contractor from further tendering, the second contract was also awarded to the defaulting contractor resulting in execution of unfinished portion of the earlier contract at an additional expenditure of Rs 30.38 lakh.
- ❖ Instead of forfeiting the retention money of Rs 23.38 lakh, the company released the same by falsely indicating that the contractor had completed the earlier work in all respects.

The Government stated (June 2009) that the request of the contractor to foreclose the contract due to steep rise in prices was acceded to on par with other contractors but the reply was silent on the observation regarding non-inclusion of risk and cost clause in the contract.

The Company should invariably include risk and cost clause in every CA and invoke it whenever contractor fails to execute the agreed works. If a risk and cost clause is excluded, accountability for exclusion of such clause in the CA should be fixed.

4.15 Extra expenditure

Company failed to invoke the risk purchase clause of purchase order and had to incur extra expenditure of Rs 29.44 lakh.

Southern Power Distribution Company of Andhra Pradesh Limited (Company) requested Northern Power Distribution Company of Andhra Pradesh Limited, (NPDCL) to place repeat orders towards purchase of 17,500 Fixed and 5,000 Moving contacts suitable to 11 KV switches. On behalf of the Company, NPDCL placed (December 2005) two separate purchase orders on VJV Powertech (P) Limited, Hyderabad (supplier) for supply of (a) 17,500 Fixed contacts at Rs 83.02 each and (b) 5,000 Moving contacts at Rs 101.02

each. Supplier was required to submit Bank Guarantee (BG) of Rs 1.96 lakh. The BG was neither submitted by the supplier nor company obtained the same.

The purchase orders, *inter-alia*, provided for right to the Company to purchase the balance quantity from the open market and recover extra expenditure thus incurred from the supplier, in case the supplier failed to adhere to the delivery schedule. The supplier failed to supply the entire quantity ordered. However, the supplier was blacklisted for two years, but the Company failed to take up the matter with the NPDCL either to cancel the purchase orders or to invoke risk purchase clause on the supplier for non-supply.

Subsequently, the Company without invoking the risk purchase clause on the defaulted supplier, placed nine fresh purchase orders (December 2006) for procurement of 60,000 each of Fixed and Moving contacts at Rs 213.54 each and Rs 232.96 each respectively. Thus, the Company incurred avoidable extra expenditure of Rs 29.44 lakh on procurement of 17,500 Fixed contacts (Rs 22.84 lakh) and 5,000 Moving contacts (Rs 6.60 lakh) that were not supplied earlier by defaulted supplier.

The Government stated (June 2009) that NPDCL was asked to forfeit the permanent performance Bank Guarantee and blacklisted the supplier. The fact however remains that due to not invoking the clauses of Purchase Order, the Company had to incur extra expenditure of Rs 29.44 lakh.

There is need for the Company to obtain the Bank guarantee invariably and invoke the clauses of Purchase Order without fail to safeguard its financial interests. The Company should initiate action to recover the extra expenditure incurred and also share the information with all DISCOMs for possible recovery.

Central Power Distribution Company of Andhra Pradesh Limited

4.16 Extra expenditure on procurement of poles

Company failed to invoke risk purchase clause but placed orders on the same supplier at higher rates leading to extra expenditure of Rs 58.63 lakh on procurement of poles.

Central Power Distribution Company of Andhra Pradesh Limited (Company) placed (September 2007) four purchase orders (PO) on Manchukonda Prakasam & Company, Hyderabad (firm) for 26,300 numbers of Pre-stressed Concrete Cement poles (poles) required for four circles⁷, at the rates ranging from Rs 1,825 to Rs 1,945. The PO, *inter-alia*, provided for right to the Company for procuring the balance quantity from the open market and recover extra expenditure thus incurred from the supplier, in case the supplier failed to adhere to the delivery schedule.

⁷ Medak, Nalgonda, Rangareddy and Hyderabad.

