

**Report of the  
Comptroller and Auditor General  
of India**

for the year ended March 2016

**Union Government (Civil)  
Union Territories without Legislatures  
Compliance Audit Observations  
Report No. 8 of 2017**



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This Report for the year ended March 2016 has been prepared for submission to the President under Article 151 of the Constitution of India.

The Report contains significant results of the compliance audit of financial transactions of five Union Territories without legislatures. The instances mentioned in this Report are those which came to notice in the course of test audit during 2015-16 as well those which came to notice in earlier years, but could not be reported in the previous Audit Reports. Instances relating to the period subsequent to 2015-16 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



## OVERVIEW

There are seven Union Territories (UTs) specified under Part II of the First Schedule to the Constitution of India, viz., Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry. Except for the National Capital Territory of Delhi and Puducherry, UTs do not have Legislatures. This report includes audit observations arising from the audit of the five UTs without Legislature.

The Report contains four chapters. Chapter I gives a brief introduction and summarised position of the Action Taken Notes furnished by the Ministries to the Audit Reports of the earlier years and status of replies received from the Ministries to the paragraphs included in this Report. Chapter II contains paragraphs pertaining to the expenditure sector of UTs while Chapter III pertains to the revenue sector. Chapter-IV contains paragraph relating to Public Sector Undertakings (PSU) under UT administration.

Some of the important findings included in this Report are given below:

### **Expenditure Sector**

#### **Andaman and Nicobar Administration**

Andaman Public Works Department (APWD) deviated from provisions of the CPWD Manual and failed to obtain mandatory clearances. These resulted in instances of unfruitful expenditure, wasteful expenditure, delays, cost escalation, foreclosures, works remaining incomplete for long periods etc., due to which the intended benefit of providing connectivity in rural and urban areas of Andaman and Nicobar Islands was not achieved.

*(Para no. 2.1)*

The Panchayati Raj Institutions of the Andaman and Nicobar Islands deviated from provisions of the CPWD Manual and Rules and Regulations of Andaman and Nicobar Administration. Consequently, there were instances of faulty planning in eight works valued at ₹ 161.91 lakh, improper site survey involving expenditure of ₹ 86.41 lakh for four works, unrealistic assessment of works in seven cases aggregating to ₹ 174.90 lakh and lack of monitoring deviations in 103 works amounting to ₹ 740.25 lakh which led to cancellation of works, delays in completion, and time and cost overruns.

*(Para no. 2.2)*

Failure of Andaman and Lakshadweep Harbours Works (ALHW) to adhere to guidelines regarding planning, execution and monitoring of projects resulted in non-fulfilment of objectives. Improper planning, delayed action and non-compliance to rules resulted in unfruitful/wasteful expenditure of ₹ 3.41 crore, blockage of ₹ 4.08 crore, and cost overrun of ₹ 37.45 lakh. Incorrect application of rates in execution of works led to excess payment of ₹ 1.79 crore.

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Port Management Board, Port Blair is illegally operating two defective and unregistered tugs in Port Blair putting its personnel and craft at risk.

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Failure of APWD to avail of excise duty exemptions and to purchase pipes directly from the manufacturer, resulted in avoidable expenditure of ₹ 2.30 crore on drinking water supply projects.

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Andaman and Lakshadweep Harbour Works (ALHW) falsely informed ANI Administration that they had a legal obligation to pay a firm, resulting in continuation of a project that was subsequently stopped after incurring ₹ 1.18 crore. Despite ANI Administration's subsequent orders to stop all work and withdrawal of funds, ALHW continued to incur expenditure.

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Andaman Public Works Department awarded work to construct a sea wall partly located in reserved forest areas, but made no effort to secure mandatory permission. Consequently, the work was abandoned after part-construction, defeating the objective of preventing sea erosion and led to unfruitful expenditure of ₹ 0.96 crore.

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Tourism Department leased water sports equipment to a private operator charging lease rent at far less rates than what Government itself pays to borrow funds. In addition, the Department provided rent-free use of building and premises to the operator in the sports complex. The Department also deleted/omitted clauses in the agreement that would have ensured that the operator did not charge unduly high fees from the public and would have also ensured greater financial and legal control over the operator.

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## **Chandigarh**

Chandigarh Housing Board (CHB) failed to deduct TDS before making payment to contractor. Subsequently, at the instance of Income Tax Department, CHB deposited ₹ 5.55 crore from its own funds as TDS with the IT Department.

*(Para no. 2.9)*

In violation of rules, Central Project Division, Chandigarh Administration prematurely withdrew and irregularly retained ₹ 3.82 crore out of Government account for 30 months, and thereafter irregularly continues to retain the balance of ₹ 1.73 crore for a further period of more than 32 months. The interest loss on this account till date is ₹ 1.12 crore.

*(Para no. 2.10)*

## **Daman and Diu**

Failure of Daman and Diu Administration to adhere to financial rules resulted in release of funds despite non-execution of Flood Control and Drainage Anti-Sea Erosion Projects and idling of ₹ 6.50 crore with Daman Municipal Council (DMC) during 2012-16.

*(Para no. 2.12)*

## **Lakshadweep Islands**

Union Territory of Lakshadweep continues to depend primarily on diesel generators to generate electricity. No system is in place to ensure that the DG sets are installed as per requirement. Non commissioning of bulk storage facilities at Kavaratti and Minicoy resulted in transit loss, amounting to ₹ 2.65 crore. Diesel consumption in excess of norms, high transmission and distribution losses were noticed. Four solar photovoltaic (SPV) plants were not working while two were under renovation. No follow up action on JERC directives to collect overdue revenues and non-collection of dues from NTPC were also noticed.

*(Para no. 2.13)*

Failure of Ministry of Science and Technology to monitor expenditure on installation of bio-toilets, resulted in UTL Administration parking of ₹ 17.27 crore outside Government account in violation of rules. Ultimately, the objective of installing 12,000 bio-toilets in Lakshadweep remains unfulfilled.

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The Excise and Taxation Department failed to re-assess dealers of mobile charges at the higher rate in the light of Supreme Court judgement, resulted in short levy of ₹ 9.69 lakh.

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### **Dadra and Nagar Haveli**

Failure of the VAT department of Dadra and Nagar Haveli to levy penalty on late filing of return, resulted in non-recovery of penalty, of which, ₹ 21.79 lakh was recovered at the instance of Audit.

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### **Daman and Diu**

Failure of Administration Daman to fix land revenue for urban areas on lines adopted for rural areas has resulted in non-recovery of ₹ 3.44 crore over 15 years

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## **Commercial Sector**

### **Lakshadweep Development Corporation Limited**

#### **Moderisation of Tuna Canning Factory at Minicoy**

Upgradation in capacity of Tuna Canning Factory, Minicoy from 1,500 cans per day to 10,000 cans per day was approved without ensuring the availability of raw material (tuna). UTL Administration also failed to ensure that proposals emanating from LDCL had the approval of its Board of Directors and scrutinize them accordingly. Further, failure of Ministry of Agriculture and Fisheries and Ministry of Commerce to adhere to finance rules, resulted in unfruitful expenditure of ₹ 7.64 crore, and blocking up of funds to the extent of ₹ 6.89 crore for more than six years.

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## CHAPTER I: INTRODUCTION

### 1.1 About this Report

This Report contains compliance audit observations of the five Union Territories without legislatures. Compliance audit refers to the examination of transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain compliance to provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities.

The Comptroller and Auditor General (C&AG) performs audits in terms of the Auditing Standards approved by him. These standards prescribe the norms which the auditors are expected to follow in conduct of audit and require reporting on individual cases of non-compliance and abuse, as well as on weaknesses that exist in systems of financial management and internal control. The findings of audit are expected to enable the executive to take corrective action and also to frame policies and issue directives that will lead to improved financial management of the organizations, contributing to better governance.

This Report includes audit findings based on the compliance audit of the Government Departments/Offices/Institutions under the administrative control of the UTs without legislature.

### 1.2 Union Territories in India

There are seven Union Territories (UTs) specified under Part-II of the First Schedule to the Constitution of India, viz., the Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman & Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry. Excepting the National Capital Territory of Delhi and Puducherry, the remaining five do not have their own legislatures, councils of ministers or consolidated funds. Instead they function under the authority of Parliament and the Government of India. The demographic details are given below:

**Demographic details<sup>1</sup> of UTs without legislature**

Name of UTs	Population		Area (In km <sup>2</sup> )
	Male	Female	
Andaman and Nicobar Islands	2,02,313	1,77,631	8,249
Chandigarh	5,80,135	4,74,551	114
Dadra and Nagar Haveli	1,93,157	1,49,696	491
Daman and Diu	1,50,130	92,781	112
Lakshadweep Islands	33,108	31,321	32

### 1.3 Administrative arrangements

Under the Government of India (Allocation of Business) Rules, 1961, the Ministry of Home Affairs (MHA) is the nodal ministry for legislative matters, finance and budget and services for the UTs. Each UT functions under an Administrator appointed by the President under Article 239 of the Constitution of India. In the Andaman and Nicobar Islands, the Lt. Governor is designated as the Administrator while the Governor of Punjab is the administrator of Chandigarh. In Dadra and Nagar Haveli, Daman and Diu and Lakshadweep, senior Indian Administrative Service (IAS) officers of the AGMUT cadre are appointed as Administrators. Administrator's Advisory Councils in these UTs advise the administrators. The Home Minister's 'Advisory Committees' in these UTs address general issues relating to the social and economic development of the UTs. The Island Development Authority (IDA) under the Prime Minister facilitates the integration of high level decisions concerning the island UTs of the Andaman and Nicobar Islands and Lakshadweep.

### 1.4 Financial arrangements

Budgetary matters in respect of UTs are under the administrative control of the Ministry of Home Affairs (MHA). The MHA prepares the Demands for Grants and Detailed Demand for Grants (DDGs) relating to these UTs for the approval of Parliament. While the general administration of the UTs is the responsibility of the MHA, other Ministries/Departments of the Union Government administer funds on the subjects mentioned in Lists I and II, so far as they exist in regard to these territories, of the Seventh Schedule to the Constitution of India. Thus the DDGs also contain the proposals of other ministries and departments regarding the expenditure on these UTs on activities concerning these ministries and departments. Administrators of the

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<sup>1</sup> As per Census 2011.

UTs have been delegated financial powers upto a certain limit<sup>2</sup> by MHA for sanction of plan schemes.

### 1.4.1 Provision and Expenditure

Details of Budgetary allocation and expenditure in the six UTs in 2015-16 are given below:

(₹ in crore)

Name of Union Territory	Total Grant/Appropriation		Actual Expenditure		Savings (per cent)	
	Revenue	Capital	Revenue	Capital	Revenue	Capital
Andaman and Nicobar Islands	3,357.13	792.87	3,348.42	767.81	8.71 (0.26%)	25.06 (3.16%)
Chandigarh	3,260.61	571.01	3,192.79	403.32	67.82 (2.07%)	167.69 (29.36%)
Dadra and Nagar Haveli	688.12	389.49	686.87	359.31	1.25 (0.18 %)	30.18 (7.75%)
Daman and Diu	1,377.54	403.93	1,098.52	306.21	279.02 (20.26%)	97.72 (24.19 %)
Lakshadweep	1,063.75	180.03	1,049.56	137.19	14.19 (1.33%)	42.84 (23.80%)
<b>Total</b>	<b>9,747.15</b>	<b>2,337.33</b>	<b>9,376.16</b>	<b>1,973.84</b>	<b>370.99 (3.80%)</b>	<b>363.49 (15.55 %)</b>

Source: Union Government-Appropriation Accounts (Civil)

Significant savings occurred under the revenue section in Daman and Diu due to failure of the Administration to finalise purchase of catamarans and finalise tenders for construction of government residential quarters. Savings under the capital section occurred due to HT power consumers shifting to cheaper purchases from the open market under the Open Access Power Purchase Scheme. Since such consumers had opted for open market purchases in the previous year also, the Daman and Diu Administration could have anticipated the lesser power demand in the current year and taken appropriate action at the time of requisitioning annual grants/appropriations. In the case of Chandigarh, there were significant savings in the capital section under the category relating to transmission and distribution of power, and due to lesser purchase of vehicles than budgeted for, and non-completion of building works relating to elementary and higher education.

<sup>2</sup> ₹ 50 crore where Governor or Lt Governor is the Administrator and ₹ 25 crore in the remaining UTs.

## 1.4.2 Revenue

Details of tax and non-tax revenues raised by the administrations of the UTs without legislatures in 2015-16 are given below:

(₹ in crore)

Union Territory	Tax	Non-Tax	Total
Andaman & Nicobar Islands	101.15	259.20	360.35
Chandigarh	2,111.52	967.10	3,078.62
Dadra and Nagar Haveli	853.97	21.95	875.92
Daman and Diu	924.58	82.87	1,007.45
Lakshadweep Islands	0.84	85.85	86.69
<b>Total</b>	<b>3,992.06</b>	<b>1,416.97</b>	<b>5,409.03</b>

Source: Statements of Central Transactions (SCT) furnished by UTs to Ministry of Finance

In the Andaman and Nicobar Islands and Dadra and Nagar Haveli, land revenue and state excise were significant contributors to revenue. Dadra and Nagar Haveli witnessed increase in tax collection in 2015-16 due to revision of excise duty, renewal of excise licences and increase in the rate of VAT, while non-tax revenue showed increase under all receipt heads. Sales Tax was the major constituent of tax revenues in Chandigarh. In Lakshadweep, education, sports, art, culture and fisheries were the major contributors to revenue.

## 1.5 Planning and conduct of audit

The audit process starts with of risks based assessment of expenditure incurred, criticality/complexity of activities, delegated financial powers, overall position of internal controls, concerns of the stakeholders, and previous audit findings. The frequency and extent of audit are decided on the basis of such risk assessment. On completion of audit, Inspection Reports (IRs) containing audit findings are issued to the heads of the departments of the audited entity. Important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports of the Comptroller and Auditor General of India, and submitted to the President of India under Article 151 of the Constitution of India.

