

Chapter III

3. Transaction Audit Observations

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

Government Companies

Maharashtra Airport Development Company Limited

3.1. *Avoidable extra expenditure*

The Company incurred avoidable extra expenditure of ₹ 94.13 lakh in March 2009 due to award of consultancy works contract at higher rates without undertaking a transparent tendering process.

Maharashtra Airport Development Company Limited (Company) invited (September 2008), 'Request for Proposal' (RFP) from three short listed bidders* for providing consultancy services for project preparation, designing and implementation of the proposed development of three Airports at Jalgaon, Shirdi and Solapur. The quotations of Intercontinental Consultants and Technocrats Private Limited (ICT) for all the three Airports were the lowest at ₹ 94.18 lakh for Jalgaon (A1), ₹ 79.48 lakh for Shirdi (A2) and ₹ 89.28 lakh for Solapur (A3). The Company rejected (October 2008) the bids of ICT who was on approved list of Airport Authority of India (AAI) on the ground that the rates quoted by the L1 bidder were unreasonably low as compared to the rates quoted by other two bidders[∇].

The Company re-invited (November 2008) the financial bids from the existing three bidders as well as additional agencies who were on the approved AAI list. Frishman Prabhu was the L1 bidder for all the three Airports quoting ₹ 75.40 lakh for A1, ₹ 65.80 lakh for A2 and ₹ 75.40 lakh for A3. Further, they offered discount of five *per cent* of the consultancy charges if any two Airports were awarded to them.

However, on receipt of offers in second call, the Company for the first time worked out the estimated cost of the consultancy contract and finalised the price of ₹ 1.38 crore per Airport as the reasonable price and felt the price below 15 *per cent* of the estimated cost would not be workable. Accordingly, the Company rejected the price bids of Frishman Prabhu and awarded

*Mott Mac Donald, Scott Wilson India Private Limited and Intercontinental Consultants and Technocrats Private Limited.

[∇]Mott Mac Donald quoted ₹ 390 lakh for all three Airports while Scott Wilson India Private Limited quoted ₹ 169.33 lakh, ₹ 175.10 lakh and ₹ 167.79 lakh for A1, A2 and A3 respectively.

(March 2009) the consultancy work contract at much higher rates to ICT at ₹ 1.25 crore for A1 and Mott MacDonald Private Limited at ₹ 1.19 crore for A2 and ₹ 90.25 lakh for A3 Airport at the price quoted by the respective bidders.

We observed that the Company had invited the price bids in the first call from only three parties without estimating the cost of consultancy work. However, the Company should have invited bids from all players short listed by AAI. In second occasion also, the Company did not estimate cost of the consultancy works. The cost was estimated only after evaluating the price bids received on second occasion.

Thus, rejection of the L1 bids of ICT and Frishman Prabhu on the ground of un-workability was without any basis in first and second occasion respectively and lacked transparency. Moreover, both ICT and Frishman Prabhu were short listed by the AAI as Global Technical Advisor. This led to avoidable extra expenditure of ₹ 94.13 lakh[¶].

It is recommended that the tendering process should be based on transparent and systematic method.

The matter was reported to the Government/Management (May 2011); their replies had not been received (November 2011).

City and Industrial Development Corporation of Maharashtra Limited

3.2 Undue benefit to a private firm

Larsen and Toubro Limited was extended undue benefits of ₹ 464.27 crore during 2009 on incomplete projects of the 'Development of Integrated Complex at Seawood Railway Station'.

City and Industrial Development Corporation of Maharashtra Limited (Company) as an agent of Government of Maharashtra (GoM) awarded (February 2008) the work for Development of Integrated Complex at Seawoods Railway Station which involved commercial development of about 16.50 hectares to the highest offerer Larsen and Toubro Limited (L&T) for ₹ 1,809 crore.

The L&T paid (March 2008) ₹ 724 crore out of the total lease premium of ₹ 1,809 crore. The Development Agreement (DA) was signed on 21 April 2008. According to the provisions of the DA, the balance lease premium was to be paid in three installments due on April 2009, 2010 and 2011. The Company, after considering the delay in handing over of the site to the developer, extended the due date of payment from 21 April to 24 June every year. In case of delay in payment of installments, interest at the

[¶]Difference between second call offer of Frishman Prabhu and actual award to ICT and Mott Mac Donald.

rate of 14.25 *per cent* per annum was payable by the developer. The completion period of the project was three years (April 2011) for the Railway Station and five years (April 2013) for 50 *per cent* of the permissible built-up area of Commercial Facilities (CF) from the date of the DA.

We observed that as per the Request for Proposal (RFP) document the bidder was to submit a Bank Guarantee (BG) of ₹ 1,085 crore before signing the DA. The L&T did not furnish the BG and requested (April 2008) for a performance guarantee in lieu of BG. The Managing Director of the Company accepted the same in deviation of the RFP terms which was contrary to the principle of transparency and was not in the best financial interest of the Company. There was no security available with the Company in case of a default by the developer.

Further, as per the provision of the DA, it was the responsibility of the developer to obtain the necessary approvals for General Arrangement Drawings (GAD) from Railways. However, developer obtained the required GAD approvals from Railways only in August 2011 *i.e.* after a delay of over three years from the date of DA and the work had not commenced so far (September 2011).

We further observed that despite no progress of work, L&T requested (June 2009) the Company for extension of time of three years in payment of installments without levy of 'Delayed Payment Charges' (DPC), reduction of DPC percentage from 14.25 to nine *per cent*, extension of one year in completion of the railway project and two years extension for development of 50 *per cent* CF. The Board of Director of the Company accepted the request of L&T and granted (August 2009) relaxations without approval of the State Government. The financial repercussion of extension of time of three years in payment of installments without levy of 'DPC' alone resulted in an undue favour of ₹ 464.27 crore* to the developer on an incomplete project and loss to the Company.