The firm supplied 4,794 poles and 6,006 poles respectively during the scheduled delivery period (till February 2008) and the extended delivery period i.e., upto August 2008, leaving a balance of 15,500 poles. The Company without invoking the risk purchase clause for non-supply of balance 15,500 poles, pre-closed (24 September 2008) the PO and placed (25 September 2008) fresh POs on the same firm for supply of 14,000 poles at a higher rate ranging from Rs 2,400 to Rs 2,490 each. Thus, the Company incurred avoidable extra expenditure of Rs 58.63 lakh on procurement of poles due to not invoking risk purchase clause.

In reply, the Government stated (July 2009) that:

- ❖ the firm refused to supply the poles due to abnormal increase of steel and cement prices during February and March 2008.
- ❖ they have pre-closed the POs due to non-receipt of requisitions from the field.
- ❖ there was not much difference between unit price of the pre-closed purchase orders with price variation and the rates of fresh purchase orders.

The reply of the Government does not address the fact that the firm should have procured cement and steel well in advance taking into account the scheduled delivery period of 13 February 2008. The contention that there was no requisition from the field is not plausible as it had placed new purchase order on the very next day of the pre-closure of old POs. Also the contention that difference between unit price of the pre-closed purchase orders with price variation and the rates of fresh purchase orders would be minimal, is also not acceptable as the purchase order did not cater for price variation and price variation clause was introduced by Government of Andhra Pradesh only on 16 April 2008, that too on work contracts and not on purchases.

The Company should invariably invoke risk purchase clause as stipulated in the terms and conditions of the agreement, in case of default by the suppliers.

Northern Power Distribution Company of Andhra Pradesh Limited

4.17 *Unauthorised payment*

Company allowed price variation in excess of ten *per cent* contrary to the provisions of Purchase Manual, thereby resulting in unauthorised payment of Rs 3.05 crore.

Northern Power Distribution Company of Andhra Pradesh Limited (Company), Warangal allows price variation on purchase orders based on the provisions of its Purchase Manual. The Purchase Manual, *inter alia*, provided that a) where variable prices are permitted, a definite price variation formula should be indicated in the bid; and b) the price variation should be subject to a ceiling of 10 *per cent*.

Between February 2006 and August 2006, the Company placed five purchase orders for procurement of 6,273 numbers of 16/25 KVA Distribution Transformers (DTRs) at a total cost of Rs 10.34 crore with a clause allowing price variation without any limit but as per IEEMA formula.

The Chairman and Managing Directors of all DISCOMS and APTRANSCO in the joint meeting held (July 2006) considered the representation of suppliers and IEEMA and decided to raise the price variation limit from 10 *per cent* to 30 *per cent* for all future contracts but did not allow any raise for ongoing contracts.

While three purchase orders were issued between February 2006 and June 2006 (before deciding to give effect of price variation of 30 *per cent*) two purchase orders were issued in August 2006. Thus, the three firms on whom orders were placed between February 2006 and June 2006 were not eligible for price increase beyond 10 *per cent* and the two firms on whom orders were placed in August 2006 were not eligible for price increase beyond 30 *per cent*. However, price variation without ceiling limit was allowed to all the firms which resulted in unauthorised excess payment of Rs 3.05 crore on purchase of 3,175 DTRs.

In reply to an audit query Management stated (April 2007) that the limit on price variation was not applied on these POs because supplies got delayed on previous POs as the suppliers complained of abnormal rise in cost of inputs. They further stated that other DISCOMs also floated tenders on similar lines.

The reply is not convincing as the procedure followed in these POs is contrary to the provisions of Purchase Manual. Further, a decision was taken in the joint meeting of the CMDs of all the DISCOMs and TRANSCO to increase the price variation only upto 30 *per cent* that too for contracts concluded after July 2006. Thus, allowing payments on account of price variation without ceiling limit resulted in unauthorised payment of Rs 3.05 crore to the suppliers.

In order to avoid such situations, Management should invariably adhere to the provisions of purchase manual and decisions taken thereon in the joint board meetings of TRANSCO along with CMDs of DISCOMs.