During 2015-16, Audit covered 260 units under the control of the five UTs without legislatures.

### **1.6 Responsiveness of the Government to audit**

Intelligent, prompt and vigorous pursuance of objections and timely reporting of important irregularities to Government are essential for ensuring that the Audit Reports serve their intended purpose and Government derives their full value. The responsibility for the settlement of objections devolves primarily upon the disbursing officers, heads of offices and controlling authorities, who are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to audit within four weeks of receipt of the IRs. Periodical reminders are issued to the heads of departments requesting them to furnish the replies expeditiously. As of 31 March 2016, 2,012 IRs containing 8,112 audit paragraphs were outstanding for settlement in respect of various departments/institutions under the five UTs without legislature.

### **1.7 Follow-up on Audit Reports**

The Lok Sabha Secretariat issued instructions in April 1982 to all Ministries to furnish notes to the Ministry of Finance (Department of Expenditure), indicating remedial/corrective action taken on various paragraphs contained in the Audit Reports, soon after these were laid on the Table of the House.

In their Ninth Report (Eleventh Lok Sabha) presented to the Parliament on 22 April 1997, the Public Accounts Committee (PAC) desired that Action Taken Notes (ATNs) on all paragraphs pertaining to the Audit Reports for the year ended March 1996 onwards be submitted to them duly vetted by Audit, within four months from the laying of the Reports in Parliament.

Audit observed that 24 ATNs pertaining to the Audit Report of the C&AG for the period 31 March 2015 were pending. Details are given in **Appendix-I**.

### **1.8 Response of the Union Territories to draft paragraphs**

On the recommendation of the PAC, Ministry of Finance issued directions to all Ministries in June 1960 to send their responses to the draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks of receipt of the paragraphs.

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However, replies from the Department had been received in only six<sup>3</sup> out of the 18 paragraphs included in this Report of the Comptroller and Auditor General of India for the year ended March 2016. The reply from the Ministry was received only on one paragraph i.e. ALHW.

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<sup>3</sup> Paragraphs No. 2.1, 2.2, 2.3, 2.4, 2.5 & 2.7

## CHAPTER – II : UNION TERRITORIES (EXPENDITURE SECTOR)

### Andaman and Nicobar Administration

#### 2.1 Construction of roads and bridges by APWD

**Andaman Public Works Department (APWD) deviated from provisions of the CPWD Manual and failed to obtain mandatory clearances. These resulted in instances of unfruitful expenditure, wasteful expenditure, delays, cost escalation, foreclosures, works remaining incomplete for long periods etc., due to which the intended benefit of providing connectivity in rural and urban areas of Andaman and Nicobar Islands was not achieved.**

##### 2.1.1 Introduction

The Andaman Public Works Department (APWD), under the Andaman and Nicobar Administration (Administration) is responsible for creating infrastructure in the Andaman and Nicobar Islands (ANI). APWD is responsible for the repairs and maintenance of 1,104.01 km of roads in ANI, which includes National highways (333 km), State highways (279.40 km), District roads (119.45 km) and Rural roads (372.16 km). APWD is headed by the Chief Engineer and Secretary (Public Works). APWD has a Superintending Engineer at its Head Quarters, three Circle Offices headed by Superintending Engineers, and 18 divisions headed by Executive Engineers.

Details of budget allocation and expenditure on roads and bridges by APWD during 2013-16 are given below:

Year	Revenue Expenditure		Capital Expenditure	
	Final	Actual	Final	Actual
	Allocation	Expenditure	Allocation	Expenditure
2013-14	2,459.00	2,459.23	5,650.60	5,650.67
2014-15	2,900.00	2,899.94	8,889.00	8,888.99
2015-16	3,418.00	3,417.49	10,320.00	10,319.24
<b>Total</b>	<b>8,777.00</b>	<b>8,776.66</b>	<b>24,859.60</b>	<b>24,858.90</b>

The audit was conducted during May-June 2016 for the period 2013-14 to 2015-16. The audit covered seven divisions of APWD in two districts and examined the expenditure on roads and bridges valued at more than ₹ 20 lakh in each case during the relevant period. Out of the 226 such works amounting to ₹ 275.86 crore (including pending works pertaining to periods prior to 2013-14) in the seven selected divisions that were checked, 136 works

amounting to ₹ 130.36 crore were completed during the period, and 90 works remained incomplete.

Audit noticed instances of improper planning resulting in inadequate provision in estimates and consequent delay in works; non-adherence to codified provisions of CPWD on encumbrance free land, stipulation of materials etc., and consequent foreclosure of works and inordinate delays in execution; and non-adherence to provisions stipulated in the sanction orders. These have been elaborated on in the report as analysis on sanction to award (Stage I) and analysis on execution of works (Stage II):

## **2.1.2 Stage – I: Sanction to Award of work**

### **2.1.2.1 Delay in award of work**

APWD follows the provisions of the Central Public Works Department (CPWD) Code and Manual in all respects. While the CPWD Manual does not specify time limit between sanction and award of works, Ministry of Road Transport and Highways (MoRTH) has specified a time limit of five months in case of National Highways. Audit noted that out of 226 works, the APWD took more than six months of sanction to award works in 88 cases (39 *per cent*). Two works<sup>1</sup> were awarded without sanction and APWD could not furnish the date of commencement of two works<sup>2</sup>. APWD attributed the delay to non-availability of funds, delay in acceptance of tender by higher authority, repeated tendering etc. The reply of APWD regarding non-availability of funds is not tenable since the expenditure sanction that provides funds for a project should precede the award of work<sup>3</sup>.

In 89 cases, despite sanction, the works have not yet been awarded. Of these, 10 works awarded during 2006-07 and 2007-08 are still pending.

Further examination showed the following:

(i) Two works at SAD Port Blair are shown as pending due to land dispute (2006-07), and non-cancellation of sanction (2007-08) respectively though the tender was long cancelled and with no scope of further progress in the work.

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<sup>1</sup> (i) Providing signage system as per IRC 67 at various locations in South Andaman (ii) Providing signage system as per IRC 67 at various locations in South Andaman Sub Work: Structural Work.

<sup>2</sup> (i) Widening and Beautification of Rangat Bazar Area under Construction Division-I, Rangat (ii) Development of Parking Space at Middle Strait Jetty Phase-I.

<sup>3</sup> Rule 129 of the General Financial Rules as well as Section 2.1 of CPWD Manual stipulates that expenditure sanction should precede award of works.

(ii) The six works pertaining to CD Rangat for which sanctions were issued in 2007-08 were subsequently subsumed within the Andaman Trunk Road (ATR) for which approval of Ministry of Road Transport and Highways (MoRTH) is awaited. However, ANI Administration is yet to cancel the earlier sanction orders.

(iii) The works at CD-III Port Blair and RCD Wimberlygunj sanctioned in 2007-08 have been declared as not required, but the sanction orders are yet to be cancelled.

(iv) The reasons for non-award of works sanctioned since 2009-10 to 2012-13 were neither found on records nor furnished by the APWD.

#### **2.1.2.2 Administrative Approval and Expenditure Sanction**

According to Rule 129 of the General Financial Rules (GFR), no work should start without obtaining Administrative Approval (AA) and Expenditure Sanction (ES), which are accorded on the basis of a Preliminary Estimate (PE) prepared by the executing agency. Audit examination revealed that works were awarded in SAD, Port Blair without sanction, as detailed below:

APWD awarded (December 2005) the work of providing signage (including structural work) in South Andaman for ₹ 93.79 lakh (signage: ₹ 44.82 lakh and structural work: ₹ 54.39 lakh ) even though the work was never approved and no funds were sanctioned by the competent authority. APWD stopped the work (December 2006) after the Port Blair Municipal Council (PBMC) objected that it was in violation of ANI Municipal Regulations Act 1994. Though public funds have been expended without sanction and the materials on site are rusting in the open (as depicted in the photographs below), no departmental action has been initiated by the ANI Administration.



APWD replied (May 2016) that the signages were required for the visit of the then Prime Minister of India on 03 January 2006. The reply is not tenable as the scheduled dates even for commencement of the two works were 03 January 2006 and 23 January 2006 respectively, and therefore the works would have been completed only after the Prime Minister's visit. In any case, APWD has not explained why the sanctions of competent authority were not secured at least on post-facto basis.

### **2.1.2.3 Non-obtaining of revised expenditure sanction,**

The CPWD Manuals and Code<sup>4</sup> stipulate that, where actual expenditure exceeds 10 *per cent* of AA and ES, revised AA and ES must be obtained from the competent authority. Audit observed however, that in 48 out of the 222 works (22 *per cent*) where excess expenditure was more than 80 per cent, APWD failed to obtain revised orders of competent authority and met the expenditure from other projects.

### **2.1.3 Analysis of Stage 2: Execution of work**

#### **2.1.3.1 Incomplete works**

Audit observed that 45 out of the 63 works in progress (71 *per cent*) were delayed beyond scheduled date of completion (in six cases the delay was less than 6 months, in 9 cases delay between 6-12 months, in 14 cases between 1-2 years and in 16 cases delays are more than two years). In addition, in respect of one work, no details have been furnished by CD Rangat, and it has not been possible to assess the extent of delay. The average delay was 2 years 5 months (879 days) in respect of the 45 works. Audit noted that the reasons for delays in ongoing works are non-supply of stipulated material, delay/failure to obtain site clearance, rain, bad weather, etc. Some instances where failure of APWD to obtain statutory clearances resulted in works remaining incomplete are given below:

#### **(i) Parking area at Middle Strait, Baratang-Phase-II**

Para 4.2 of the CPWD manual stipulates that even the stage of preparation of detailed estimates, drawings and designs should commence only after obtaining statutory clearances and ensuring that the site is encumbrance free. At ANI, these include Coastal Regulation Zone (CRZ), Island Protection Zone (IPZ), Forest (Conservation) Act, and Tribal Council clearances.

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<sup>4</sup> Para 2.3.5, 2.4.2 of CPWD Manual and para 71 of CPWD Code

Audit observed that at the instance of ANI Administration, APWD undertook (March 2012) the work of developing parking area at Middle Strait, Baratang-Phase-II at a cost of ₹ 136.66 lakh. However, the work stopped within nine days after the Forest Department objected. An expenditure of ₹ 59.65 lakh was incurred within these nine days, on which APWD failed to provide explanation to Audit query. Thereafter, Ministry of Environment and Forests (MoEF) sought clarifications (May 2013) which included details on action taken against officials for completing Phase I without approval of competent authority. However, APWD failed to furnish any explanation despite reminders. Admitting the facts, but without furnishing clarifications, APWD informed Audit (July 2016) that the concerned divisional authority presumably started the work under administrative pressure. This requires further examination by Ministry of Home Affairs who is the controlling Ministry for the UT Administration.

**(ii) Road connectivity to Diglipur**

ANI Administration approved the provision of road connectivity of three villages under Gandhinagar Panchayat to Diglipur. Out of the 8.76 km road to be constructed, 5.98 km was reserved forest area for which mandatory clearances from the Forest Department were required. Since APWD commenced (February 2009) Phase I (which included 1.18 km of forest land) for ₹ 2.56 crore without such clearance, the Forest Department objected, and the work was stopped (April 2009). Thereafter APWD approached Ministry of Environment and Forests (MoEF) for clearance for diversion of forest land for the project, but continued/commenced work relating to revenue lands (2.79 km), leaving 68.26 *per cent* of the remaining work (on forest land) unattended. MoEF accorded 'in-principle' approval in October 2013 (pending final approval) for diversion of 5.98 hectares of forest land subject to several conditions which included payment of compensation for use of forest land and securing prior permission of forest authorities for felling of trees. APWD however, failed to hand over the Phase I site free from all encumbrances till March 2016, and the contractor requested foreclosure of the contract due to the delay of seven years that had resulted in cost escalation on men and materials.

APWD awarded Phase II (February 2014) and Phase III (August 2013) for ₹ 5.44 crore and ₹ 3.33 crore scheduled for completion in July 2014 and August 2014 respectively, without waiting for final approval of MoEF as was required under the conditional 'in principle' approval of October 2013. Consequently, work on forest lands relating to Phase II and Phase III could commence only after complete MoEF approvals were received in April 2015.

However, the works could not proceed till January 2016 due to rains. Phase II was again stopped (April 2016) due to non-payment of operational costs to remove standing trees by forest authorities, and recommenced only in November 2016 because the payment for operational cost of removal and extraction of trees was made only in April 2016. Phase II and III are still in progress (December 2016).

Thus, failure of APWD to get mandatory clearances for award of work has delayed a project that commenced in February 2009 and remains incomplete even after nearly eight years. Accepting the audit observation, APWD stated (July 2016) that the work had been taken up in light of difficulties faced by the villagers and expectation of speedy clearances. The reply is not tenable, since the difficulties of the villagers had been known even as long ago as the Tsunami of 2004, whereas, APWD had prepared the estimates only between 2009 and 2012. In any case, the Forest (Conservation) Act required APWD to secure mandatory clearances before commencing construction in reserved forest areas, which was not done.

**(iii) Work of improvement of Andaman Trunk Road**

ANI Administration sanctioned (September 2012) the work for improvement of chainage 68 km to 75 km on the Andaman Trunk Road which traverses the Jarwa Reserve Area and is the lifeline of the people of the North and Middle Andaman District. APWD awarded the works only in November 2013 (i.e., thirteen months after award) for ₹ 52.66 lakh and scheduled for completion in September 2014. APWD, however, failed to supply bitumen for the work though this was stipulated in the contract, and the work ceased (May 2014) after an expenditure of ₹ 28.09 lakh was incurred. Audit observed that, between May 2014 and January 2016, APWD procured 300.80 MT and 401.42 MT of two grades of bitumen, but this was not used for the project. Consequently, failure of APWD to adhere to the provisions of the contract resulted in non-achieving of the objective of connectivity on the Andaman Trunk Route for over two years despite expenditure of ₹ 28.09 lakh. APWD accepted (June 2016) the facts.