On being pointed out by Audit, the Management stated (August 2011) that they had approached GoM in July 2011 to either ratify or suitably modify the decision taken by the Board. The response of GoM was awaited. The reply is not convincing as it did not mention the reasons as to why the Government approval was not obtained before agreeing to such significant concessions to the L&T.

The matter was reported to the Government (April 2011); their reply had not been received (November 2011).

* Due to extension of time of three years in payment of installments towards balance lease premium of ₹ 1,085 crore at 14.25 *per cent*.

3.3 Allotment of plot below market rate

The Company suffered loss of revenue of ₹ 22.63 crore due to allotment of plot below the market price in September 2009 on the single tender basis.

The Company invited (June 2009) tenders for allotment of Plot No.1 in Sector-20 of Kalamboli node admeasuring 15,999.91 m². The tender was not given wide publicity in prominent news papers and was published in only one newspaper of English, Hindi and Marathi. The NIT did not clearly mention that the plot was strategically located and touching the main link road from the Sion-Panvel Express Highway. The base price mentioned in the tender document was not realistically computed and fixed at only ₹ 10,000 per m² whereas average market rate in Kalamboli node was ₹ 26,662 per m² at that time. Due to poor publicity only two tenders were received (June 2009). Out of the two tenders received KLE Society (KLE), Karnataka had not submitted the requisite Earnest Money Deposit and the offer was treated as invalid resulting in a single tender situation as only one offer of Aermid Health Care (India) Private Limited, Kolkata (AHC IPL) was valid. The Economic Department of the Company recommended (July 2009) re-tendering of the plot stating that the rate received was low. The Managing Director (MD) over-ruling the above advice allotted (September 2009) the plot to the single tenderer AHC IPL at the rate of ₹ 12,521 per m² on the justification that the rate received was 25.21 *per cent* above the base price. The Board of Directors (BoD) approval to the decision of the MD was also not obtained.

We observed that the reasons for mention of the base price as ₹ 10,000 per m² in the NIT when the average market price received in Kalamboli node during 2008-09 was ₹ 26,662 per m² were also not on record. Thus, the allotment of plot on single tender basis at far below the prevailing average market rate resulted in a loss of revenue of ₹ 22.63[♦] crore.

The Management stated (July 2011) that the decision to allot plot to AHC IPL at ₹ 12,521 per m² was taken as the rate was 25.21 *per cent* above the base price. The reply is not tenable as a single tender situation was created and was despite Economics Section's advice of re-tendering.

The matter was reported to the Government (March 2011); however their reply is awaited (November 2011).

3.4 Revenue loss due to irregular transfer of land

Instead of re-allotment at new rates, the Company transferred a plot to 15 Societies of employees of Mazagon Dock Limited and suffered revenue loss of ₹ 21.46 crore in 2010.

As per the policy of Company if the allottee did not require the allotted land, the same should be surrendered to the Company which could allot the plots to the Co-operative Housing Societies (CHS) formed by the employees on

[♦](₹ 26,662 per m² – ₹ 12,521 per m²) x 15,999.91 m² = ₹ 22.63 crore.

payment of lease premium at the rate of 250 *per cent* of the prevailing reserve price.

The Company allotted (January 1982) a plot admeasuring 53,800 m² in Sector-21, New Panvel at a cost of ₹ 43.04 lakh to Mazagon Dock Limited (MDL) a Central Government Undertaking on preferential basis at concessional rate of lease premium of ₹ 80 per m² for residential use. MDL did not utilise the land. However, the Estate Officer of the Company without the approval of the Board of Directors (BoD) permitted (July 2003) the transfer of land to 15 CHS formed by its employees by collecting ₹ six lakh towards transfer charges instead of taking back possession as per its policy and re-allotting to these CHS at 250 *per cent* of prevalent rates.

We observed that the proposal for regularisation of transfer of plots to 15 CHS was submitted (January 2010) to the BoD. The BoD disapproved the proposal and directed the Manager (Town Services) to take necessary action for taking back the possession of plot. However, the possession has not been taken back by the Company so far (October 2011) nor any penal action was initiated against the then Estate Officer (now retired) who was responsible for these irregularities.

Thus, by not following its own policy of allotting the plots to CHS at 250 *per cent* of the then prevailing reserve price of ₹ 1,600 per m², it incurred a loss of ₹ 21.46[#] crore.

The Management stated (August 2011) that it would recover lease premium at the rate of ₹ 9,625 per m². The Government has also endorsed the reply (May 2011). However, the fact remains that amount is yet to be recovered (October 2011) from the CHS.

3.5 Loss of revenue in irregular allotment

The Company suffered revenue loss of ₹ 2.84 crore due to allotment of land in violation of norms.

As per Land Pricing and Land Disposal Policy, the Company can allot maximum 2,000 m² land each under religious category and cultural complex activity. As per pricing policy of the Company, the Plot for religious purpose can be allotted at 50 *per cent* of reserve price (RP) for first 500 m² of land, at 100 *per cent* of RP for next 500 m² and at 150 *per cent* of RP for above 1,000 m² of land. On the other hand, allotment of plot for cultural complex purpose is to be allotted at 50 *per cent* of RP up to 1,000 m² and another 1,000 m² at 100 *per cent* of RP. Thus, plot up to 2,000 m² only can be allotted for cultural purposes according to the policy of the Company.

We observed that in violation of its own policy, the Company forwarded (April 2004) the proposal to the State Government for prior permission to allot 9,000 m² plot to International Society for Krishna Consciousness (ISKCON) for religious activities. The State Government approved (November 2005) the

[#] 53,800 m² x ₹ 4,000 per m² = ₹ 21.52 crore minus ₹ six lakh = ₹ 21.46 crore.

allotment of 1,500 m² plot to ISKCON for religious activities. However, the Company in contravention of the Government approval allotted (January 2008) 9,000 m² of land (Plot No.2) to ISKCON for establishing a religious and cultural complex in Sector 23, Kharghar, Navi Mumbai.