The matter was reported to Government (June 2009); their reply had not been received (September 2009).

4.18 Under utilisation of installed capacity

Company purchased PSCC poles from market without fully utilizing the installed capacity of departmental pole manufacturing centres leading to avoidable expenditure of Rs 1.04 crore.

Northern Power Distribution Company of Andhra Pradesh Limited (Company) has ten⁸ departmental centers for in-house manufacture of Pre-stressed Concrete Cement poles (poles). The centers operate with available machinery and manufacture poles by employing labour through contractors. Besides manufacture, in case of necessity, Company also purchases 8.0 meter (m)/140 Kilograms (Kg) poles from private parties.

The Centers had an installed capacity ranging between 6,480 to 16,200 poles per annum and the cost of production for the years 2006-07 to 2008-09 was Rs 856, Rs 935 and Rs 1,113 per pole respectively. The total production capacity of all the pole centers worked out to 98,520⁹ per annum. However, the Centers utilized their manufacturing capacity only to an extent ranging between 29.75 per cent and 68.89 per cent during the above period and resorted to placing supply orders at a rate more than the manufacturing cost of these poles in their centers.

During the period 2006-07 to 2008-09, the Company procured 1,41,500 poles from private parties at a cost of Rs 860, Rs 1,072 and Rs 1,190 respectively. The decision of the management to purchase 91,146 poles from private parties instead of manufacturing poles to the maximum of installed capacity led to avoidable extra expenditure of Rs 1.04 crore.

Management stated (May 2009) that the steel for which purchase order was placed (at the rate of Rs 36.89 per Kg) in the year 2005 (September 2005) was consumed till 2008 and 186.44 tonnes of steel was in stock as on 31 May 2008. A new purchase order was placed (at the rate of Rs 54.58 per Kg) in June 2008 and the difference in pole cost due to variation in steel prices was Rs 147 (Rs 17.69 x 8.3 Kg per pole). Taking into account the utilisation capacity based on target capacity and cost of pole production based on price variation in steel price, the excess expenditure was Rs 9.23 lakh. Further the Company purchases steel for all the PSCC pole centres and economy of scale was obtained which may not be possible for small entrepreneur.

The reply is factually incorrect as out of the total production of 1,32,178 poles during the years 2006-09, Company manufactured 1,24,793 poles with existing stock of steel (1,123.144 tonnes) and only 7,385 poles were manufactured with the steel procured at higher rates in 2008 (purchase order placed in June 2008). Hence price variation of steel is applicable only to 7,385 poles manufactured in the year 2008-09 and not for entire quantity of poles

⁸ Warangal, Janagoan, Karimnagar, Durshed, Khammam, Sitarampatnam, Nirmal, Mancherial, Nizamabad and Kamareddy.

⁹ Restricted to 10 months production capacity giving two months leverage for seasonal vagaries.

manufactured during the years 2007-08 and 2008-09 as stated. Further, when the Company was aware of the non-availability of economies of scale to the contractors, the Company should have manufactured rather than resorting to procurement.

Thus resorting to procurement of poles without fully utilizing the installed capacity of departmental pole centres resulted in avoidable expenditure of Rs 1.04 crore.

There is need for the Company to monitor the raw material stocks and man power in departmental pole centres so that they obtain optimum production and consequently limit procurement from market.

The matter was reported to the Government (April 2009); their reply had not been received (September 2009).

Andhra Pradesh Trade Promotion Corporation Limited

4.19 Delay in implementation of project

Delay in recovery of dues of Rs 11.29 crore due to change in the condition of loan agreement and non-establishment of Gems and Jewellery Park.