**(iv) Construction of retaining wall**

APWD awarded (February 2013) the construction work of a retaining wall on the reaches from Ch.2850 to Ch.2950, for ₹ 30.61 lakh (February 2013), scheduled for completion by September 2013. As on date (December 2016), ₹ 24.60 lakh, has been spent on the project and the work is incomplete.

Audit examination revealed that, in terms of the agreement, the wall was to be constructed in three sections: 20 meters x 4 meters, 20 meters x 3 meters, 33 meters x 2 meters. Instead, the contractor executed 80.9 meters x 4 meters, 19.25 meters x 3 meters, 19.60 meters x 2 meters. In other words, against total required area (excluding width) of 206 square meters, the contractor constructed 420.55 square meters. Despite this, and though only the work of backfilling of earth is pending (as informed by APWD to Audit in June 2016), the overall cost was even below the award (expenditure of ₹ 24.60 lakh against award of ₹ 30.61 lakh). The matter merits further investigation.

**(v) Work of improvement, widening, construction of footpath and cycle track from Govind Nagar junction to Dolphin Yatri Niwas for a length of 2,050 meters**

ANI Administration accorded (November 2013) administrative approval and expenditure sanction (AA& ES) of ₹ 5.92 crore for the work. Though para 2.3.5 of CPWD manual stipulates that any award in excess of 10 *per cent* over the AA & ES requires fresh approvals from the competent authority, APWD awarded (February 2014) the work for ₹ 7.35 crore to be completed by December 2014, without seeking such approval. Further, APWD failed to secure encumbrance free land prior to award of work which is mandatory in terms of paragraph 4.2 of the CPWD manual. Consequently, the work was hindered due to non-finalisation of right of way (130 days-from 22 February 2014 to 30 June 2014), non-shifting of electrical and telephone poles (518 days-from 30 June 2014 to 30 November 2015) and non-receipt of earth permission (403 days-from 30 June 2014 to 7 August 2015). Therefore, the work commenced only in August 2015, 18 months after award of work. However, audit noted that there were some pre-existing encroachments by private parties on the right of way which has not been sorted out, with the result that only 46 *per cent* of the work has been completed (December 2016) after incurring expenditure of ₹ 4.75 crore (May 2016).

APWD stated (July 2016) that the hindrances were incidental and could not be predicted. The reply is not tenable since all the hindrances were pre-existing, and in terms of the CPWD manual, the work should have been awarded only after APWD had ensured encumbrance free land.

**2.1.3.2 Foreclosed works**

In the seven selected divisions, 12 works having up-to date expenditure of ₹ 382.54 lakh were either foreclosed or under foreclosure. The reasons for the foreclosure of works were improper planning, non-supply of stipulated

materials and failure of the department to obtain statutory clearances. Two cases are illustrated below:

**(i) Work of improvement of road at Shoal bay from Chainage 10.00 km to 13.00 km including drain and providing and laying premix carpet and seal coat from Silviculture graveyard to 10.00 km Chainage**

APWD awarded (February 2008) a work for ₹ 68.07 lakh with scheduled date of completion, August 2008. The contract provided that APWD would supply bitumen and cement. Para 26.1 of the CPWD Manual stipulates that such provision should not be made if the department is unable to arrange supply of materials on time.

Audit noticed, however, that APWD failed to supply the materials on time (delay of 186 days in the case of bitumen, and 731 days in the case of cement). This was despite the fact that the division had procured 10,956 kg of bitumen between February 2008 and August 2008, and 37,900 bags of cement between February 2008 and March 2010 which was not used for the work. Finally, the work started in March 2010, but was foreclosed in October 2012 after an expenditure of ₹ 41.65 lakh, since the contractor refused to continue the work due to cost escalation and because APWD had substituted (June 2010) an item that was not part of the original estimate. APWD delayed the re-award of the work for more than three years, and finally (March 2016) awarded the balance work for ₹ 25.79 lakh with a reduced scope (length of road less than 1/3rd of earlier stretch).

Admitting the facts APWD stated (July 2016) that substitution was necessitated due to the inadvertent inclusion of 'premix carpet surfacing with bitumen emulsion' in place of 'premix carpet surfacing with hot bitumen'. Thus APWD awarded the contract without ensuring availability of material and without due diligence in preparation of estimates.

**(ii) Work of Improvement of drainage system at Bamboo Flat Jetty Area**

APWD awarded (July 2007) a work<sup>5</sup> for ₹ 73.27 lakh for completion within three months. The scope of work included, among other things, construction of hume pipe<sup>6</sup> culvert with sluice gate for protecting nearby paddy field from sea water. The contract stipulated that APWD would supply cement and steel, which in terms of para 26.1 of the CPWD Manual is to be stipulated only if

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<sup>5</sup> "Improvement of drainage system at Bamboo Flat Jetty Area".

<sup>6</sup> Hume pipes are generally used for water drainage, sewerage, culverts and irrigation. They are leak proof, easily repairable and non-reactive to sewerage toxins.

the department is able to ensure timely supply of material. Audit observed, however, that work was held up for 796 days till February 2010 due to non-supply of the stipulated materials. The work was further held up thereafter due to land dispute and ultimately was foreclosed (June 2013) on this ground. Thus, APWD had failed to ensure encumbrance free land before award of the contract, which is mandatory in terms of para 4.2 of the CPWD manual.

A joint inspection (by Audit and departmental authorities) revealed (photographs below) that the objective of protecting the paddy fields from sea water was not achieved, rendering the expenditure of ₹ 25.92 lakh wasteful.



The Department replied (June 2016) that that the stipulated materials could not be procured in advance since their properties could expire before use; also, fund allocation was a problem. The replies are not tenable, since the APWD had the option of not including the condition on supply of material in the contract in terms of the CPWD manual; also, it was mandatory to ensure encumbrance free land, which the APWD failed to do.

### **2.1.3.3 Works not started despite award**

Out of 15 works which were not started, the scheduled dates of completion were already over in respect of eight works by periods ranging from one month to five years. Delays were primarily due to failure of APWD to obtain statutory clearances and to supply stipulated materials. An illustrative case is discussed below:

#### **Work of bridge strengthening at Tugapur**

APWD awarded (January 2014) a work for strengthening a bridge at Tugapur no.7 (which is the sole connectivity for the villagers of Chainpur, Tugapur No.6, Tugapur no. 8 and Bajota) for ₹ 29.06 lakh, to be completed by June 2014. The contractor however, refused to commence the work without drainage of water under the bridge, which APWD has failed to do

(December 2016). In the meantime APWD has requested (May 2016) the local authorities to declare the bridge as unsafe for heavy vehicles.

Thus, failure of APWD to incorporate prior requirement for drainage of water in the estimates, and indecision, resulted in non-initiation of work. APWD's reply is awaited.

#### **2.1.3.4 Completed works**

Audit noted that out of 136 completed works, 110 works were completed after the stipulated date of completion with delays ranging from five days to almost eight years (2,872 days). In respect of one completed work (executed departmentally), CD-Rangat could not provide details of stipulated date of completion and actual date of completion. Delay in execution was primarily due to non-supply of stipulated materials, delay in handing over of the site, non-availability of quarry products, failure of contractors etc. One such instance is given below:

#### **Work to provide all weather connectivity to village Kata Jungle**

APWD awarded (June 2012) a work to provide all weather road connectivity to the village Kata Jungle, Rajive Nagar, for ₹ 53.79 lakh. The work, which was scheduled to be completed by April 2013, was completed in January 2016 at a cost of ₹ 75.52 lakh. Audit observed that, though, in terms of para 2.3.5 of the CPWD Manual, approval of the competent authority is required for more than 10 *per cent* variation beyond the sanction, no such approval was taken. Audit also observed that the delays occurred mainly due to failure of APWD to ensure removal of temporary structures prior to award of contract; the plan undergoing change due to presence of trees and land disputes in the original alignment; delay in identification and allotment of site for excavation of earth; and non-issue of cement on time (delay of 314 days) by APWD.

APWD stated (June 2016) that land disputes were unexpected, and quantity of cement on hand was insufficient. The replies are not acceptable. In terms of the CPWD Manual, before award of the contract, APWD was required to ensure encumbrance free land and availability of stipulated materials, which was not done. Consequently, the work was delayed by nearly three years and resulted in cost escalation of ₹ 21.10 lakh (39 *per cent* more than estimates).

#### 2.1.4 Conclusion

There were instances of improper planning resulting in inadequate provision in estimates and consequent delays in work, non-adherence to codified provisions of CPWD on encumbrance fee land, stipulation of material etc., and consequent foreclosure of works and delays in execution. These resulted in 40 *per cent* of cases not being awarded despite sanction, 71 *per cent* of the works being delayed beyond scheduled dates of completion. In seven divisions, 12 works were foreclosed or are under foreclosure and 15 works not being awarded despite award.

The matter referred to the Ministry of Home Affairs in September 2016; their reply was not received as of January 2017.

#### 2.2 Construction activities of Panchayati Raj Institutions

**The Panchayati Raj Institutions of the Andaman and Nicobar Islands deviated from provisions of the CPWD Manual and Andaman and Nicobar Islands (Panchayats) Regulation 1994 and Rules thereunder. Consequently, there were instances of faulty planning in eight works valued at ₹ 161.91 lakh, improper site survey involving expenditure of ₹ 86.41 lakh for four works, unrealistic assessment of works in seven cases aggregating to ₹ 174.90 lakh and lack of monitoring deviations in 103 works involving sanctions amounting to ₹ 740.25 lakh which led to cancellation of works, delays in completion, and time and cost overruns.**

##### 2.2.1 Introduction

The Andaman and Nicobar Islands (Panchayats) Regulation, 1994 introduced a three tier Panchayati Raj Institutions (PRIs) comprising of (i) Zilla Parishad (ii) Panchayat Samitis and (iii) Gram Panchayats in Andaman and Nicobar Islands (ANI). Every tier of the PRIs functions independently and runs parallel to each other. The PRIs function under the Directorate of Rural Development, PRIs (Department) of the Andaman and Nicobar Administration (Administration). The Administration has notified 70 Gram Panchayats, seven Panchayat Samitis and two Zilla Parishads.

Audit covered the construction activities in PRIs for the period 2012-13 to 2014-15 updated till March 2016. 1,320 works undertaken by 14 Gram Panchayats (GP), four Panchayat Samitis (PS) and two Zilla Parishads (ZP) were selected, of which, 294 works valued at ₹ 4,713.18 lakh were examined in audit.

## **2.2.2 Audit Findings**

Audit noted that out of 294 works examined valued at ₹ 4,713.18 lakh, 70 were completed in time, 158 works were completed with delays, 34 works were cancelled/not started, and 32 works were incomplete. Important findings are given in the following paragraphs:

## **2.2.3 Planning**

### **2.2.3.1 Works undertaken without ensuring land availability**

As per Para 4.2 of the CPWD Manual, availability of encumbrance free land should be ensured before preparing detailed estimates of work. Records revealed that in eight works valued at ₹ 161.91 lakh, works were awarded without ensuring encumbrance free land. This resulted in cancellation/non-initiation of five works and three works remaining incomplete. An illustrative case is discussed below:

- The work ‘Improvement of Water Supply Scheme at Hope Town’ under PS, Ferrargunj was awarded for a tendered value of ₹ 28.43 lakh in June 2005 and stipulated to be completed by May 2006. After commencement of the work and payment of ₹ 18.65 lakh, the work was stalled due to non-availability of land. Consequently, alternative land for balance work was selected and Revised Estimates (RE) prepared (March 2015) at ₹ 36.70 lakh. However, the work could not be completed (June 2016). Department in its reply stated (June 2016) that alternate land has been selected for executing the balance work. The reply is not tenable as it does not address the issue of non-completion of work even after ten years of its scheduled date of completion.

The fact remains that the water supply scheme for the Hope Town residents has not been made operational even after an expenditure of ₹ 18.65 lakh and lapse of ten years from the scheduled date of completion.

### **2.2.3.2 Improper site survey/contour and inaction to take cognizance of site conditions led to wasteful expenditure**

Audit noticed instances where the design drawings were not suitable for the actual site condition and lack of coordination, resulting in wasteful expenditure of ₹ 86.41 lakh. A few cases are discussed below:

- ZP, North and Middle Andaman (N&MA) awarded the work ‘Construction of Bridge at Ward No. 1, Bakultala’ in November 2004 to

be completed by March 2006. Against tendered amount of ₹ 35.64 lakh, ₹ 16.87 lakh was paid to the contractor (March 2005). The contractor communicated (May 2008/ July 2009/ December 2009) that after the Tsunami of December 2004, the width of the nallah had increased and thus it was not possible to fix 20 metre span bridge over the site. The Assistant Engineer (AE), Rangat, also reported (July 2009) that the abutment constructed for the above work had slid from its alignment and fallen and was of no use. However, ZP did not act on the contractor's letters or the report of the AE, and the contractor completed the steel bridge of 20 metre width by June 2014 and was paid ₹ 26.85 lakh up to December 2014. Since the width of the stream is wider than the bridge length, the bridge is not connected to the two banks and cannot be used, resulting in in wasteful expenditure of ₹ 26.85 lakh. The Department accepted (September 2016) the facts.

**Pic 1: Bridge between Shamkund and Kalsi connecting road at ward No.1 Bakultala**



- ZP, N&MA awarded (March 2005) the work 'Construction of bridge at Panchawati under ZP at Chainage 300.00 mtrs' to a contractor for a tendered amount of ₹ 53.85 lakh to be completed by July 2006. The contractor was paid ₹ 21.29 lakh till October 2007, and thereafter no progress was on record. The work was subsequently cancelled in March 2013, after only abutment and wing wall on either side of the bridge were constructed and no structural components of the steel bridge were ever procured. The ZP prepared Revised Estimates (RE) for ₹ 88.06 lakh in December 2013, which have not been sanctioned (June 2016).