The land admeasuring 1,500 m² was allotted for religious purpose as per pricing policy and rest of land admeasuring 7,500 m² was allotted for cultural complex activity by violating the norms of maximum 2,000 m² as laid down in the pricing policy. Since the policy allowed only up to 2,000 m² land for cultural complex activity the remaining land of 5,500 m² (7,500 m² - 2,000 m²) should have been allotted at commercial rate for ₹ 4.55 crore[¶] instead of ₹ 1.71 crore*. This has resulted in loss of ₹ 2.84 crore^Ω and undue favour to the party. In addition, subsequently the Company also allotted (May and December 2008) two adjacent plots (No.2A and 2B) admeasuring 4,000.45 m² and 19,999.72 m² respectively to ISKCON for the development of common parking and a public garden on leave and license basis for 10 years (up to July 2018) at a rent of ₹ 1,000 per acre per year.

The Management stated (April 2011) that the plot area of 9,000 m² allotted to ISKCON was for multiple uses. The Company further stated that Government approved to allot land of 1,500 m² for temple purpose and remaining 7,500 m² land was allotted for other than religious purpose and there was no need to obtain the approval of Government. The reply was endorsed (July 2011) by the Government. The reply is not tenable as the Government had approved allotment of 1,500 m² for religious purpose and allotment of 5,500 m² over and above 2,000 m² for cultural purposes was irregular and in violation of its own policy as well as Government order.

3.6 Loss of interest

The Company suffered a loss of ₹ 1.97 crore due to waiver of 50 per cent of interest amount.

The Company entered into an agreement (16 March 2006) with Navi Mumbai Special Economic Zone Development Company Private Limited (Party) for Development of Special Economic Zone wherein land admeasuring 450 hectare was handed over to them. Party was to pay lease premium of ₹ 285.87 crore of which ₹ 50 crore was payable upfront and the balance ₹ 235.87 crore was payable in two equal annual installments of ₹ 117.94 crore each and the amount payable was to be compounded at the rate of the weighted average Prime Lending Rate (PLR) of the State Bank of India (SBI) or 10 per cent per annum whichever was higher.

We noticed that the amount of interest receivable worked out to ₹ 33.23 crore by adopting the weighted average PLR of SBI. However, the Party paid (March 2007 and September 2007) the balance lease premium alongwith 10 per cent interest of ₹ 29.30 crore. The Company referred (May 2007) the

¶ 5,500 m² x ₹ 8,267 per m² = ₹ 4.55 crore.

* 5,500 m² x ₹ 3,100 per m² = ₹ 1.71 crore.

Ω ₹ 4.55 crore - ₹ 1.71 crore = ₹ 2.84 crore.

matter to SBI which informed that they had abolished the SBI PLR and the same was substituted by the State Bank Advance Rate (SBAR). CRISIL the financial consultant, also opined that SBAR without any term premium can be used as benchmark rate in lieu of abolished lending rate. However, the Company agreed to accept 50 per cent of the differential amount of ₹ 3.93 crore offered by the Party and waived the balance interest ₹ 1.97 crore resulting in loss to that extent.

The Management accepted (June 2011) the audit contention and stated that due care would be taken in future to protect the interest of the Company. It was further stated that it negotiated for additional amount and succeeded in getting 50 per cent of the balance interest amount of ₹ 1.97 crore. The Government also endorsed the reply (July 2011).

3.7 Non-recovery of risk and cost amount from the contractor

The Company could not recover ₹ 1.04 crore being the risk and cost expenditure from the defaulting contractor since December 2008.

The Company based on tenders had awarded (October 2004) a contract to Associated Cement Companies Limited (Contractor) for the design/construction/up-gradation of the road of Kalamboli Warehousing Complex (WC) at a cost of ₹ 9.49 crore. As per the terms and conditions of the contract, the maintenance liability of the Contractor for the completed work was for five years. The work was completed by the Contractor in May 2006.

We observed that the Contractor did not carry out any repairs/maintenance of the road after its construction during the maintenance guarantee period as per the contract which resulted in heavy damages to the road. The Company received several complaints from the Steel Market Committee, transport owners and plot owners of Kalamboli WC 2007 onwards. The repair works were subsequently carried out by the Company through three* Contractors at a cost of ₹ 1.87 crore (during 2007-08 and 2010-11) at the risk and cost of the main contractor.

The Company had withheld ₹ 83.34 lakh from running account bills of the Contractor up to August 2006. However, the Contractor has not paid any amount so far and even after considering the withheld amount ₹ 1.04 crore is still recoverable.

On being pointed out by audit the Management stated (April 2011) that the Company had filed a civil suit to recover the additional expenditure. The Government also endorsed the reply (May 2011). However, the fact remains that the Company failed to recover the repair cost from the defaulting Contractor.

* Shivam Construction Company: ₹ 0.29 crore, J.M. Mhatre: ₹ 1.11 crore and Thakur Infra Projects Private Limited: ₹ 0.47 crore.

In view of the above irregularities the Company should:

- **strengthen its internal control mechanism on land allotments and recover lease premium as per its own policy and in accordance with the orders of BoD/Government. Officers responsible for wrongful decision-making at all levels should be made accountable.**
- **follow the pricing policy strictly and comply with the Government orders.**
- **obtain prior approval of BoD in exceptional circumstances of single tender situation and fix base price at prevailing market rate.**
- **assess the financial implications before deviating from the terms and conditions of the agreement.**

Maharashtra State Power Generation Company Limited

3.8 Splitting of orders

Splitting of the orders during September 2008 to February 2009 in order to avoid approval of higher authorities lacked transparency.