In order to set up an International Standard Show Room cum Marketing Complex for Gems and Jewellery, Leather Products and Handicrafts under one roof for marketing them to customers including foreign tourists, Government of Andhra Pradesh (GoAP) handed over possession (May 2001) of land admeasuring 2 Acres and 16 Guntas in Banjara Hills, Hyderabad to Andhra Pradesh Trade Promotion Corporation Limited (Company). To implement the project, GoAP while approving (May 2001) formation of a Special Purpose Company (SPC) with share holding of 11 *per cent* equity and preferential shares by Company towards land cost and balance 89 *per cent* by IOI Corporation, Malaysia (Developer) accorded permission to transfer the land in favour of the SPC on issue of share certificate. There was no record to show that Company has conducted any independent survey about the feasibility of Gems and Jewellery Park.

Accordingly, Company entered (August 2002) into a Memorandum of Understanding (MOU) with the Developer, catering for the following:

- ❖ Completion of the entire project in 18 months.
- ❖ Developer furnishing a performance guarantee of Rs 25 lakh in the form of Bank Guarantee (BG).
- ❖ Fixing the value of the land at Rs 14.43 crore (at a concessional rate of Rs 6.01 crore per Acre).

The SPC conducted Bhoomi Pooja for the project in May 2003. In February/July 2004, the Company also entered into a loan agreement with the SPC by:

- ❖ reworking out the scheduled required land as 2 acres and 5 guntas and valuing it at Rs 12.78 crore,
- ❖ agreeing to accept allotment of shares worth Rs 1.19 crore in the SPC,
- ❖ accepting to treat the balance land cost of Rs. 11.59 crore as loan granted by the Company to be repaid by the SPC with interest at 11 *per cent* from 04 May 2003, and
- ❖ accepting 30,000 Square feet (SFT) of the constructed building for realizing the loan amount.

Later, the Company changed its stance and entered into a fresh loan agreement with the SPC in May 2006 as follows:

- ❖ agreed to give up its share of 30,000 SFT in the building,
- ❖ agreed to the proposal of the SPC to pay Rs 5.66 crore towards part of the cost of land to GoAP, and
- ❖ agreed to get repayment of balance land cost of Rs 5.93 crore along with interest due and accrued from the first sale proceeds of the Gems and Jewellery Park.

The SPC, accordingly,

- ❖ allotted (June 2004) to the Company shares worth Rs 1.19 crore in the SPC.
- ❖ repaid (September 2005) Rs 5.66 crore to the GoAP, representing part cost of repayment of the loan of Rs 11.59 crore.

Though the entire infrastructure for establishing the park was completed in January 2007, the Park could not be commissioned till March 2009 due to lacklustre response from the dealers. Therefore, the Company could not enforce recovery of the balance cost of Rs 5.93 crore (Rs 11.59 crore less Rs 5.66 crore) along with interest (Rs 5.36 crore) as the first sale of the park has not yet materialised.

Thus due to lack of foresight, the Company by its agreement of May 2006, not only gave up its share of 30,000 SFT in the Park but also agreed for repayment of balance loan after first sale of park resulting in non-recovery of the balance cost of land along with interest amounting to Rs 11.29 crore till March 2009.

The Government stated (May 2009) that acceptance of 30,000 sft in the proposed building in lieu of balance cost of land (Rs 5.93 crore) was considered riskier than recovery of the same from the first sale proceeds of the park. Further, it was stated that the project would be made operational within six months and the balance cost of land would be recovered from the first sale proceeds of the park.

The reply is not convincing since the promoter stated (September 2002) that on the basis of discussions with traders/associations and the market feedback

the project may not be viable if the Company does not take up built up area of the complex. Hence the alternative chosen by the Company was not in its interest.

There is need for the Company and Government to obtain assurance from the existing or proposed business groups before establishing such facilities exclusively for specified industry.

STATUTORY CORPORATIONS

Andhra Pradesh State Road Transport Corporation

4.20 Avoidable expenditure

Corporation had to ignore economy in procurement due to a guideline and incurred avoidable expenditure of Rs 51.15 lakh on procurement of pre-cured tread rubber.