Similarly, in the work 'Construction of bridge at Panchwati at Chainage 162.00 mtrs' sanctioned for ₹ 47.62 lakh in November 2004, only abutment was constructed by the contractor and he was paid ₹ 24.77 lakh. The work was cancelled in November 2013. The ZP had prepared RE of ₹ 93.33 lakh in February 2014, which has not been sanctioned (June 2016). A joint inspection with the officers of ZP, North

& Middle Andaman (September 2016) confirmed that only abutment had been completed, and no bridge was constructed.

**Pic 2: Bridge at Panchwati at Chainage 162.00 - only abutment and wing wall constructed**



Thus, inaction of the Department to get the bridges constructed resulted in wasteful expenditure of ₹ 46.06 lakh, and non-achievement of objectives.

### **2.2.3.3 Unrealistic assessment of items to be executed**

In seven cases aggregating to ₹ 174.90 lakh, Audit observed that, at the time of preparation of estimates, the PRI had not properly assessed items of works to be executed which resulted in subsequent change of scope and design of works leading to unnecessary delay in completion of work/work remaining incomplete. Significant cases are discussed below:

- The work ‘Construction of Zonal Library at Stewartgunj’ under Ferrargunj, PS, ‘sub-work: Ground Floor’ was awarded (April 2005) for a tendered amount of ₹ 9.96 lakh to be completed by December 2005. The work commenced in September 2006, and the delay in commencement of the work was attributed to land dispute. Further, due to non-availability of sufficient land, the scope of work was reduced by decreasing the plinth area. The work was foreclosed in January 2013 due to non-completion of work within the stipulated time. However, following the contractor’s protest, the cancellation order was withdrawn (February 2013) and he was asked to take up the balance work which he did not do. Expenditure of ₹ 6.63 lakh has been incurred on the work. While accepting that the work was incomplete, the Department stated (June 2016) that initial estimate prepared was incomplete as it did not contain main items of building like doors and windows. It further stated

that RE of ₹ 25.71 lakh was prepared in January 2014, which is awaiting sanction of competent authority.

Thus, Department's inability to ensure land availability coupled with preparation of incomplete estimates has resulted in wasteful expenditure of ₹ 6.63 lakh and the construction of the library remaining incomplete even after ten years of its scheduled date of completion.

- The Administrative Approval and Expenditure Sanction (AA&ES) for the work 'Improvement of Water Supply Scheme at Vasundhara nallah at Mannarghat' under PS, Ferrargunj was granted in November 2004 for an amount of ₹ 29.66 lakh. The work was awarded for ₹ 32.37 lakh in June 2005 and was to be completed by June 2006. The work was completed by the contractor in December 2013 after a delay of seven years and the contractor was paid ₹ 24.40 lakh for the work. However, the Scheme could not be made operational due to absence of some important components<sup>7</sup> in the original estimate. RE of ₹ 80.23 lakh was prepared in March 2013, which is yet to be approved (June 2016). The Department accepted (June 2016) the facts.

Thus, the water supply scheme on which ₹ 24.40 lakh has been spent remains non-operational even after ten years of its stipulated date of completion since certain integral components of the work were not included in the original estimate which necessitated revision of estimate.

## 2.2.4 Execution

### 2.2.4.1 Works not executed due to non-receipt of earth permit

Where applicable, permits for extraction of earth are required to be secured from the District Deputy Commissioner. Audit noticed in three cases sanctioned for ₹ 91.76 lakh that, the PRI did not obtain the earth permit resulting in cancellation of two works, and execution of one work without earthwork.

### 2.2.4.2 Delay in completion of work<sup>8</sup>

The CPWD Manual<sup>9</sup> prescribes that the Notice Inviting Tender (NIT) approving authority shall stipulate time schedules for physical milestones, and the detailed review may be carried out on dates specified for such milestones.

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<sup>7</sup> Renovation of RCC ring well, construction of public hydrants, running and maintenance of pump, laying of distribution line and installation of treatment unit.

<sup>8</sup> Audit considered only those works which have a delay of more than one year

<sup>9</sup> Section 29.1.1 of CPWD manual.

Audit however noticed inefficient monitoring resulting in delays ranging from one to eight years in 23 works valued at ₹ 533.54 lakh relating to rural roads, water projects, community halls, ring wells etc. Two instances are illustrated below:

- Tendering process for the work “Construction of rural road at V.S. Pally, Keralapuram, Diglipur under ZP, N&MA” was completed in August 2008. However, the work was awarded in May 2012 for an amount of ₹ 50.50 lakh after a lapse of 45 months from completion of tendering process without any justified reason and was stipulated to be completed within February 2013. The work was delayed due to non-shifting of electric post and water supply pipe line, and was finally completed in March 2016. The Department accepted the audit observation (January 2017).

Thus, the work has been completed after expiry of more than seven years from the selection of the contractor and more than three years from the stipulated date of completion.

- The work for ‘Construction of Fish Market at Chouldari’ under PS, Ferrargunj’ was awarded (August 2013) for ₹ 17.26 lakh with September 2014 stipulated as date of completion. In June 2014, the contractor informed PRI that an abandoned septic tank existed at the site which was causing hindrance and requested to make provision for extra item for ‘filling of earth/quarry rubbish up to road level’. In January 2015, the contractor requested PRI to provide new drawing for site wall, plinth beam and septic tank. The contractor was provided Extension of Time (EoT) based on detailed justification. The work was completed in October 2016 after an expenditure of ₹ 27.35 lakh. The Department accepted the observation (January 2017).

Thus, improper site selection without proper verification, led to delay of more than two years in completion of work.

#### **2.2.4.3 Incomplete works**

Audit noticed that in 30 works for which work orders/agreements of ₹ 694.49 lakh were executed, the works remained incomplete with delays ranging from more than 1 year to 11 years. Of these, 16 works were delayed between 5 to 10 years and four works for more than ten years. Two instances are illustrated below:

- The work 'Construction of WBM Road and one culvert at Rabindra Nagar Ward No. 02' under PS, Little Andaman was tendered by splitting

the work into two sub-works and awarded to the same contractor for tendered amount of ₹ 13.63 lakh and ₹ 12.80 lakh respectively with stipulated period of completion by April 2010. The works are still incomplete (March 2016) while the contractor has been paid ₹ 22.90 lakh up to November 2011. The Department accepted the audit observation (January 2017).

Thus, the expenditure of ₹ 22.90 lakh on the work remains unfruitful as it is still incomplete even after six years of stipulated completion.

- The work 'Construction of rural road at Kaushalya Nagar, Rangat' under ZP, N&MA was awarded in June 2005 for a tendered amount of ₹ 51.83 lakh and was scheduled to be completed by July 2006. The work commenced after a lapse of more than three years in December 2009. Audit noticed that payment of ₹ 18.47 lakh has been made, but apart from earth work no other item of work was executed. A notice for determination of the status was issued to the contractor in May 2014, but the work order was not cancelled. The Department accepted (September 2016) that only 30 per cent of the work has been completed.

Thus the work remains incomplete even after 11 years rendering expenditure of ₹ 18.47 lakh as unfruitful.

#### **2.2.4.4 Cancelled Works**

In seven construction works of ₹ 739.08 lakh, Audit noticed that the works were cancelled after delays ranging from one year to nine years from the scheduled date of completion. Two significant cases are discussed below:

- ZP, N&MA awarded (July 2005) the work of 'Improvement of rural road at Rangat' to a contractor at a cost of ₹ 28.70 lakh with stipulated period of completion upto January 2007. The incomplete work was cancelled in December 2013, after the contractor was paid ₹ 29.79 lakh (includes extra items of works valued at ₹ 12.84 lakh). Records revealed that the contractor had stopped the work due to abnormal delays in payment of running account bills. A Revised Estimate of ₹ 101.34 lakh for the work was prepared in January 2014, which has not yet been sanctioned (June 2016). The Department accepted the audit observation (January 2017).

Thus, the rural road which was scheduled to be completed in 18 months could not be completed even after nine years rendering entire expenditure of ₹ 29.79 lakh unfruitful.

- Agriculture Department deposited (April 2007) ₹ 435.50 lakh with ZP, South Andaman as 80 *per cent* cost of 49 check dams under Rajiv Gandhi Rehabilitation Package for restoration of Agricultural activities in ANI. ZP completed only 4 out of these 49 check dams till 2009 at a cost of ₹ 34.80 lakh and sent RE for ₹ 845.86 lakh for the balance 45 works in December 2011. Again in July 2012, ZP sent RE of ₹ 349.83 lakh for only 14 out of 45 balance works citing cost escalation and increase in length of the check dams as per present site condition as reasons for such increase. In reply, Agriculture Department informed (August 2012) ZP that the RE could not be approved at this delayed stage, and asked ZP to construct the check dams within the original estimate. ZP refunded (November 2012) the unutilized amount of ₹ 349.83 lakh to Agriculture Department after adjusting the amount utilized for construction of 4 check dams, and ₹ 36.73 lakh utilized for construction of sluice gates as per the instructions of Administration. The balance amount of ₹ 14.14 lakh has not been refunded to Agriculture Department. In reply, ZP stated (June 2015) that since the MoU was not finalized, the remaining works could not be taken up. The reply is not acceptable as MoU was signed only in November 2009. Further, ZP had already constructed four check dams at a cost of ₹ 34.80 lakh even before signing the MoU.

Thus, inaction of ZP contributed to increase in estimates, blocking of fund of ₹ 4.00 crore for more than 5 years and non-achievement of objectives.

#### **2.2.4.5 Splitting of Works**

Andaman & Nicobar Islands (Grant-in-aid to Panchayati Raj Institutions) (Amendment) Rules 2012 stipulates that splitting of work is not allowed under any circumstances. Audit noticed that in five construction works of ₹ 55.37 lakh, PRIs have split up the sanctioned works, and awarded such works to more than one co-operative society. One significant case is discussed below:

- PS, Diglipur accorded (February 2009) AA & ES to the sub-work 'Preparation of embankment for a length of 480.00 meters (Ch 0 to 480.00 meters)' for ₹ 11.26 lakh. While awarding the work, PS, Diglipur split the work into four phases. The first work order was awarded in March 2012 for Phase-I and Phase-II for preparation of embankment for total length of 345.0 meters for ₹ 7.24 lakh. The second work order was awarded in September 2012 for Phase-III of the work, i.e., construction of embankment for a length of 135 meters including jungle clearance valuing ₹ 6.27 lakh. No work order was issued for Phase-IV. In May 2012, the AA & ES were accorded for RE of ₹ 33.22 lakh for

enhancement in the cost of men and materials and deviation in quantities. The first work order was given after three years from the date of AA & ES. The Department accepted the audit observation (January 2017).

Thus, the Panchayat Samiti violated the rules that prohibited splitting of work.

#### **2.2.4.6 Revised Estimates prepared after completion of works**

Para 4.6 of the CPWD manual states: “when an excess beyond permissible variation over the sanctioned estimate is foreseen, and there is likely to be unavoidable delay in preparation of a RE, an immediate report of the circumstances should be made to the authority whose sanction will be ultimately required.”

Audit noticed in 17 cases of work orders amounting ₹ 189.24 lakh, the REs were prepared even after the completion of the work. In no case the authorities competent to sanction the work were informed beforehand of the circumstances for delay in preparation of RE. Thus, the REs were prepared on the basis of actually executed quantities after the completion of the work, and were therefore, not estimates. The Department accepted (October 2015) the facts.

#### **2.2.4.7 Negotiation with L1**

Para 20.4.7 of CPWD Manual 2014 states that in general there shall be no negotiations on rate with the lowest tenderer. The negotiation with the lowest tenderer by the accepting authority is permissible only in following situations:

- (i) For clarification and confirmation on any error/ambiguity in the nomenclature/rate of item(s) of work that is possible to set right after negotiation with the lowest tenderer without any obvious disadvantage to other tenderers/Government.
- (ii) In case of receipts of higher rates on recall of a tender which was rejected on earlier occasion for reasons of higher rates than the justified rates including the allowable permitted variations.

Audit noticed in 13 construction cases, however, that in contravention of the above guidelines, negotiations were conducted with the lowest tenderer. The Department accepted (October 2015) the facts.

### 2.2.5 Monitoring deviations

The CPWD Manual<sup>10</sup> states that the deviations shall be sanctioned by the officers as per delegation of powers. Total deviation in quantity of an item shall be sanctioned by one authority only whosoever is competent to sanction total deviation of the item. It also states that if total deviation of quantity of individual item is beyond the deviation limit as specified, then deviations beyond the limit of + 10 *per cent* should not be made at site without 'in principle' approval of technical sanction authority. Once in principle approval is obtained, the total deviations (including +10 *per cent*) shall be sanctioned by the officers as per delegation of powers.

However, in 103 works amounting to ₹ 740.25 lakh, Audit noticed that deviations exceeding 10 *per cent*, did not have the sanction of the competent authority, rendering the deviations amounting to ₹ 181.24 lakh irregular. The Department in their reply stated (September 2016) that sanction of competent authority would be taken in respect of the deviations pointed out by audit.

### 2.2.6 Conclusions

PRIs of ANI deviated from provisions of CPWD relating to award of work, approval of estimates, deviations and tendering. PRIs also deviated from Rules and Regulations framed by Andaman and Nicobar Administration relating to splitting of work orders. There were instances of faulty planning, improper site survey, unrealistic assessment of works and lack of monitoring which led to cancellation of works, delays in completion, and time and cost overruns.

The matter referred to the Ministry of Home Affairs in November 2016; their reply was not received as of January 2017.