As per delegation of powers, specified by the Maharashtra State Power Generation Company Limited (Company) the Chief General Manager (CGM) of a power station, in consultation with Deputy Chief Accounts Officer, is empowered to carry out routine works up to ₹ three lakh and special repairs up to ₹ 15 lakh . During the year 2008-09, the CGM issued total 238 work orders valuing ₹ 9.15 crore for civil works.

We observed that these works were awarded on quotation basis without undertaking a formal tendering process. Work orders ranging between two to five were issued to one contractor on the same date for similar type of work, which was unjustifiable and indicated that composite works were being split to avoid obtaining approval of the higher authority which was in violation of the canons of financial propriety. A detailed examination revealed that 62 work orders valuing ₹ 2.46 crore were issued (September 2008 to February 2009) to eight* contractors for routine work as per details given in the **Annexure-9**.

The Management accepted (October 2011) the audit contention and stated that necessary instructions have been issued to field officers to avoid such incidents in future. It was also stated that an enquiry was initiated to investigate the matter.

The matter was reported to the Government (March 2011); their reply had not been received (November 2011).

*Chetan R. Patil three works ₹ 7.17 lakh, C.B. Patil five works ₹ 14.95 lakh, M.J. Patil five works ₹ 14.62 lakh, R.S. Mumbaikar nine works ₹ 24.90 lakh, S.S.Engineering Works eight works ₹ 23.92 lakh, Sadanand Engineering Works 12 works ₹ 35.88 lakh, Roshan Trading Company four works ₹ 55.90 lakh and S.G.Rathod & Company 16 works ₹ 68.67 lakh.

Mahatma Phule Backward Class Development Corporation Limited

3.9 Avoidable payment of additional fee

Non-filing of notice with RoC for increase in authorised share capital of the Company resulted in avoidable payment of additional fee of ₹ 75.01 lakh in July/August 2010.

Mahatma Phule Backward Class Development Corporation Limited (Company) was established by the Government of Maharashtra (GoM) in July 1978 with an Authorised Share Capital (ASC) of ₹ 2.50 crore. The Company received Share Capital (SC) from the GoM and the Central Government. The ASC of the Company was increased from time to time to ₹ 100 crore up to March 1996 and ₹ 200 crore up to March 2004. According to Section 97 of the Companies Act, 1956, the Company shall file notice (Form 5) of increase of SC with Registrar of Companies (RoC) within 30 days of increase in ASC along with requisite fees (0.05 *per cent* of increased amount of SC). Further, additional fee for delay in filing Form 5 is charged at the rate of two *per cent* per month for first year and at the rate of 2.5 *per cent* per month on the fee amount, thereafter, till the date of filing of Form 5.

During audit of annual accounts for the financial year 2002-03 we observed (March 2011) that the Company allotted shares of ₹ 11.91 crore to the Government of India on 20 September 2002. The paid up capital of the Company stood at ₹ 103.13 crore as against the ASC of ₹ 100 crore. The GoM Resolution regarding the increase of ASC from ₹ 100 crore to ₹ 200 crore was issued in March 2004 *i.e.* after a period of 18 months from the actual allotment of shares which was irregular.

Further, the Company failed to comply with the above provisions and filed the notice (Form 5) to the RoC for increase in ASC to ₹ 200 crore only in July-August 2010 under the Company Law Settlement Scheme. The Company, in addition to normal registration fee of ₹ 95 lakh for increase in ASC, also paid (July-August 2010) an additional penal fee of ₹ 75.01 lakh to RoC for delay in filing. The reason for delay in filing the return was lack of professional guidance on the part of the Company. Thus, violation of provisions of Companies Act, 1956 resulted in avoidable payment of ₹ 75.01 lakh. It is pertinent to note that the Memorandum of Association of the Company has also not yet been altered and the ASC of the Company is ₹ 15 crore till date.

The Management stated (May 2011) that the Company would take every step to comply with the provisions of the Companies Act diligently and file all the necessary compliances within prescribed time limit of the RoC.

The reply is not tenable as the Company should have timely filed Form 5 with RoC to avoid additional penal fee of ₹ 75.01 lakh. Further, the Company has yet to prepare its financial accounts for the year 2005-06 onwards.

The matter was reported to the Government (April 2011); their reply had not been received (November 2011).

Maharashtra State Road Development Corporation Limited

3.10 Avoidable loss of revenue

Non-finalisation of tenders before expiry of existing contract resulted in loss of ₹ 10.76 crore to the Company during April 2008 to March 2011.

Maharashtra State Road Development Corporation Limited (Company) executes road construction contracts on 'Build, Operate and Transfer' (BOT) basis. The project cost is recovered by collection of toll from general public at the rates prescribed by Government of Maharashtra (GoM). The Company was to ensure finalisation of the next toll collection contract before conclusion of the earlier contract to maximise revenue generation.

On review of records, we observed that the Company during April 2008 to March 2011 finalised 38 toll contracts of which 18 contracts were finalised belatedly. Analysis of these cases revealed that despite being aware of the expiry dates of the contracts, the Company did not take any advance action to appoint the next toll collection agency to collect the toll in time. The finalisation of the contract was delayed even after opening of the financial bids. The rates received were much higher in the new contracts as compared to the existing contract.

Particularly in respect of toll at Wardha-Pulgaon Road and IRDP Solapur, the Company failed to finalise new contract with the new contractor at higher rates and continued to extend the toll collection contracts at the old rates although the existing contractor had himself offered higher rates during tenders invited for further period. In respect of Kelzar toll station, while the Board note for acceptance of H1 bidder was put up in April 2010, the decision of acceptance was taken in June 2010 and the same was communicated to the bidder in July 2010. However, final work order was issued in September 2010 as the contractor did not furnish Bank Guarantee (BG) and security deposit in time.