Andhra Pradesh State Road Transport Corporation (Corporation) procures Pre-cured Tread Rubber (PTR) based on Cost Per Kilometer (CPK) of the rubber arrived at on the mileages evaluated on the products supplied by various firms duly reckoning the latest six quarters performance. The PTR is used for retreading of old tyres. The Corporation is also following a policy of restricting the order to 50 Metric Tonnes (MTs) on suppliers for bulk procurement from whom the supplies were discontinued for different reasons. Though the Provisioning Committee (PC) in its meeting of May 2006 expressed necessity for modification of these guidelines, Corporation continued with its existing policy, resulting in placement of Supply order at higher price. The case in brief is as follows:

In March 2006, the Corporation invited limited tenders for the supply of 1,330 MTs of PTR for 9 X 20 size tyres. The supplies were made between June 2006 and January 2007. Of the 20 firms responded, offer of MRF Ltd., (MRF) at Rs 113.63 per Kilogram (Kg) was the lowest based on CPK of 2.8097 paise. As the Corporation did not place orders on MRF in the preceding two occasions due to refusal of MRF to supply PTR at matching rates offered by the Corporation, the PC (9 May 2006), based on the existing guidelines, recommended for placing orders for 50 MT only on MRF at a net rate of Rs 113.63 per Kg. The PC also recommended for obtaining net matching rate of CPK of MRF from other suppliers. Though these suppliers did not agree to match the CPK rate of MRF (Rs 113.63 per Kg), they matched the rate with that of Vijay Flaps and Rubber Products Limited, the second lowest offer (Rs 123.71 per Kg). The PC accordingly recommended (16 May 2006) as follows:

- ❖ to retain the minimum allocation of 50 MT to MRF,

- ❖ to distribute balance 1,370 MTs¹⁰ on seven suppliers with allocations ranging from 10 MT to 600 MT at the net rates quoted by them.

The Corporation placed Supply Orders (May 2006) for the revised quantity of 1,420 MTs on the following suppliers at the rates indicated against each.

S. No	FIRM	Qty (MTs)	Net Rate (per Kg) Rs.	Cost per KM
1.	MRF Limited, Hyderabad	50	113.63	2.8097
2.	Vijay Treads & Tubes Private Limited, Hyderabad	250	125.00	3.0589
3.	Vijay Flaps and Rubber Products Limited, Hyderabad	250	123.84	3.0589
4.	Vamshi Rubber, Hyderabad	600	124.08	3.0589
5.	Elgitread (I) Limited, Hyderabad	90	115.64	3.0589
6.	Manjira Rubber, Hyderabad	150	122.63	3.0590
7.	Nirmal Rubber, Hyderabad	10	98.42	3.0589
8.	Bremels Rubbers Industries (P) Ltd	20	98.42	3.0589
	Total	1420		

Thus, due to restricting the allotment to MRF to 50 MT, the Corporation had to incur avoidable expenditure of Rs 51.15 lakh. To arrive at the extra expenditure incurred, audit considered allocation of 600 MTs to MRF being capacity of MRF to supply in six months. The balance quantity is considered to be for the other firms which matched their rate with the second lowest (Vijay Treads & Tubes Private Limited) CPK based rate (Rs 123.71 per Kg) in the ratio recommended by PC but excluding the quantity allotted to MRF.

The Government stated (August 2009) that low CPK (Rs 2.8097) was due to the influence of small quantity of tyres available for analysis reflecting unduly high mileage. The reply is factually incorrect as the average mileage is not influenced, since the mileage obtained for small quantity of tyres was only 10 per cent.

Though PC felt a need to amend such guidelines, the guidelines were yet to be amended. The Corporation should consider the suggestion of PC and modify

¹⁰ quantity revised at the request of two suppliers.

the guidelines of restricting supply order to 50 MT when the rates were genuine.

Andhra Pradesh State Financial Corporation

4.21 *Doubtful recovery of dues*

Failure of the Company to initiate action for recovery of dues, rendered recovery of Rs 33.83 lakh doubtful.