## 2.3 Performance of Andaman and Lakshadweep Harbour Works

**Failure of Andaman and Lakshadweep Harbours Works (ALHW) to adhere to guidelines regarding planning, execution and monitoring of projects resulted in non-fulfilment of objectives. Improper planning, delayed action and non-compliance to rules resulted in unfruitful/wasteful expenditure of ₹ 3.41 crore, blockage of ₹ 4.08 crore, and cost overrun of ₹ 37.45 lakh. Incorrect application of rates in execution of works led to excess payment of ₹ 1.79 crore.**

### 2.3.1 Introduction

Andaman Lakshadweep Harbour Works (ALHW) is responsible for formulating and implementing the programmes of the Governments of

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<sup>10</sup> Section 24 of CPWD Manual

Andaman and Nicobar Islands (ANI) and Lakshadweep for providing Ports and Harbour structures including allied facilities in these islands. ALHW is headed by the Chief Engineer and Administrator (CEA) and has five<sup>11</sup> circle offices (four in Andaman and Nicobar Islands and one in Lakshadweep) headed by Deputy Chief Engineers and 11<sup>12</sup> Divisions headed by Executive Engineers. ALHW adheres to the provisions of the CPWD manual. Audit checked 63<sup>13</sup> completed and ongoing works valued at more than ₹ 25 lakh each out of a total of 43<sup>14</sup>, 180<sup>15</sup> and 129<sup>16</sup> works pertaining to Central Sector Plan, State Sector Plan and Deposit works respectively for the period 2012-15. The important findings are as under:

### 2.3.2 Funding Pattern

Port infrastructure is funded from the capital section of the budget. ALHW receives funds under Central Sector Plan through the grants of the Ministry of Shipping (MoS); State Sector Plans are funded through the Ministry of Home Affairs to the Andaman and Nicobar Islands (ANI) and Lakshadweep. Details of budget and expenditure of ALHW during 2012-16 are depicted below:

(₹ in crore)

Year	Central Sector				State Sector			
	Final release budget		Expenditure		Final release budget		Expenditure	
	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan
2012-13	36.55	38.92	36.10	38.80	32.34	17.33	32.34	17.33
2013-14	32.81	42.70	32.81	42.56	38.75	15.65	38.65	15.66
2014-15	27.55	36.39	27.53	36.55	35.77	15.85	35.03	15.24
2015-16	62.08	37.49	54.36	35.38	46.27	16.85	45.19	16.85
<b>Total</b>	<b>158.99</b>	<b>155.50</b>	<b>150.80</b>	<b>153.29</b>	<b>153.13</b>	<b>65.68</b>	<b>151.21</b>	<b>65.08</b>

ALHW had utilised an amount of ₹ 87.45 crore<sup>17</sup> out of ₹ 123.12 crore<sup>18</sup> deposited against 129<sup>19</sup> ongoing and new Deposit Works pertaining to the period 2012-16. The balance amount represented unspent balances and works in progress.

<sup>11</sup> Port Blair, Campbell Bay, Hut Bay, Mechanical Port Blair and Kavaratti

<sup>12</sup> Dry Dock, Rangat, North and South, Outstation, Campbell Bay, Kamorta, Marine, CSWD in ANI and Amini, Androth and Androth (Mech.) in Lakshadweep

<sup>13</sup> 55 at ANI and 8 at Lakshadweep

<sup>14</sup> 36 at ANI and 7 at Lakshadweep

<sup>15</sup> All pertaining to Andaman

<sup>16</sup> 75 at ANI and 54 at Lakshadweep

<sup>17</sup> ₹ 62.16 crore in ANI and ₹ 25.29 crore in Lakshadweep

<sup>18</sup> ₹ 78.38 crore for ANI and ₹ 44.74 crore for Lakshadweep

<sup>19</sup> 75 in ANI and 54 in Lakshadweep

### **2.3.2.1 Irregular acceptance of funds included in financial estimates as Deposit Works**

The term ‘Deposit Works<sup>20</sup>’ is applied to works of construction or repairs and maintenance, the cost of which is met out of Government grants to autonomous or semi-autonomous bodies or institutions through their Administrative Ministries, or is financed from non-Government sources wholly or partly from funds of public nature, but not included in the financial estimates and accounts of the Union of India; and contributions from the public. The funds may either be deposited in cash or otherwise placed at the disposal of the Divisional Officer.

Audit observed, however, that the works undertaken by ALHW in Lakshadweep during the period 2012-16 under the category of Deposit Works was not in accordance to the CPWD Manual. During this period, ALHW had accepted Deposit works of ₹ 19.59 crore from a Government Department i.e., Ports Department and kept it under 8443-Civil Deposits. This contravened Rule 56 (1) of the General Financial Rules which, *inter alia*, state that funds provided during the financial year and not utilized before the close of that financial year shall stand lapsed at the close of the financial year.

### **2.3.3 Audit Findings**

#### **2.3.4 Planning**

Planning includes in-house survey, estimation of project cost, preparation of the Detailed Project Report (DPR), engagement of consultants for conducting techno-economic feasibility study and Environment Impact Assessment on receipt of requirement from user departments.

The audit findings are enumerated in the succeeding paragraphs:

#### **2.3.4.1 Wasteful expenditure on feasibility study without mandatory approval**

In terms of the Andaman and Nicobar Islands (Protection of Aboriginal Tribes) Regulation 1956, projects in tribal reserve areas require Tribal Council approval. Without securing prior Tribal Council approval, ALHW awarded (November 2007 to February 2012) work of conducting feasibility studies for development of additional berthing jetties within tribal reserve areas in Kamorta, Nancowry group of islands. The work stopped after the Tribal Council objected (June 2011), by which time, ₹ 0.46 crore had been spent.

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<sup>20</sup> Para 3.1 of CPWD Manual

Though Ministry of Shipping (MoS) advised (July 2011) ANI Administration and ALHW to build consensus with the Tribal Council, no initiative was taken in the matter, and the work was dropped in December 2014.

Thus, failure of ALHW to secure prior approval of the Tribal Council for a project located in the tribal reserve area resulted in rendering unfruitful expenditure of ₹ 0.46 crore on feasibility studies.

#### **2.3.4.2 Acceptance/award of works without statutory clearances**

In terms of MoEF guidelines (February 1991), infrastructure activities within the Coastal Regulation Zones (CRZ) require prior environmental clearance from MoEF. Para 6.12 (2) of the CPWD Manual stipulates that Environment Impact Assessment (EIA) should precede allotment of land for infrastructure development. Para 4.2 *ibid* stipulates that even the work of preparation of detailed estimates is to be taken up only after an assurance that the land is free from encumbrance.

#### **2.3.4.3 Acceptance of works without EIA**

ALHW failed to ensure that the mandatory EIA studies had been conducted before accepting deposit of funds, resulting in unfruitful expenditure and blockage of ₹ 8.33 crore funds as given below:

**(i) Construction of unloading platform for Mechanised Sailing Vessels (MSV) at Agatti Island:** The Ports Department deposited (July 2010) ₹ 1.62 crore with directions to complete the work by December 2010. The work has not commenced (December 2016).

**(ii) Extension of berthing jetty at Katchery jetty, Kavaratti:** The Ports Department deposited (August 2011) ₹ 1.48 crore for the work, which is yet to commence (December 2016).

**(iii) Extension of existing wharf from chainage 244 m to 284 m at Androth:** The Ports Department deposited ₹ 1.00 crore and ₹ 1.96 crore in July 2010 and September 2012 respectively. The work has not commenced (December 2016).

**(iv) Extension of berthing head at Katcheri jetty, Minicoy Island:** The Ports Department deposited ₹ 2.82 crore for the work (September 2012). The work is yet to commence (December 2016).

For the above works, ALHW awarded (April 2012) the work of conducting the EIA studies (April 2012) to a contractor by diverting ₹ 0.66 crore from

the deposit amounts and has incurred an expenditure of ₹ 0.55 crore (January 2017). The contractor's report was submitted to Lakshadweep Coastal Zone Management Authority (LCZMA) and MoEF between August and September 2013. However, clearances have not been given (December 2016). Thus, failure of ALHW to ensure environmental clearance before taking up of the above works has resulted in blocking of ₹ 8.33 crore.

#### **2.3.4.4 Award of work without environmental clearance**

ALHW awarded (February 2012) the work of constructing a Port Control Tower (PCT) to oversee the shipping movements at the Baratang jetty, without securing mandatory clearances, even though the area was classified as jungle and located in the CRZ. Following objections of the Revenue authorities (in February 2012) and the Forest Department (in April 2012), the work was stopped (April 2012) and thereafter foreclosed (November 2013), rendering the expenditure of ₹ 0.29 crore thereon, wasteful. The MoS accepted (July 2016) the facts.

It is further observed that ALHW has secured (January 2016) environmental clearance for a project "Development of alternate Sea Route to Baratang Island from Port Blair". However, since one of the components of the projects is "Construction of Port Control Tower at Baratang", which was earlier dropped because the site was located in the jungle which is protected, it is not clear how the project can progress. However, the fact remains that ALHW has not proceeded beyond the stage of tendering for the project (December 2016).

#### **2.3.4.5 Preparation of estimates and acceptance of work without feasibility study**

At the request of the Ports Department, ALHW prepared estimates (November 2012 and June 2013) for fabrication and installation of eight Ship Mooring Buoys at Agatti, Minicoy, Amini and Kavaratti. Ports Department deposited with ALHW ₹ 1.00 crore and ₹ 3.08 crore (December 2013 and December 2014 respectively), and ALHW invited (August 2014) tenders for the work. After discussions with Lakshadweep Development Corporation (which is responsible for manning and operating shipping services in Lakshadweep), it was decided (August 2014) that the proposal was not practical and should be scrapped. Accordingly, ALHW cancelled the tender (March 2015) and requested Cochin University of Science and Technology (March 2015) to design a Mooring Buoy for the required specification. However, no further progress was on record in this regard. Thus, the preparation of estimates and deposit of funds without undertaking feasibility study and finalisation of

suitable design resulted in blocking of funds of ₹ 4.08 crore for more than three years (December 2016). The Department accepted (December 2016) the audit observation.

#### 2.3.4.6 Improper planning for silt clearance

Based on estimates prepared (March 2013) by ALHW for silt clearance at Agatti, Amini, Chetlath, and Kadmath islands, the Ports Department deposited (September 2013) ₹ 1.80 crore with ALHW. The work of silt clearance at Agatti, Chetlath and Kadmath islands was awarded in May 2015 scheduled for completion by April 2017. However, the contractor is yet (November 2016) to start the work. Clause 3 of the contract states that, when the contractor has not started within work three months of award, the contract can be terminated along with forfeiture of Earnest Money Deposit, Security Deposit and Performance Guarantee of the contractor, and the work can awarded to another contractor. ALHW, however, has failed to enforce this contract provision, even though, the work has not commenced (November 2016) even twenty months after award. ALHW replied (November 2016) that action will be initiated as per clauses of agreement in due course.

#### 2.3.5 Construction activities

Audit findings on construction activities are given below:

##### 2.3.5.1 Delay in award of work

Though the CPWD Manual does not prescribe any specified period within which the works should be awarded after Administrative Approval and Expenditure Sanction (AA&ES), Audit found delays ranging from eight months to more than five years in seven works valued at ₹ 10.26 crore. Details are given below:

Sl. No.	Name of the work	Agreement value (₹ in lakh)	Time between AA & ES and award of work
1.	2.	3.	4.
1.	Providing storm water drain and electrical distribution cable ducts from temporary jetty to passenger hall at Junglighat harbour complex.	39.50	62 months
2.	Providing storm water drain and electrical distribution cable ducts from overhead tank to main road at Junglighat harbour complex.	37.23	58 months
3.	Construction of RCC bored foundation for high mast	37.71	68 months

	tower Junglighat Harbour Complex.		
4.	Development of approach road to Kachal jetty	38.85	24 months
5.	Construction of 02 mooring dolphins for deep water wharf at Campbell bay.	180.07	8 months
6.	Construction of RCC jetty and vehicle ferry ramp at Afra Bay.	619.91	13 months
7.	Dredging and disposal of dredged material at Campbell Bay	72.85	24 months

MoS confined their reply (July 2016) to only the work relating to the construction of mooring dolphins, and explained that the delay was due to time taken in structural design. This reply is not acceptable, since, even after the structural design was approved, there was delay of eight months in award of work.

### **2.3.5.2 Excess payment to contractor**

#### **(a) Formation of breakwater<sup>21</sup> with stones and tetrapod<sup>22</sup> at Hut Bay**

The work which was awarded in November 2008, and scheduled to be completed by March 2012, is yet to be completed (December 2016) for reasons mainly attributable to ALHW. The contractor was entitled to reimbursement for escalation for materials, POL (Petroleum, Oil and Lubricants) and labour, in terms of Clause 10 CC of the General Conditions of Contract (GCC). Audit, however, observed that ALHW had allowed reimbursement for escalation, at rates higher than GCC provisions, resulting in excess payment of ₹ 1.34 crore. Ministry accepted (July 2016) the facts. Though ALHW informed (August 2016) that the excess amount has been recovered from the contractor, Audit noticed that only ₹ 87.44 lakh has been recovered, and ₹ 46.56 lakh remained to be recovered.

#### **(b) Construction of jetty at Gandhi Nagar in Great Nicobar Islands**

The work which was awarded in May 2010, and scheduled for completion in May 2011, was completed only in March 2014. In terms of Clause 10C of the GCC the contractor was entitled to wage rate limited at the stipulated date of completion. Audit however observed that ALHW had reimbursed the contractor at prevailing wage rates, resulting in overpayment of ₹ 24.63 lakh.

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<sup>21</sup> Breakwaters are structures constructed on coasts as part of coastal defence or to protect an anchorage from the effects of both weather and longshore drift.

<sup>22</sup> A tetrapod is a tetrahedral concrete structure used as armour unit on breakwaters. A tetrapod's shape is designed to dissipate the force of incoming waves by allowing water to flow around rather than against it, and to replace displacement by allowing a random distribution of tetrapods to mutually interlock.

ALHW accepted (April 2016) the observation and stated that the excess payment has been revised to ₹ 45.31 lakh and the matter is under arbitration.