Thus, due to failure to complete the tendering process in time, the Company had to extend the existing contract and the period of extension ranged from one to 19 months. This resulted in extension of unintended benefit to the existing contractor and loss of revenue to the Company amounting to ₹ 10.76 crore as detailed in **Annexure-10**.

Thus, there was lack of system in the Company to ensure that the new toll collection contracts were finalised at appropriate levels of decision making before expiry of the existing contract by initiating the tendering procedures well in time so that the new contracts were in place.

The Management stated (August 2011) that there were various administrative hurdles such as delay in submission to Board and delay in approval by the

Board, non-furnishing of BG by parties *etc.* due to which the Company granted extensions to the existing contractors. The reply is not convincing as the Company should have kept sufficient time frame for such administrative hurdles and ensured immediate commencement of new contract on expiry of old one to maximise its revenue.

The matter was reported to the Government (May 2011); their reply is still awaited (November 2011).

3.11 Loss due to delayed action

The Company suffered loss of ₹ 75.89 lakh on account of delayed action to invoke the contractual terms for recovery of dues.

The Company awarded (October 2007) the contract for collection of toll at Deole on Sinner-Ghoti Road in Nashik District to Raghunath L. Gawade (Contractor) for ₹ 4.92 crore payable in weekly installments from 1st November 2007 for a period of 104 weeks. The Contractor had deposited ₹ 75.62 lakh towards Security Deposit (SD) and Performance Security (PS). This contract was further extended for a period of 12 weeks. As per terms of contract the Contractor was required to pay the fixed amount of weekly installments of ₹ 4.83 lakh by due dates and in case the Contractor did not pay full amount of weekly installments of toll collection by due date or within three days of due dates then the same would be recovered by adjusting/ encashing the SD/PS. Further, the Company had a right to terminate the contract.

We observed that the Contractor had defaulted in payment of monthly installments since August 2008 and the period of delays in payment ranged from four days to 538 days from the due dates. However, the Company did not invoke the contractual provision in regard to adjustment of SD/PS against the short payment by the Contractor or termination of the contract immediately on default and the short payment was allowed to accumulate to ₹ 1.15 crore when the Company forfeited (21 January 2010) the SD/PS of ₹ 75.62 lakh *i.e.* after a delay of 17 months. Thus, the Company had no recourse to recover the balance short payment of ₹ 38.64 lakh and interest thereon which worked out to ₹ 37.25 lakh till September 2011.

The Management admitted (July 2011) that the Contractor was a defaulter in remitting installments and stated that after taking legal opinion, a proposal had been submitted in February 2010 to District Collector, Thane to recover the dues as arrears of Land Revenue. However, the fact remains that the Company failed to monitor the timely remittance of toll collection by the Contractor.

It is recommended that the responsibility should be fixed on the concerned officials for lack of monitoring.

The matter was reported to the Government (May 2011); their reply had not been received (November 2011).

Maharashtra State Seeds Corporation Limited

3.12 Inadequate internal controls

Inadequate and deficient internal controls regarding sale of seeds in the Company resulted in non-recovery of dues amounting to ₹ 1.24 crore.

Maharashtra State Seeds Corporation Limited (Company), Akola is engaged in selling agricultural seeds through its dealers in the State. As per the policy, the Company has to sell seeds on 'cash and carry' basis which implies receipt of entire cost before release of goods to the buyer.

We observed (May 2010) that the seeds were dispatched without full receipt of cost of material. The Company had debtors ranging from ₹ 6.14 crore to ₹ 18.58 crore during 2007-08 to 2010-11. Further, the Company had outstanding debtors for more than six months amounting to ₹ 2.71 crore for the year ended 31 March 2011, of which Company considered debtors amounting to ₹ 1.24 crore as doubtful of recovery. Further, there was no system to collect adequate security by way of bank guarantee or property mortgage, levy of penal interest for delayed payment *etc.* which ultimately resulted in non-recovery of dues.

In one case the Company failed to recover ₹ 17.67 lakh from a dealer (Govind Krishi Vikas Kendra, Yeotmal), in respect of supply of soyabean seeds, as cheques from the dealer were dishonoured. The case filed by the Company was dismissed (June 2007) on the grounds that the cheques were not tendered for any legal debt and failure of the Company to establish that material was actually despatched to dealer as the dealer code, transport receipt number, order reference number did not bear signature of the dealer.

We also observed that in 10 cases (**Annexure-11**) although the Company obtained (October 1990-April 2002) decrees amounting to ₹ 19.33 lakh it could not recover the amounts due to non-traceable/insolvency of the buyers. As such, these amounts should have been written off because chances of recovery are remote. However, these are still being shown as recoverable.

The Management accepted (May 2011) the weakness in internal control mechanism and assured to take remedial action for strengthening the mechanism. It was also stated that disciplinary action had been initiated against the erring officials. The Government also endorsed the reply (October 2011).

Maharashtra Small Scale Industries Development Corporation Limited

3.13 Avoidable loss of revenue

Sub-lease of the godown premises without prior approval of the owners and failure to analyse the cost benefits of the decision, led the Company to incur a revenue loss of ₹ 4.06 crore and liability of reimbursement of huge repair cost of ₹ 7.32 crore.

Maharashtra Small Scale Industries Development Corporation Limited (Company) obtained godown premises on lease basis from agencies, namely, MPT*, CIDCO* and MIDC* (owners). As per the Clause 2-W of lease agreement with the owners, the Company cannot sub-lease the godown space without the prior consent of the owners. Further, as per Clause 5 construction work could be commenced only after approval of the plan by the local authority and previous consent from the owner. In view of reduction in the activities of the Company and to generate revenue from the vacant/surplus godown premises available, the Company decided to sub-lease the vacant godown premises to the Agents who on behalf of the Company would provide warehousing services by bringing the needy users to the Company.