Andhra Pradesh State Financial Corporation (Corporation) sanctioned (June 2001) and disbursed (between January 2002 and January 2004) a term loan of Rs 29.36 lakh and Seed Capital of Rs 9.09 lakh to Om Siva Sai Quarry Tech (borrower) for setting up a stone crushing unit in Kayam Village of Chittoor District. Corporation eased its terms and conditions of obtaining collateral security to the extent of 50 *per cent* for sanction of loan by accepting a house site at Tirupati valuing Rs 7.35 lakh, which amounted to 25 *per cent*. The Corporation also accepted equitable mortgage of 1.75 Acres of Darkastu patta land (Land) allotted by Government of Andhra Pradesh (GoAP) to one of the borrowers on which the unit was proposed to be set up and construction thereon along with plant and machinery as prime security.

The borrower was to repay the term loan and seed capital in 20 instalments of Rs 1.55 lakh and Rs 0.48 lakh respectively with last installment of Rs 1.30 lakh for term loan and first installment of Rs 0.40 lakh for seed capital loan. However, the borrower continuously defaulted in payment of instalments despite re-scheduling repayment of loan (November 2005) to start from October 2006. The District Collector cancelled (January 2006) the allotment of land and ordered for closure of the unit as the borrower obtained the land by mis-statement of facts. Though the borrower had informed (January 2006) about the cancellation of the allotment of land and closure of the unit, Corporation failed to confiscate the machinery and the collateral security. Later the borrowers approached (July 2006) the GoAP for restoration of the land to re-open the unit. However, GoAP rejected (January 2007) the request of the borrower. The Corporation, ignoring this fact, however, agreed (February 2007) to close the loan account at the request of the borrower (February and November 2006) under one time settlement scheme, on an undertaking that the borrower pays Rs 40 lakh (including Rs 2 lakh paid towards down-payment) by March 2007 against arrears of Rs 56.83 lakh.

The borrower, however, failed to pay the amount as agreed upon but leased out (August 2008) the unit to another party without informing the Corporation. After a lapse of two years from the cancellation of the land, in September 2008, the Corporation seized the unit. Subsequently the borrower informed the Corporation in October 2008 that the land along with the machinery was taken over by local Mandal Revenue Officer (MRO). The delayed seizure of the property by the Corporation led to accumulated overdue arrears of Rs 72.43 lakh as on June 2009 against which the Corporation is holding property valued at Rs 38.60 lakh consisting of house site offered as collateral

security (Rs 21.40 lakh) along with Fixed Deposits Receipt (Rs 1.40 lakh) and machinery (Rs 15.80 lakh).

Thus, the Corporation failed to:

- ❖ obtain 50 *per cent* collateral security for the loan and restricted the collateral security to 25 *per cent*;
- ❖ confiscate the assets and realize the collateral security in January 2006 itself when the land allotment to the borrower was cancelled by GoAP;
- ❖ realize the collateral security as on date (June 2009).

As such, the failure of the Corporation resulted in doubtful recovery of Rs 33.83 lakh.

Further delay by the Corporation in realizing the value of seized machinery and collateral security will lead to loss of interest.

Management stated (June 2009) that the Corporation has been continuously making follow up for recovery of the amounts due from the borrower. It was also replied that the Corporation has not put the property offered as collateral security for sale as continuous persuasion is being done by the branch. The fact remains that there has been no progress in recovery of dues which stood at Rs 72.43 lakh as on 30 June 2009. The reply is silent on the failures of the Corporation as explained above.

The Corporation should strengthen system of monitoring of recovery by ensuring immediate recovery proceedings whenever a unit has been forced to close down instead of allowing the promoter to gain time to act in a way jeopardizing its financial interests.

The matter was reported to the Government (May 2009), their reply had not been received (September 2009).

General

4.22 Opportunity to recover money ignored

Twelve PSUs did not either seize the opportunity to recover their money or pursue the matters to their logical end. As a result, recovery of money amounting to Rs 505.83 crore remains doubtful.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 96 paras in respect of 12 PSUs, involving a recovery of Rs 505.83 crore. As per the instructions issued (September 1995) to all the Heads of the Departments by Finance & Planning (Finance Wing) Department, Government of Andhra Pradesh, all inspection reports shall be replied alongwith remedial action taken/proposed to be taken within a period ranging from one to three months after receipt of IRs.