### **2.3.5.3 Time and cost overrun**

ALHW awarded (December 2006) the work of casting 8 ton tetrapods for the work of replenishing of breakwater at Mus village in Car Nicobar for ₹ 16.82 lakh, for completion within one year. As per agreement the contractor was required to cast 750 tetrapods, and of these, to place 550 tetrapods at the seaside. The work suffered from frequent delays, primarily due to inability of ALHW to provide cement, steel moulds, sufficient casting yard, and frequent breakdown and non-availability of the crane to be supplied by ALHW. Consequently, as of March 2013 the contractor had cast only 329 tetrapods, of which, he placed 220 tetrapods, while 35 tetrapods were placed by the ALHW. The work was foreclosed (April 2013), and the contractor was paid ₹ 7.26 lakh. The balance work (originally valued at ₹ 8.88 lakh) was awarded to another contractor in August 2013 at ₹ 40.52 lakh with target date of completion of six months. The work was actually completed in August 2015 at a cost of ₹ 46.33 lakh. This resulted in cost overrun of ₹ 37.45 lakh (₹ 46.33 lakh (-) ₹ 8.88 lakh) and time overrun of more than seven years.

While confirming the facts, the Ministry stated (July 2016) that the Car Nicobar being a remote as well as tribal area no local labour, workshop, spares and service engineers are available for repair of cranes and it takes months to get the supplies/services from the mainland resulting in time and cost overrun. The reply is not tenable, as the ALHW was aware of the local conditions before award of the contract and would have accounted for these at the time of award. Also, the delays from December 2006 to April 2013 were due to the inability of ALHW to supply stipulated materials to the contractor.

### **2.3.5.4 Unfruitful expenditure**

#### **(a) Reconstruction of damaged Malacca Jetty in Car Nicobar**

ALHW awarded (July 2009) the work for ₹ 63.61 lakh which was scheduled for completion in April 2010, and subsequently rescheduled to April 2012 due change in scope of work. Audit observed that ALHW had failed to get revalidated Performance Guarantee Bond (PGB) of ₹ 3.18 lakh from the contractor that had expired in August 2014. As of September 2014, though piling work was completed, the super structure remained untouched. The contractor was paid ₹ 70.74 lakh, and in addition, ALHW had supplied cement, steel and MS plates valued at ₹ 64.58 lakh to the contractor.

ALHW stated (August 2016) that action has been initiated to terminate the contract and to revalidate the PGB. The fact, however, remains that ALHW failed to monitor progress of work, resulting in unfruitful expenditure of ₹ 135.32 lakh and non-repair of damaged jetty even after six years.

**(b) Installation of navigational buoys at Hut Bay, Little Andaman**

ALHW awarded (February 2014) the work to a contractor, who completed it at a cost of ₹ 48.43 lakh. The Port Management Board who had assigned the work to ALHW requested (March 2015) repositioning of one of the buoys. Though the buoys were under warranty, ALHW repositioned (March 2015) the buoy without consulting the contractor. Subsequently (October 2015), when both the buoys became non-functional, the contractor refused to repair the buoys under the warranty and agreed to repair the buoys only at the cost of ALHW. This has not been done, and the buoys remain non-operational (December 2016), resulting in the expenditure of ₹ 48.43 crore becoming unfruitful.

**2.3.5.5 Failure of ALHW to secure mandatory clearances before award of the work**

Para 4.2 of the CPWD manual stipulates that even the work of preparation of detailed estimates is to be taken up only after an assurance that the land is free from encumbrance. Audit observed however, that, without ensuring this. ALHW awarded (between June 2007 and May 2015) for a total cost of ₹ 0.61 crore, the four sub-works constituting the work of providing water supply arrangements to ships calling at Mus Car Nicobar. Consequently, sub-work III was delayed by over 17 months by failure of ALHW to demarcate land (delay of 274 days) and thereafter to secure Tribal Council approval and Tribal Pass (244 days), and the work remains incomplete on date (December 2016), more than two years from the stipulated date of completion (August 2014). Similarly, sub-work IV which was scheduled to be completed in September 2015 had not commenced (November 2016) due to non-securing of road work permission from the APWD. Thus, failure of ALHW to secure mandatory clearances before award of the work resulted in delays of more than 12 months and likely escalation in costs that can finally be assessed only when the works are completed. ALHW accepted the facts (November 2016).

**2.3.6 Conclusion:**

Failure of ALHW to adhere to guidelines regarding planning, execution and monitoring of projects not only resulted in unfruitful expenditure, excess payment and blockage of fund but also in time and cost over-runs.

## 2.4 Illegal and risky operation of defective tugs

**Port Management Board, Port Blair is illegally operating two defective and unregistered tugs in Port Blair putting its personnel and craft at risk.**

Port Management Board (PMB), Andaman and Nicobar Islands, Port Blair, entered into an agreement (October 2009) with M/s Corporated Shipyard Pvt. Ltd., Kolkata (contractor) to acquire two Mooring cum Mini Tugs<sup>23</sup> (tugs) for ₹ 2.45 crore. In terms of the agreement, the tugs were to be delivered by December 2010. The tugs were delivered only in February 2016 and September 2016.

Audit observed as under:

- ❖ PMB released ₹ 1.59 crore to the contractor till March 2011 towards 65 *per cent* of the contract value for completion of the fifth stage, without actually ensuring that the stages had been performed. In fact, the surveyor issued the stage completion certificates only in May 2011, indicating that the payments were premature and without survey.
- ❖ Throughout the period PMB failed to monitor the project and held its first review meeting only in March 2015, more than four years after the scheduled date of delivery.
- ❖ Instead of penalising the contractor by enforcing liquidated damages, PMB in its meeting of March 2015 allowed the contractor to revise the scheduled date of delivery to July 2015 and later to August 2015, which was also not achieved. After Audit raised the issue in January 2016, PMB took over one tug, MV Jal Sarathi, (in February 2016) and the second tug, MV Jal Sahayak (in September 2016), despite deficiencies. The deficiencies (in respect of one or both tugs) included lesser trial speed and lesser bollard pull<sup>24</sup> than contracted, non-supply of spare parts (including basic spares required for operation), non-performance of the mandatory inclining test<sup>25</sup>, non-furnishing of report on deck trials and acceptance trials, and non-registration of both the tugs.

<sup>23</sup> Small, powerful boats for towing or pushing ships, barges, etc.

<sup>24</sup> The maximum pulling capacity that a tug can exert

<sup>25</sup> Test mandated by the International Maritime Association etc., to determine stability, lightship weight and centre of gravity coordinates.

PMB informed (October 2016) Audit that before making balance payment to the firm, all the items covered under their discrepancy lists would be procured at the risk and cost of the contractor. However, the issue is not merely that of levying liquidated damages for delay of over five years, but of accepting and operating tugs (presently being operated at Port Blair) that are defective and therefore risky for crew and craft, and also illegal, since they do not have the mandatory registration required under the Andaman and Nicobar Islands Port Rules.

The matter referred to the Ministry of Home Affairs in August 2016; their reply was not received as of January 2017.

## **2.5 Avoidable expenditure**

**Failure of APWD to avail of excise duty exemptions and to purchase pipes directly from the manufacturer, resulted in avoidable expenditure of ₹ 2.30 crore on drinking water supply projects.**

Pipes needed for delivery of drinking water from source to the water treatment plant and from there to the storage facility are exempted from central excise duty<sup>26</sup>. Pipes of outer diameter exceeding 20 centimetres (cm) meant for supply of water to the consumer are also exempt, if they formed an integral part of the water supply projects<sup>27</sup>.

Andaman Public Works Department, Port Blair (APWD) had, between March 2008 and March 2012, concluded contracts<sup>28</sup> for projects to transport drinking water from Rutland to Port Blair. Two sub works were completed in July 2010 and November 2014 respectively for a total expenditure of ₹ 8.20 crore. The third sub work<sup>29</sup> was in progress (November 2016). Audit scrutiny revealed that, while awarding the contracts, the APWD did not exclude the excise duty component from the prices of pipes. Consequently, APWD incurred an unnecessary expenditure of ₹ 43.31 lakh towards excise duty.

Further, in terms of the CPWD Works Manual<sup>30</sup>, quotations or tenders for the purchase of materials should be invited from the manufacturer, and can be purchased from authorised dealers only where the manufacturers are unwilling to supply the materials. APWD, however, did not explore the possibility of

<sup>26</sup> Notification no. 6/2002-Central Excise dated 01 March 2002, S. No. 196A

<sup>27</sup> Notification no. 6/2007-Central Excise dated 01 March 2007

<sup>28</sup> For three sub works

<sup>29</sup> Total expenditure incurred as of November 2016: ₹ 16.70 crore

<sup>30</sup> Section 37.2 (5) read with section 37.3 (5)

obtaining the pipes from the manufacturer<sup>31</sup> directly. Instead, the contractor purchased the HDPE pipes from a reseller. By not purchasing from the manufacturer directly, APWD incurred unnecessary expenditure of ₹ 1.87 crore.

Thus, failure of APWD to avail of central excise duty exemption for drinking water projects and not purchasing directly from the manufacturer resulted in avoidable payment of ₹ 2.30 crore.

APWD replied (February 2016) that the general conditions of contracts provides for inclusion of all taxes and since the contract did not provide for such exemption, the audit paragraph is not realistic. The reply is not tenable, since the contract should not include taxes exempted by the Government. APWD has not furnished a reply on why the drinking water pipes were not procured directly from the manufacturer as required under the rule.

The matter referred to the Ministry of Home Affairs in December 2016; their reply was not received as of (January 2017).

## 2.6 Unnecessary expenditure due to misrepresentation of facts

**Andaman and Lakshadweep Harbour Works (ALHW) falsely informed ANI Administration that they had a legal obligation to pay a firm, resulting in continuation of a project that was subsequently stopped after incurring ₹ 1.18 crore. Despite ANI Administration's subsequent orders to stop all work and withdrawal of funds, ALHW continued to incur expenditure.**

At the instance of Andaman and Nicobar Island (ANI) Administration, Andaman Lakshadweep Harbour Works (ALHW), an entity under the Ministry of Shipping awarded (April 2015) a work<sup>32</sup> to a firm for ₹ 1.34 crore. Though the work was to be completed in June 2015, due to protests of the local fisherman, ANI Administration ordered stoppage of the work.

Audit examination revealed the following:

Immediately after ALHW had issued (30 January 2015) an acceptance letter for the work to the firm, ALHW received (3 February 2015) an intimation from the Directorate of Fisheries, ANI Administration, enquiring on the

<sup>31</sup> Jain Irrigation Systems, Jalgaon

<sup>32</sup> "Development of safe berthing facilities for accommodating small fishing craft providing HDPE (High Density Polyethylene) floating dock station at Dignabad for Fishermen".

current status of the jetty and the financial implication if the project was stopped or cancelled. Though ALHW had by this time spent only ₹ 1.34 lakh on the project, and had not yet signed any agreement with the firm, ALHW delayed its response till March 2015 and informed the ANI Administration that the firm had informed that they had despatched the HDPE cubicles and the materials to Port Blair, and was requesting release of 80 *per cent* of the contract value (i.e. ₹ 82.40 lakh). Though ALHW was under no legal obligation to pay any sum to the firm, since no contract had yet been signed<sup>33</sup>, ALHW did not inform ANI Administration of this fact, and instead, falsely emphasized that stopping of the work at that stage would attract litigation.

In the light of this omission and false assertion, ANI Administration did not pursue the matter further at that point of time. However, due to the continued resistance of the local fishermen, ANI Administration ordered (August 2015) stoppage of the work until further orders, and withdrew fund allocations made to the project. Despite this and contrary to the orders of ANI Administration, ALHW spent ₹ 1.16 crore in February 2016 on the work.

Thus, for the purpose of making payments to a firm to which it owed no legal obligation, ALHW misrepresented facts to ANI Administration, and continued incurring expenditure on the project (₹ 1.18 crore in all, till December 2016) despite orders of the ANI Administration to stop work. The matter merits further investigation by the concerned Ministry.

The matter was referred to the Ministry of Home Affairs (in August 2016 and January 2017), and Ministry of Shipping (January 2017). Their replies are awaited (January 2017).

## **2.7 Infertuous expenditure on incomplete sea wall**

**Andaman Public Works Department awarded work to construct a sea wall partly located in reserved forest areas, but made no effort to secure mandatory permission. Consequently, the work was abandoned after part-construction, defeating the objective of preventing sea erosion and led to unfruitful expenditure of ₹ 0.96 crore.**

Para 4.2 of the CPWD manual stipulates that works should be put to tender only after ensuring that land, free from encumbrance, is available for execution of the work.

<sup>33</sup> Para 23.1 (6) CPWD Manual states that no work of any kind should commence, and no order for supplies etc., should be placed, without prior execution of contract documents.

Andaman Public Works Department (APWD) awarded (January 2011) the work to construct a kilometre long seawall for protection of the existing road from erosion during high tides at Yerattajetty area in Rangat, Middle Andaman. The work involved three segments (847 metres, 63 metres and 90 metres), which included reserved forest land<sup>34</sup>. Though in terms of the Forest (Conservation) Act, 1980, no construction was permissible on reserved forest land without prior approval of the Central Government, APWD made no effort to seek approval. Instead, the contractor completed construction on the 677 metres of unencumbered land and suspended further construction in January 2013 when the forest department did not allow construction on the reserved forest land. APWD paid ₹ 0.96 crore to the contractor for the partly completed work and proposed (August 2015) to foreclose the work. Thus, the expenditure of ₹ 0.96 crore incurred on sea wall was unfruitful.

In response to the audit observation, APWD informed (August 2016) that the completed stretch of seawall was of use and no unfruitful expenditure has been incurred.

The reply is not acceptable as the APWD did not at any time seek approval for construction on the reserved forest land, which resulted in piece-meal construction and failed to meet the objective of protection from sea erosion.

The matter referred to the Ministry of Home Affairs in August 2016; their reply was not received as of January 2017.