Accordingly, the Company, without obtaining permission from owners, invited tenders (June 2009) to sub-lease eight godown premises at six[♦] places to the Agents on leave and license basis. As per the tender conditions, the godowns were offered on 'as is where is basis' and all necessary repairs, fixtures, fittings, electric connections etc. required for usage of godowns were to be carried out by the Agents at their own cost. In view of poor response and unacceptable conditions, the Company modified the tender conditions to the effect that all necessary repairs required for usage of godowns should be carried out by the Agents at the Company's cost and the expenses incurred would be adjusted against the monthly license fee payable (adjustment against 50 per cent of license fee) and re-invited tenders (August 2009) without obtaining consent from the owners.

The monthly license fees receivable for these eight godowns worked out to ₹ 32.72 lakh per month and the Company entered into an agreement with four Agents and handed over the godowns to them (September-October 2009) without informing the owners of the sub-lease and of the repair work proposed to be done in their godowns. However, the owners of the godown premises objected and stopped (January 2010) the repair works and directed the Company to obtain proper permission before starting the repair work. Thereafter, the Company submitted (February 2010) the repair plans with estimates for obtaining the approval of the owners to commence and complete the repair works.

*Mumbai Port Trust, City and Industrial Development Corporation of Maharashtra Limited and Maharashtra Industrial Development Corporation.

♦Mumbai, Pune, Thane, Nashik, Ahmednagar and Kalamboli.

We observed that the Company's assumption that the permission from the owners for repairs of the godown premises was not needed was misplaced and the decision to sub-lease the godown premises to the Agents without the approval of the owner was injudicious. Thus, handing over the godown premises to the Agents prior to the approval of the owners resulted in a loss of revenue of ₹ 4.06 crore♦ to the Company up to January 2011. Further, the total expenditure on repair cost to be adjusted against the license fee in respect of these eight godowns amounted to ₹ 7.32 crore.

The Management stated (April 2011) that there was no need of any communication to the owner for sub-leasing the godowns and no need to obtain permission for repairs as there was no modification/addition/alteration in the existing structures of the godown premises. The Government also endorsed the reply (June 2011). The reply is not based on facts as the terms of the lease clearly provide that any sub-lease and repairs require permission from the owners.

It is recommended that the Company should judiciously assess and plan its activities in sub-leasing godown premises, factoring in all prior clearances/permissions from owners and related agencies.

Statutory Corporation

Maharashtra Industrial Development Corporation

3.14 Undue favour to private parties

The Corporation incurred revenue loss of ₹ 3.67 crore due to non-levy of expansion charges during 2008 and 2009.

Maharashtra Industrial Development Corporation (Corporation) decided (March 2008) that expansion charges at the rate of 10 *per cent* on the lease premium amount were to be levied and recovered in all cases of allotment of land for expansion of existing units. The Corporation allotted additional land to KEC International Limited (0.60 lakh m²), Grace Industries Limited (7.50 lakh m²) and Vidarbha Industries Power Limited (5.29 lakh m²) in November 2008, August 2009 and November 2009 respectively for expansion of their existing units at the prevailing rate of lease premium. However, the Corporation failed to levy expansion charges. The reasons for allotting land without charging 10 *per cent* expansion charges towards additional land were not on record. Moreover, the matter was also not brought to the notice of Board of Directors. The amount of expansion charges leviable for the said allotments worked out to ₹ 3.67 crore.▶

♦License fee recoverable ₹ 4.56 crore less actual revenue received ₹ 0.50 crore.

▶KEC International Limited (₹ 0.24 crore), Grace Industries Limited (₹ 1.31 crore) and Vidarbha Industries Power Limited (₹ 2.12 crore).

The Management stated (August 2011) that the Corporation allotted the above plots for speedy industrial development in the State and demanding 10 per cent expansion charges in above industrial areas would have led to plots remaining unutilised. The Government also endorsed the reply (December 2011). The reply is not tenable as the Corporation failed to implement its own policy of charging expansion charges on additional land allotted and suffered avoidable loss of revenue and granted undue favour to these three parties.

3.15 Injudicious decision to grant extension of time

The Corporation granted extension of time for a period of 16 years for development of land and revised its decision on several occasions at the unreasonable request of the allottee. Consequently, it suffered a loss of ₹ 3.12 crore in August 2009.

The Corporation entered (May 1993) into lease agreement with Compact Disc India Limited (COMPACT) for construction of factory building on a plot admeasuring 2,100 m² in Trans Thane Creek Industrial Area. As per the term of agreement the COMPACT was required to complete the construction of factory building and obtain Building Completion Certificate before June 1996. Failing this, the Corporation could terminate the agreement or continue with the allottee's occupation on said land on payment of fine as may be decided upon by the Corporation. As COMPACT failed to commence the construction, the Corporation issued several Show Cause Notices and demanded additional premium for five extensions granted to them. COMPACT did not respond to notices and requested (September 2001) the Corporation for cancellation of allotment and refund of lease premium. Later, COMPACT again requested (March 2006 and February 2007) to grant extension/reallotment which was rejected (October 2007) by the Corporation.

We observed that this decision was again changed and the Corporation decided (January 2009) to reallot the plot at prevailing rate of ₹ 3.70 crore. Subsequently, COMPACT did not agree to pay the prevailing rate on re-allotment of land and approached Ministry of Industries (MoI), Government of Maharashtra in August 2009 to grant extension of time for completion of construction activity. The Board of Directors of the Corporation as per the directives of MoI, reversed (August 2009) its earlier decision of re-allotment of plot at prevailing rate of ₹ 3.70 crore and granted extension of time limit to COMPACT by collecting additional lease premium of ₹ 57.99 lakh. Later on as per the request of COMPACT, the Corporation transferred (September 2009) the said land in favour of Semikron Electronics Private Limited against payment of transfer fee of ₹ 25.20 lakh.