However, inspite of these instructions no effective action has been taken by concerned PSUs to take the matters to their logical end i.e., to recover money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover the money which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in **Annexure-19** of respective Companies/Corporations.

Sl. No.	PSU Name	No. of Paras	Amount for recovery (Rs in crore)
1.	Andhra Pradesh Industrial Development Corporation Limited (APIDCL)	1	0.34
2.	Andhra Pradesh Urban Finance & Infrastructure Development Corporation Limited (APUF&IDCL)	3	441.80
3.	Andhra Pradesh State Financial Corporation (APSFC)	2	6.13
4.	Andhra Pradesh State Civil Supplies Corporation Limited (APSCSCL)	4	1.56
5.	Andhra Pradesh State Housing Corporation Limited (APSHCL)	4	21.95
6.	Andhra Pradesh Technology Services Limited	1	0.01
7.	Andhra Pradesh State Film, TV and Theatre Development Corporation Limited (APSFTTDCL)	1	1.28
8.	Andhra Pradesh Beverages Corporation Limited (APBCL)	1	0.01
9.	Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL)	23	29.93
10.	Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL)	12	0.39
11.	Northern Power Distribution Company of Andhra Pradesh Limited (APNPDCL)	21	0.76
12.	Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL)	23	1.67
	Total :	96	505.83

The paras mainly pertain to recovery on account of amounts recoverable against bill discounting schemes (APIDCL), diversion and non recovery of loan funds to Municipalities/Local bodies (APUF&IDCL), misappropriation cases and excess payments towards differential price of rice (APSCSCL), non recovery of term loans and interest thereon (APSFC), principal and interest recovery from beneficiaries (APSHCL) and short billing in all the DISCOMs.

Above cases point out the failure of respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up action by Audit, including bringing the pendency to the notice of the Administrative/ Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

4.23 Lack of remedial action on audit observation

Thirteen PSUs did not either take remedial action or pursue the matters to their logical end in respect of 64 IR paras, resulting in foregoing the opportunity to improve their functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 64 paras in respect of 13 PSUs, which are indication of deficiencies in the functioning of these PSUs. As per the instructions issued (September 1995) to all the Heads of the Departments by Finance & Planning (Finance Wing) Department, Government of Andhra Pradesh, all inspection reports shall be replied along with remedial action taken/ proposed to be taken within a period ranging from one to three months after receipt of IRs from Audit. However, inspite of these instructions no effective action has been taken by concerned PSUs to take the matters to their logical end i.e., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below. The list of individual paras is given in **Annexure-20** of respective companies/corporations.

Sl.No.	PSU Name	No. of Paras
1.	Andhra Pradesh Industrial Development Corporation Limited (APIDCL)	01
2.	Andhra Pradesh Urban Finance & infrastructure Development Corporation Limited (APUF&IDCL)	02
3.	Andhra Pradesh State Warehousing Corporation (APSWC)	01
4.	Andhra Pradesh State Seeds Development Corporation Limited (APSSDCL)	01
5.	Andhra Pradesh State Film, TV and Theatre Development Corporation Limited (APSFT&TDCL)	01
6.	Andhra Pradesh State Irrigation Development Corporation Limited (APSIDCL)	01
7.	Andhra Pradesh Power Generation Corporation Limited	11
8.	Transmission Corporation of Andhra Pradesh Limited	04
9.	Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL)	14
10.	Northern Power Distribution Company of Andhra Pradesh Limited (APNPDCL)	07
11.	Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL)	10
12.	Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL)	10
13.	Andhra Pradesh State Road Transport Corporation	01
	Total :	64

The paras mainly pertain to losses sustained by Company on unfruitful investment (APIDCL), avoidable payment of interest (APUF&IDCL), withholding of storage charges (APSWC), delay in preferring claims