## **2.8 Failure to protect public financial interest in the leasing of water sports equipment**

**Tourism Department leased water sports equipment to a private operator charging lease rent at far less rates than what Government itself pays to borrow funds. In addition, the Department provided rent-free use of building and premises to the operator in the sports complex. The Department also deleted/omitted clauses in the agreement that would have ensured that the operator did not charge unduly high fees from the public and would have also ensured greater financial and legal control over the operator.**

Directorate of Information, Publicity and Tourism (Department), Andaman & Nicobar Administration leased (June 2011) water sports equipment procured

<sup>34</sup> Segment I – Reserved forest (108 metres) followed by unencumbered land (107 metres) followed by reserved forest (122 metres) followed by unencumbered land (510 metres); Segment II- Reserved forest land (63 metres); Segment III- Unencumbered land (60 metres) followed by reserved forest (30 metres)

for ₹ 3.50 crore<sup>35</sup> to Andaman and Nicobar Islands Integrated Development Corporation Ltd., (ANIIDCO), an entity under the Andaman and Nicobar Administration, who further sub-leased it (April 2012) to a private operator for 10 years. As on March 2016, ANIIDCO has earned a profit/rent of ₹ 60.97 lakh on the lease/sub-lease, out of which, ₹ 11.97 lakh was remitted to the Department as their share.

Audit observed as under:

❖ Under the lease agreement with ANIIDCO, the Department was entitled to a profit share of 20 *per cent*. However, since ANIIDCO was unable to profitably operate the equipment, it was decided to transfer the equipment to a private operator. Since ANIIDCO had no further role in the matter, the Department could have directly entered into lease agreement with the private operator instead of as a sub-lease through ANIIDCO. By failing to do so, the Department received only of ₹ 11.97 lakh as rent, instead of the entire rental value of ₹ 60.97 lakh.

❖ The income of ₹ 0.38 crore over ten years represents a return of approximately 1.4 *per cent* on investment of ₹ 2.69 crore<sup>36</sup>, which is far less than the average cost of borrowings to Government, which ranged between 7.71 *per cent* and 8.41 *per cent* during 2012-15 alone. In other words, the Department leased equipment to the private operator at a fraction of the rate, which the Government itself pays on borrowed funds.

❖ The sub-lease agreement also permitted the private operator to use the existing building and vacant land specifically demarcated in the sports complex. In other words, the private operator was provided rent-free possession and use of premises, while normally, private parties using the premises are charged rent.

❖ The Department agreed (January 2012), *inter-alia*, to delete the following clauses relating to the private operator, which, had they been retained, would have protected the financial interests of the Department and the public exchequer:

(i) The original clause stating that the private operator shall not charge rate above those fixed by the Administrator was omitted from the sub-lease agreement. Consequently, the Department has no control or knowledge of the rates fixed by the private operator.

(ii) The existing condition giving the Department the right to examine such documents and accounts maintained by the operator on the management of

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<sup>35</sup> ₹ 0.54 crore in 2008 and ₹ 2.96 crore in 2010

<sup>36</sup> Discontented value of ₹ 3.50 crore as on date of sub-lease.

the equipment was deleted and replaced with a clause giving the Department the right to examine such documents relating to safety, compliance of law and maintenance of equipment etc.

(iii) The existing condition stating that the sub-lease agreement shall be registered at Port Blair was deleted and replaced with the condition that the sub-lease agreement may be registered at the option of the sub-lessee at Port Blair.

Thus, the Department and ANIIDCO extended substantial financial and legal advantage to the private operator contrary to public interest whereby equipment procured for ₹ 3.50 crore was leased to a private operator at rates far less than even the borrowing cost of capital apart from rent-free premises. The Department and ANIIDCO also did not ensure that the operator would not charge excessive rates from the public despite extensively using public equipment and land. The Department also consciously deleted/omitted from the sub-lease agreement conditions that would have ensured protection of public interest.

The matter referred to the Ministry of Home Affairs in August 2016; their reply was not received as of January 2017.

## Chandigarh

### 2.9 Avoidable payment of ₹ 5.55 crore on TDS

**Chandigarh Housing Board (CHB) failed to deduct TDS before making payment to contractor. Subsequently, at the instance of Income Tax Department, CHB deposited ₹ 5.55 crore from its own funds as TDS with the IT Department.**

Chandigarh Housing Board (CHB) awarded a contract (October 2006) for ₹ 821.21 crore to Parasvnath Developers Limited (PDL) under which PDL paid ₹ 516.53 crore to CHB for the right to “Develop-Build-Finance-Maintain” 123.79 acres of land at the Rajiv Gandhi Chandigarh Technology Park (RGCTP) at UT Chandigarh. Subsequently, due to unresolved disputes between both the parties, the matter went into arbitration, and in terms of the arbitration award, CHB paid (February 2015) ₹ 572.03 crore to PDL. This included an interest component of ₹ 55 crore, on which, in terms of Section 194 A of the Income Tax Act, TDS (Tax Deducted at Source) was to be effected at 10 *per cent*. CHB, however, failed to deduct TDS before making payment to PDL. Subsequently, at the instance of the Income Tax Department, CHB deposited (March 2015) TDS of ₹ 5.55 crore from its own funds with the Income Tax Department.

CHB informed Audit (March and April 2016) that efforts are being made to claim refund of TDS of ₹ 5.55 crore from the Income Tax Department, but that, the fact of non-deduction of TDS was well in the knowledge of the parties involved. This reply is not acceptable, as it is contrary to the provisions of the Income Tax Act and the Income Tax Department would refund the amount only when PDL remitted the amount to it, which is not in the knowledge of CHB.

The matter was referred to Ministry of Home Affairs, Government of India and Finance Secretary UT Chandigarh in August 2016. Their replies are awaited (January 2017).

#### **2.10 Irregular withdrawal from Government account, non-surrender of savings and consequent loss of interest**

**In violation of rules, Central Project Division, Chandigarh Administration prematurely withdrew and irregularly retained ₹ 3.82 crore out of Government account for 30 months, and thereafter irregularly continues to retain the balance of ₹ 1.73 crore for a further period of more than 32 months. The interest loss on this account is ₹ 1.12 crore (November 2016)**

Rule 7 of the General Financial Rules (GFR) stipulates that all moneys received by the Government should be brought into Government account without delay. Rule 56 *ibid* stipulates that the funds provided during the financial year shall stand lapsed at the close of the financial year, and no savings should be held in reserve for possible future excesses. Rule 100 of the Central Government Account (Receipts and Payments) Rules stipulates that no money shall be drawn from Government account unless it is required for immediate disbursement. It is not permissible to draw money from Government account in anticipation of demands or to prevent the lapse of budget grants.

Test check of records of the Executive Engineer, Central Project Division UT Chandigarh revealed that as of April 2011 the Division had deposited ₹ 8.56 crore with the Indian Railways against its share of construction of a Railway Under Bridge on the Chandigarh-Ambala railway section. In July 2011, without any further demand from the Railways, the Division withdrew money to prepare a demand draft for ₹ 3.82 crore which was forwarded to the Railways, who refused to accept it. Instead of remitting the demand draft to Government account, the Division retained it. Almost three years later, the Railways requested (March 2014) the Division to deposit ₹ 2.09 crore. Thereupon, the Division split the demand draft for ₹ 3.82 crore (that had been

prepared in July 2011) into two demand drafts, one for ₹ 2.09 crore in favour of the Railways (which was forwarded to the Railways in January 2015) and another for ₹ 1.73 crore in favour of the Division, which was retained by the Division as miscellaneous deposit, which does not earn interest. The premature withdrawal of funds without requirement and irregular retention by the Division, resulted in loss of interest of ₹ 1.12 crore<sup>37</sup>.

On Audit pointing out the irregularities, the Division informed (September 2016) that the amount of ₹ 1.73 crore would be adjusted on completion of work by the Railways and receipt of final account or alternatively provided for as reduction of expenditure. The reply is unacceptable in view of the provisions of the financial rules cited above which forbid withdrawal of funds without requirement, and retention of funds outside Government account.

The matter was referred to the Ministry of Home Affairs (MHA) and Finance Secretary, Chandigarh Administration in July 2016. Their replies are awaited (January 2017).

## Dadra and Nagar Haveli

### 2.11 Violation of financial rules in payments to contractor

**Tourism Department violated financial rules in advance/final payments to contractor and also failed to confirm that the equipment is functioning satisfactorily.**

Deputy Director of Tourism Department of Dadra and Nagar Haveli (Department) awarded (February 2014) the work of “design, supply, installation, commissioning and operation and maintenance” of floating ultrafast action synchronized dancing water features on non-metallic floats at, Van Ganga Garden, Dadra Lake Silvassa to Premier World Technology Ltd., (PTL), Kolkata for ₹ 9.90 crore (₹ 9.30 crore for design, supply and installation and ₹ 0.59 crore for maintenance and operation for 3 years).

Audit scrutiny revealed the following.

- ❖ Both the firms<sup>38</sup> whose tenders were declared technically qualified were located at the same address and a majority of their founder-Directors were common. Therefore, both the bids were from the same firm, and

<sup>37</sup> Estimated at Government borrowing rate of 7.9 per cent for the period July 2011 to March 2014 (₹ 3.82 crore) and 7.4 per cent from April 2014 till date, i.e., November 2016 (₹ 1.73 crore).

<sup>38</sup> Premier World Technology Ltd., and Premier Irrigation Adritech, both located at 17/ 1 C Alipore Road, Kolkata

should have been considered as single tender. Under the rules<sup>39</sup>, before accepting single tender, the facts should be brought to the notice of the competent authority approving the bids. It was observed however, that the Administrator who approved the bids was not informed of the fact that these two apparently competing bids, were in fact from the same entity.

- ❖ Rule 159 of the General Financial Rules (GFR) stipulates that advance payments to private firms on fabrication and turnkey contracts should not exceed 30 *per cent* of the contract value, but payment is to be released only after the supplier despatches the goods from its premises. It was observed that though the contractor delivered the materials only in January 2015 against which, in terms of the rules he was entitled to receive a maximum advance of ₹ 2.97 crore (30 *per cent* of contract value), the Department had paid advances of ₹ 7.44 crore (75 *per cent*) by that date<sup>40</sup>.
- ❖ It was further observed that there was no record of materials received and works completed, which is normally done by way of Measurement Book. Therefore, the Department had paid the advances and final payment to the firm without ensuring that the equipment had been installed in complete shape and functioned as per expectations. The Department had paid ₹ 0.25 crore towards maintenance in quarterly installments (of ₹ 4.95 lakh each) for the period 01 April 2015 to 30 June 2016. Though Audit requested (October 2016) the Department to confirm satisfactory performance and maintenance of the equipment, this has not been done till date (December 2016).
- ❖ Though the Assistant Director of Tourism certified that the project was commissioned on 31 March 2015, this certificate was issued only on 6 July 2015. Further, even the vendor had not submitted the final bill by that date and payment was made on the basis of a proforma invoice dated 7 March 2015 for ₹ 1.86 crore. This proforma invoice merely stated that it was for materials, and there was no indication that it was for installation and commissioning. It is therefore evident that the department paid the contractor in advance of completion of the project merely to exhaust the budget and actual commissioning took place much later.

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<sup>39</sup> Rule 20.4.5 of CPWD manual

<sup>40</sup> ₹ 2.79 crore (July 2014), ₹ 2.79 crore (September 2014) and ₹ 1.86 crore (January 2015)

In reply (November 2016), Tourism Department stated that the advance payments to the contractor had the concurrence of the Finance Department. The reply is not acceptable, since the Finance Department cannot introduce payment conditions contrary to the GFRs.

The matter was referred to the Ministry of Home Affairs in September 2016. Their reply was awaited as of January 2017.

## **Daman and Diu**

### **2.12 Idling of funds due to failure to monitor expenditure**

**Failure of Daman and Diu Administration to adhere to financial rules resulted in release of funds despite non-execution of Flood Control and Drainage Anti-Sea Erosion Projects and idling of ₹ 6.50 crore with Daman Municipal Council (DMC) during 2012-16.**

Rule 212 (1) of the General Financial Rules (GFR) 2005 stipulates that the Ministry/Department should release recurring grants only after the Utilisation Certificates (UC) in respect of the previous financial year are received. Further, Rule 209 (6) (iii) *ibid* stipulates that when recurring grants are sanctioned to the same organisation for the same purpose, the unspent balance of the previous grant should be taken into account in sanctioning the subsequent grant.

The Administration, Daman and Diu released ₹ 5.0 crore (₹ 2.50 crore in June 2012 and ₹ 2.50 crore in March 2013) to the Daman Municipal Council (DMC) for carrying out “Flood Control and Drainage Anti-sea Erosion Projects at Nani Daman and Moti Daman” in 2012-13. This was followed up with similar releases of ₹ 0.50 crore in September 2013, and ₹ 1.00 crore in March 2015.

Audit observed that DMC did not incur any expenditure on the project in all these four years. Further, though the sanction orders of the Administration contained a clause that the entire amount of grant sanctioned for the year was to be utilised within one year of sanction and unutilised amounts were to be refunded, the Administration failed to ensure the same, and continued to sanction further grants without ensuring utilisation of the previously sanctioned amounts.

After the above was pointed out in Audit (May 2015), the Standing Committee of the DMC, which had not met even once after May 2012, convened (June 2016) and decided to execute five works, out of which two estimates totalling ₹ 11.95 crore were sent (August 2016) to the Public Works

Department (PWD), Daman for technical sanction. No work has commenced as on date (December 2016).

Thus, failure of the Administration to adhere to the provisions of the GFRs and its own orders while sanctioning grants in aid, resulted in idling of funds totalling to ₹ 6.50 crore over four years.

The matter referred to the Ministry of Home Affairs in July 2016; their reply was not received as of January 2017.

## **Lakshadweep Islands**

### **Lakshadweep Electricity Department**

#### **2.13 Generation and Distribution of Power in Lakshadweep Islands**

**Union Territory of Lakshadweep continues to depend primarily on diesel generators to generate electricity. No system is in place to ensure that the DG sets are installed as per requirement. Non commissioning of bulk storage facilities at Kavaratti and Minicoy resulted in transit loss, amounting to ₹ 2.65 crore. Diesel consumption in excess of norms, high transmission and distribution losses were noticed. Four solar photovoltaic (SPV) plants were not working while two were under renovation. No follow up action on JERC directives to collect overdue revenues and non-collection of dues from NTPC were also noticed.**

##### **2.13.1 Introduction**

Lakshadweep, a Union Territory (UT) with an area of 32 square kilometres comprises ten inhabited islands<sup>41</sup>, 17 uninhabited islands, four newly formed islets and five submerged reefs. The islands lie about 220 to 440 kilometres from the coastal city of Kochi, Kerala. Electrification of Lakshadweep Islands was initiated during the second Five Year Plan. Round the clock power supply is provided in all the islands since 1983.