Incidentally in similar case of Laser Electronic Limited (LASER) the Corporation had reallotted the plot at prevailing rate of ₹ 3.70 crore (April 2009). Thus, the Corporation, by agreeing to the unreasonable and unfair request of COMPACT for extension of time for a period of 16 years

instead of reallotting the same at prevailing rates incurred loss of revenue amounting to ₹ 3.12 crore*.

The Management stated (September 2011) that the decision to revise the decision from reallotment to granting extension was taken on the basis of circumstances prevailing then. The Government also endorsed the reply (September 2011). The reply is not tenable as the Corporation reversed its own decision of re-allotment of plot on several occasions at the unreasonable request of the allottee.

3.16 *Undue benefits to allottee*

The Corporation failed to ensure the utilisation of the land allotted at concessional rate for the purpose for which the land was allotted resulting in undue favour to the allottee besides revenue loss of ₹ 1.55 crore.

The Corporation allotted (May 2002) land admeasuring 77,976 m² at Plot No.P-31 to Shivchatrapati Shikshan Sanstha, Latur (allottee) in Additional Latur Industrial Area at concessional rate of ₹ one per m² as per the request of the allottee for the specific purpose of construction of a Sports Complex.

We observed that the allottee proposed the utilisation of a part (32,553 m²) of the said land for the construction of school building. The building plan for 17,360 m² of land was approved by the Executive Engineer (EE), Latur Division in October 2007. The Corporation stated that the EE, Latur Division accorded sanction for construction of building for school without proper study about the purpose for which the plot was allotted and without sanction of the Board.

On being pointed out in Audit, the Corporation raised (April 2010) a demand for payment of ₹ 1.55 crore♦ for the total land area of 77,976 m² for violation of the terms of lease agreement and non-utilisation of land for the purpose for which the land was allotted.

The Management accepted (July 2011) the audit contention and stated that the allottee has agreed to pay ₹ 1.55 crore in three installments. The Government also endorsed the reply (September 2011). However, the Corporation has not taken any action against the official concerned for according sanction for construction of school building.

*Reallotment land premium of ₹ 3.70 crore less ₹ 0.58 crore towards additional premium paid by allottee.

♦ (₹ 200 - ₹ one per m²) x 77,976 m² = ₹ 1.55 crore.

3.17 Loss of revenue

The Corporation suffered revenue loss of ₹ 1.35 crore due to non-charging of premium at revised rates during August 2008 to January 2009.

The Corporation allots industrial and commercial plots in industrial areas based on the prevailing rates. The Board of Directors (BoD) of the Corporation had decided on 9 July 2008 to revise the rates of industrial and commercial plots. However, the effective date of increase in rates was not mentioned in the Board Resolution. The Management of the Corporation after a delay of 30 days issued the Circular for revision of rates on 8 August 2008 with immediate effect. It was mentioned in the Circular that in cases where the offer letter/allotment letter contains the condition of payment of premium as per the revised rate, payment at such revised rates will only be applicable. The rates in Mahad Industrial Area (MIA), Additional Mahad Industrial Area (AMIA) were revised from ₹ 200 to ₹ 250 per m² for industrial plots and from ₹ 400 to ₹ 500 per m² for commercial plots. Similarly, in Roha Industrial Area (RIA), the rates for industrial plots were revised from ₹ 400 to ₹ 600 per m².

The Corporation allotted (August-September 2008) 17 commercial and five industrial plots admeasuring 1.61 lakh m² in MIA and AMIA at pre-revised rates. Similarly, in RIA three industrial plots admeasuring 17,495 m² were allotted in January 2009 at pre-revised rates.

We observed that though the clause regarding applicability of revised rates had been incorporated in the allotment letter of 25 above mentioned cases, the Corporation failed to recover lease premium at revised rates from all the 25 units and suffered revenue loss of ₹ 1.35 crore.

The Management stated (July 2011) that allotments were made at pre-revised rates as the parties had deposited the necessary earnest money. The Government also endorsed the reply (July 2011). The reply is not tenable as the circular dated 8 August 2008 clearly stated that payment should be charged at revised rates.

3.18 Avoidable extra expenditure

Injudicious decision to re-tender and acceptance of the higher offer led to an undue favour being granted to a private agency and an avoidable extra expenditure of ₹ 82 lakh to the Corporation during 2007-08.

The Corporation invited (May 2006) tenders at an estimated cost of ₹ 1.96 crore as per District Scheduled Rates (DSR) 2005-06 for 'providing asphaltic treatment to the main road' in the Baramati Industrial Area. Five bidders* were found technically qualified and their financial bids were opened in August 2006 which ranged between ₹ 2.08 crore and ₹ 2.55 crore

* Nand Kumar Construction, A.S. Desai, A.G. Wable, Swastik Construction and R. R. Kapoor quoted 5.92, 14.17, 19.85, 25.76 and 29.97 per cent respectively above the estimated cost.

(i.e. 5.92 and 29.97 per cent above the estimated cost). The Superintendent Engineer, Pune recommended (September 2006) the L1 bidder (Nand Kumar Construction).

We observed that after lapse of six months the Chief Executive Officer rejected (November 2006) the tender on the ground of un-workability of the lowest rates as the DSR 2006-07 were applicable by that time. Accordingly, the Corporation re-invited the tender and awarded (July 2007) the work to A.S. Desai who was L2 in previous tender at negotiated rate of ₹ 2.90 crore. The work was accordingly completed within eight months i.e. in March 2008 at a cost of ₹ 2.92 crore for which revised administrative approval and technical sanction has not been obtained so far.