(APSSDCL), non allotment of land (APSFT&TDCL), non-completion of Lift Irrigation Scheme (APSIDCL). Diversion of funds, pending refund claims, avoidable demurrage, irregularities in procurement of materials, abandonment of lines, excess expenditure over estimates, non-levy of liquidated damages, extension of undue favour to contractors, non recovery of costs from consumers etc. were noticed in DISCOMs. In financial terms Rs 53.45 crore is involved in 64 audit observations which require action/ attention of Government/ Management.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

4.24 Follow up action on Audit Reports

Explanatory Notes Outstanding

4.24.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of Government. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the Audit findings included in the Audit Reports. Finance Department, Government of Andhra Pradesh issued (June 2004) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1992-93 to 2007-08 were presented to the State Legislature between March 1994 and December 2008, 9 departments

did not submit explanatory notes on 119 out of 381 paragraphs/ reviews as on September 2009 as indicated below:

Year of the Audit Report (Commercial)	Date of presentation to State Legislature	Total Paragraphs/ Reviews in Audit Report	No of Paragraphs/ reviews for which explanatory notes were not received
1992-93	29-3-1994	36	1
1993-94	28-4-1995	25	2
1995-96	19-3-1997	28	7
1996-97	19-3-1998	29	2
1997-98	11-3-1999	29	10
1998-99	03-4-2000	29	8
1999-2000	31-3-2001	24	10
2000-01	30-3-2002	21	5
2001-02	31-3-2003	23	9
2002-03	24-7-2004	16	3
2003-04	31-3-2005	21	12
2004-05	27-3-2006	23	6
2005-06	31-03-2007	23	7
2006-07	28-3-2008	29	17
2007-08	5-12-2008	25	20
Total	--	381	119

Department-wise analysis of reviews/ paragraphs for which explanatory notes are awaited is given in **Annexure-21**. Majority of the cases of non-submission of explanatory notes relate to PSUs under the Departments of Energy and Industries and Commerce.

Compliance to Reports of Committee on Public Undertakings (COPU)

4.24.2 Action Taken Notes (ATNs) on recommendations of the Committee on Public Undertakings (COPU) are required to be furnished within six months from the date of presentation of the Report to the State Legislature. ATNs on 694 recommendations pertaining to 41 Reports of the COPU

presented to the State Legislature between April 1991 and March 2008 had not been received as of September 2009 are indicated below:

Year of COPU Report	Total number of Reports involved	No of Recommendations where replies not received
1991-92	1	3
1992-93	7	279
1993-94	5	136
1995-96	1	30
1996-97	1	2
1997-98	2	38
1998-99	3	19
2000-01	13	118
2002-03	2	16
2004-05	4	36
2005-06	2	17
Total:	41	694

The replies to recommendations were required to be furnished within six months from the date of presentation of the Reports to the State Legislature.

Response to inspection reports, draft paragraphs and reviews

4.24.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned 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 2009 pertaining to 34 PSUs disclosed that 2318 paragraphs relating to 626 inspection reports remained outstanding at the end of September 2009. Of these, 115 inspection reports containing 713 paragraphs had not been replied to for one to four years. Department wise break-up of Inspection reports and audit paragraphs outstanding as on 30 September 2009 is given in **Annexure-22**. In order to expedite settlement of outstanding paragraphs, 10 Audit Committee meetings involving seven PSUs were held during 2008-09 wherein position of outstanding paragraphs was discussed with executive/administrative departments.

Similarly, draft paragraphs and reviews are forwarded to the Principal Secretary/Secretary of the administrative department concerned

demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that seven draft paragraphs forwarded to various departments during March 2009 to June 2009 as detailed in **Annexure-23** had not been replied to so far (September 2009).

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

Hyderabad
The

(SADU ISRAEL)
Accountant General
(Commercial and Receipt Audit)
Andhra Pradesh

Countersigned

New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India