The Corporation took six months to cancel the first tender and another six months to finalise the second tender. Thus, cancelling the first tender on the basis of DSR 2006-07 and delaying award of the work for one year was injudicious and resulted in an avoidable extra expenditure of ₹ 82 lakh.*

The Management justified (May 2011) cancellation of the first tender on the ground of unworkable rates and apprehended that the contractor might not be able to complete the work with quality. It was also stated that increase in rate of material was not anticipated at the time of re-tendering. The Government also endorsed the reply (June 2011).

3.19 Loss of revenue

The Corporation suffered revenue loss of ₹ 43.16 lakh due to allotment of commercial plots at industrial rate.

The Corporation allots the commercial plots by auction at commercial rates. The Corporation received applications during January 2003 to November 2006 for allotment of commercial plot No.P-10 at Satpur, Nashik admeasuring 1,897 m² at industrial rate from the following five parties.

Sl. No.	Name of the party	Use
1.	Institute of Chartered Accountants of India	Educational institute
2.	Audhyogic Shikshan Prasarak Mandal	School
3.	Maharashtra State Khadi Gramudyog Mandal	State PSU
4.	Dr. Sushil Eye Hospital and Brahma Laser Centre	Hospital
5.	Maharashtra State Khadi Gramudyog Mandal	State PSU

As the aforesaid plot was reserved for commercial use, the Corporation rejected (April 2007) the application of Institute of Chartered Accountants of India and Audhyogic Shikshan Prasarak Mandal stating that the commercial plot can only be disposed off at commercial rate and by inviting tender with an upset price of ₹ 3,850 per m². In the review meeting held on 10 May 2007 it

* (₹ 2.90 crore – L1 offer of ₹ 2.08 crore).

was decided to invite tender for the above plot and allot any other plot for hospital use. However, this decision was reversed in the plot allotment review meeting on 31 May 2007 with the Industries Minister, wherein it was decided to allot the plot to Sushil Eye Hospital and Brahma Laser Centre (SEHBLC) at industrial rate of ₹ 1,500 per m². Thus, the Corporation, ignoring other applicants, allotted (December 2007) the commercial plot No.P-10 at Satpur, Nashik to SEHBLC at industrial rate of ₹ 1,575 per m² (including five *per cent* of road frontage charges) for hospital use and collected lease premium of ₹ 29.87 lakh.

We observed that the plot was allotted without inviting tenders, giving wide publicity, lacked transparency and the whole process was in contravention of the general policy of the Corporation. The allotment of commercial plot at industrial rate to SEHBLC, despite rejection of similar request of other parties (including a Corporation under Government of Maharashtra), indicated lack of fairness and transparency in allotment and undue favour to the party which resulted in loss of potential revenue of ₹ 43.16* lakh.

The Management stated (July 2011) that plot was allotted as per their policy for allotment to hospitals at industrial rate and for the welfare of workers working in the industrial area. The Government also endorsed the reply (December 2011). The reply is not tenable as the Corporation had already rejected similar requests for allotment of this commercial plot at industrial rate. Further, the Corporation should have allotted only industrial plot for hospital use instead of commercial plot to avoid loss of potential revenue.

In view of the above, the Corporation should:

- **comply its policies in a transparent and consistent manner.**
- **implement the revision in rates of lease premium immediately after approval of BoD.**

General

Follow-up action on Audit Reports

3.20 Explanatory Notes outstanding

3.20.1 Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department of the State Government issues instructions every year to all administrative departments to submit explanatory notes to paragraphs and performance audits included in the Audit Reports within a period of three months of their presentation to the

*Difference of commercial and industrial rate per m² (₹ 3,850 - ₹ 1,575) x Area of plot allotted (1,897 m²) = ₹ 43.16 lakh.

Legislature, in the prescribed format, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Details of Audit Report (Commercial) wise paragraphs/performance audits for which replies are awaited as on 30 September 2011 were as under:

Audit Report	Date of placement of Audit Report to the State Legislature	Number of			Replies is awaited		
		Performance audits	Paras	Total	Performance audits	Paras	Total
2005-06	17 April 2007	3	19	22	1	1	2
2006-07	30 December 2008	6	28	34	--	1	1
2007-08	23 December 2009	3	21	24	--	--	--
2008-09	23 April 2010	2	21	23	1	7	8
2009-10	21 April 2011	2	21	23	2	21	23
Total		16	110	126	4	30	34

From the above it could be seen that out of 126 paragraphs/performance audits, replies to 34 paragraphs/performance audits pertaining to the Audit Report (Commercial) for the year 2005-06 to 2009-10 were awaited (September 2011).

Compliance to Reports of the Committee on Public Undertakings

3.20.2 Action Taken Notes (ATNs) to 127 recommendations contained in 19 Reports of the COPU presented to the State Legislature between April 1996 to September 2011 were still awaited as on September 2011 as indicated below:

Year of COPU Report	Total no. of Reports involved	No. of recommendations where ATNs were not received
1996-97	2	21
2005-06	3	22
2007-08	4	38
2008-09	3	8
2010-11	7	38
Total	19	127

The matter of pending ATNs has been taken up with the concerned administrative departments and also the Finance Department at various levels so as to expedite the ATNs on pending recommendations of COPU.

Response to inspection reports, draft paragraphs and performance audits

3.20.3 Audit observations not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued up to 31 March 2011 pertaining to 60 PSUs disclosed that 2,634 paragraphs relating to 580 Inspection Reports remained outstanding at the end of September 2011. The department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2011 is given in **Annexure-12**.

Similarly, draft paragraphs and performance audits 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 out of 19 draft paragraphs and two draft performance audits forwarded to various departments between March to August 2011 and included in the Audit Report, seven draft paragraphs and two draft performance audits as detailed in **Annexure-13**, were not replied to by the State Government (November 2011).

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



MUMBAI
The

(P. N. SESHADRI)
Accountant General (Commercial Audit), Maharashtra

Countersigned



NEW DELHI
The

(VINOD RAI)
Comptroller and Auditor General of India