Lakshadweep Electricity Department (LED), an integrated utility<sup>42</sup>, is responsible for Generation, Transmission and Distribution of electricity in the Union Territory. Owing to the distance from the mainland, Lakshadweep is entirely dependent on its own generation for supply of power, mainly (95 per cent) through Diesel Generator (DG) sets and partly through grid

<sup>41</sup> Agatti (3.48 sq. km), Amini (2.60 sq.km), Andrott (4.90 sq. km), Bitra (0.10 sq. km), Chetlat (1.40 sq. km), Kadamath (3.20 sq.km), Kalpeni (2.79 sq. km), Kavaratti (4.22 sq.km), Kiltan (2.20 sq.km ), and Minicoy (4.80 sq.km ) Bangaram (0.62 sq. m) though uninhabited has been identified for tourism.

<sup>42</sup> As defined in Regulation 2(9) of the JERC (Terms and Conditions for Determination of Tariff) Regulations, 2009.

interactive Solar Photovoltaic (SPV) power plants. Due to the geographical and topographical peculiarities of these islands including separation by sea over significant distances, there is no integrated power grid. Instead a power house at each location caters independently to the power requirements of different islands. The total installed capacity in 2015-16 was 24,010 KW<sup>43</sup> (46 DG sets of 21,860 KW and 11 SPVs of 2,150 KW). The installed capacity of the DG sets ranged between 60 KW and 1,600 KW. Kavaratti is the headquarters of LED, and is headed by an Executive Engineer. The nine sub-divisions<sup>44</sup> are headed by Assistant Engineers and the four sections<sup>45</sup> are headed by Junior Engineers.

The records of LED for the period 2013 to 2016 were examined in audit in 2016. The important findings are given in following paragraphs;

### **2.13.2 Audit Findings**

#### **2.13.3 Inadequate justification for excess capacity of DG sets**

LED estimates demand through the Power Generation and Distribution Management System (PGDMS) software developed by the National Informatics Centre (NIC) of the Government of India.

It was observed that all the islands had excess capacity, with maximum ranging between 47 *per cent* (Kiltan) and 89 *per cent* (Bitra). It was also observed that against normal expectation of increasing trend of demand, some islands showed sharp reduction in some years. LED informed that the variations arose due to varying climatic conditions at the site and parallel run of two DGs at the time of changeover from one DG to another. LED also informed that the National Informatics Centre (NIC) was in the process of modifying the software to record maximum demand on the basis of consumption instead of generation as at present. Regarding the excess capacity, LED explained that additional machines were required to avoid blackout due to power failure; also failure of DG sets was frequent due to climatic conditions etc., and their repair is difficult due to non-availability of spares locally. The reply is not satisfactory. LED does not maintain centralised record of downtime of DG sets due to repairs etc., and these are available only with the sub-divisions. Further, climatic conditions and requirements of changeover do not vary from year to

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<sup>43</sup> Kilo watt: Standard unit of electrical power equal to 1,000 watts.

<sup>44</sup> Beypore (handles procurement of diesel and lube oil), Kochi (handles procurement of spares etc., and repairs), Agatti, Amini, Andrott, Kadamath, Kavaratti, Kiltan and Minicoy

<sup>45</sup> Bangaram, Bitra, Chetlat and Kalpeni

year. It would appear that LED's decisions to procure and installation of DG sets on different islands are independent of the downtime record of such sets and there is no system in place to ensure that DG sets are installed based on actual requirement.

#### 2.13.4 Non-commissioning of bulk oil storage facilities and transit losses

LED uses about 139 lakh litres of diesel in its DG sets. The diesel is transported on barges in 200 litre barrels from Beypore, Calicut to the islands. Because of the multi-point handling and transportation, the barrels are often leaking when they reach the islands. Though bulk oil storage facilities have been completed at Kavaratti and Minicoy in December 2014 and March 2016 for ₹ 7.37 crore and ₹ 10.48 crore respectively, they have not been commissioned till date due to non-availability of oil barge<sup>46</sup>.

The absence of bulk storage facilities and transportation diesel in barrels from Beypore to the islands<sup>47</sup> has resulted in transit losses. Loss through theft cannot also be ruled out. Details are given below:

**Table-3**

Year	Quantity dispatched (litres in lakh)	Quantity received (litres in lakh)	Loss in transit (litres in lakh)	Cost per litre (₹)	Loss (₹ in crore)
2013-14	133.37	131.73	1.64	59.15	0.97
2014-15	147.24	145.55	1.69	53.16	0.90
2015-16	147.95	146.25	1.70	45.80	0.78
<b>Total</b>	<b>428.56</b>	<b>423.53</b>	<b>5.03</b>		<b>2.65</b>

Source: Derived from LED figures

#### 2.13.5 Discrepancies between issue and consumption of diesel

Audit review of island wise system statistics and stock registers revealed discrepancies between issue of fuel by subdivisions and consumption by power stations as below:

<sup>46</sup> Power For All -Joint Initiative of Lakshadweep Administration and Government of India (2015)

<sup>47</sup> Minicoy, Kavaratti, Amini, Androth, Kalpeni, Agatti, Kadamat, Kiltan, Chetlat, and Bitra

Table-4

Year	Diesel issued by subdivisions (litres in lakh)	Diesel consumed at power stations (litres in lakh)	Difference (litres in lakh)	Cost per litre (₹)	Loss (₹ in crore)
2013-14	135.55	132.69	2.86	59.15	1.69
2014-15	139.36	137.57	1.79	53.16	0.95
2015-16	146.72	146.48	0.24	45.80	0.11
				<b>Total</b>	<b>2.75</b>

Source: Derived for LED figures

LED informed Audit that reconciliation details were awaited. LED is required to examine the reasons for the discrepancy and confirm that the difference is not due to factors like fuel theft.

### 2.13.6 Diesel consumption in excess of norms

LED had estimated<sup>48</sup> that new DG sets would consume between 0.28 to 0.30 litres of fuel per KW hour, whereas DG sets which had outlived their useful lives and subject to frequent breakdowns/repairs/maintenance would consume between 0.31 and 0.38 litres per KW hour. Applying the standards depicted in the DPR, Audit has estimated that LED has consumed fuel in excess of norms to the tune of ₹ 2.84 crore during the period from 2013-14 to 2015-16.

LED attributed the difference to operation of old DG sets. The explanation is not acceptable as the DPR included norms applicable to old DG sets also. LED is therefore required to examine the reasons behind the fuel costs in excess of norms and confirm that the excess of ₹ 2.84 crore is not due to factors like fuel theft.

### 2.13.7 Avoidable expenditure due to high Transmission and Distribution losses

The DPR of 2004 recommended major thrust to reduce T&D losses from 10.8 per cent to 8 per cent by the end of the Tenth Five Year plan (2002-07). This target has not been achieved till date. The cost of T&D loss in excess of 8 per cent during 2013-14 to 2015-16 works out to ₹ 10.38 crore in respect of 4 islands alone.

<sup>48</sup> Detailed Project Report (DPR) for Augmentation of Diesel Generating capacity in Lakshadweep, 2004

LED informed Audit that it had identified three main impediments in achieving desired results, viz., non-installation of package transformers, non-installation of ring main units, and conversion/laying of underground cable for consumers, and that it was hopeful of further reduction on the completion of these works.

### **2.13.8 Unfruitful expenditure on Solar Photovoltaic (SPV) plants**

Based on Ministry of Non-Conventional Energy Sources release (March 2001) of ₹ 12.27 crore (with balance to be met from budget of UTL) for a total cost of ₹ 18.41 crore, LED installed<sup>49</sup> Grid interactive Solar Photovoltaic (SPV) power plants. In addition, SPV plant was installed in Suheli (uninhabited island, but tourist based), at a cost of ₹ 0.64 crore. Audit observed that, of the SPV plants (8 purchased in 2001; year of purchase of 2 plants presumed to be before 2005 and that of 2 plants before 2000 since details not available) installed in the 12 islands.

Audit observed that of the SPVs installed, four have not been working<sup>50</sup> for more than three years and two were under renovation. To ascertain the causes for the same, Audit selected the records of the plant at Amini for detailed scrutiny. It was noticed that land was acquired only after three years from delivery of equipment and thereafter, completion of civil works were delayed by a further four years. By this time, some of the photovoltaic modules were in poor condition due to the delay in installation. The primary cause for this situation was due to LED not ensuring mandatory coastal regulatory zone clearance and land acquisition before placing the purchase order for the SPV plant. There was also the issue of poor maintenance compounding the problem. LED has informed (August 2016) that presently, LEDA, a society under UTL Administration has been entrusted with the responsibility of ensuring that all the plants function at full capacity.

### **2.13.9 Other issues**

#### **2.13.9.1 No follow up on JERC directions to collect overdue revenues**

The Joint Electricity Regulatory Commission (JERC) had, in their order dated 17 April 2015, directed LED to analyse outstanding dues, bad debts etc., and construct a database of such consumers including particulars such as amount, ageing schedule and category. LED was directed to identify consumers with outstanding of ₹ 50,000 and above for over six months. Audit observed that the directions of JERC have not been complied with till date (December 2016).

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<sup>49</sup> At Agatti, Amini, Androth, Chetlat, Kadamath, Kalpeni and Kavaratti

<sup>50</sup> Amini, Bangaram, Kiltan and Suheli

The proforma accounts reveal an increasing trend of sundry debtors as follows: ₹ 0.73 crore (2012-13), ₹ 2.64 crore (2013-14) and ₹ 3.90 crore (2014-15)<sup>51</sup>. LED informed that immediate steps would be taken and a new system of collection of security deposits from customers is being introduced.

#### **2.13.9.2 Non-collection of dues from NTPC**

LED deposited ₹ 37.22 crore with NTPC between October 2005 and February 2009 to retrofit inefficient DG sets or replace them with new sets. NTPC informed (December 2014) that the works had been completed, but failed to refund LED liquidated damages of ₹ 3.79 crore collected from a contractor. LED informed (August 2016) Audit that the matter was under arbitration between NTPC and the contractor, but that, NTPC had remitted ₹ 6.41 lakh to LED in June 2016, and the balance would be remitted once NTPC received LED's assurance from LED that in the event of an unfavorable arbitration award, LED would refund the amount. LED, however, has not issued such assurance or claimed interest from NTPC on retained amount, till date (December 2016).

#### **2.13.9.3 Energy Audit not conducted despite requirement**

JERC Tariff Regulations, 2009, require LED to conduct regular energy audits to substantiate its estimation of Transmission and Distribution (T&D) losses, and furnish six monthly reports to JERC. Audit observed, that LED has not conducted any energy audits till date. LED attributed this to non-availability of technical expertise locally. LED is advised to explore measures to ensure implementation of energy audits, as these are mandatory.

#### **2.13.9.4 Need to explore alternative methods for electrification**

Generation of power in the Union Territory of Lakshadweep is expensive, with the average cost of ₹ 30.76 per KWh in 2015-16, in comparison to the market price of ₹ 2.85 per KWh estimated by the Indian Energy Exchange (IEX). As the average revenue realisation by LED is only ₹ 2.64 per unit, the revenue gap in supply of power amounted to ₹ 91.99 crore as approved by JERC. Central Electricity Authority (CEA) had also requested (June 2006) the Ministry of Renewable Energy Sources to explore avenues for adoption of eco-friendly and cheaper modes of generation in UTL.

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<sup>51</sup> Proforma accounts for 2015-16 not prepared till date

It is therefore necessary for LED to explore and adopt non-conventional energy sources in terms of the National Electricity Policy<sup>52</sup>.

### **2.13.10 Conclusion**

Generation of electricity in UTL is primarily through DG sets. No system was in place to assess actual requirement of DG sets. Non-commissioning of bulk storage facilities, diesel consumption in excess of norms, transmission and distribution losses in excess of eight *per cent*, non-working of installed SPV plants, no follow up JERC directives etc. were noticed.

The matter was referred to the Department of Electricity, UTL (September 2016) and Ministry of Home Affairs in February 2017. Their reply are awaited.

### **2.14 Failure of Ministry to monitor expenditure**

**Failure of Ministry of Science and Technology to monitor expenditure on installation of bio-toilets, resulted in UTL Administration parking of ₹ 17.27 crore outside Government account in violation of rules. Ultimately, the objective of installing 12,000 bio-toilets in Lakshadweep remains unfulfilled.**

Ministry of Science and Technology, Government of India released ₹ 18.62 crore<sup>53</sup> to Union Territory of Lakshadweep (UTL) Administration for installation of bio-toilets. Department of Science and Technology (DST), Union Territory of Lakshadweep, in turn, transferred ₹ 4.34 crore in November 2010 to the Lakshadweep Development Corporation Limited (LDCL) for further onward transfer to Lakshadweep Council for Science & Technology (LCS&T), an Autonomous Body of DST. LCS&T was itself created only in February 2011, after the date of the first order of DST to transfer funds to it. DST subsequently, transferred the balance funds (₹ 14.28 crore) directly to LCS&T.

In March 2012, UTL Administration awarded a contract for ₹ 40.44 crore to manufacture, transport, install, inoculate<sup>54</sup> and maintain 12,000 bio-toilets for a period of five years. As on 31 March 2016, the contractor had installed only 1,618 bio-toilets in three islands, and test check of the bio-toilets in two of the

<sup>52</sup> In terms of Section 3 of the Indian Electricity Act 2003

<sup>53</sup> ₹ 4.34 crore in November 2010, ₹ 10.31 crore in December 2011 and ₹ 3.97 crore in June 2012.

<sup>54</sup> Using anaerobic (existing in the absence of oxygen) microbial inoculum

islands revealed unsatisfactory performance. DST terminated the agreement and encashed the bank guarantee of ₹ 6.28 crore (September 2016). However, the Hon'ble High Court of Punjab and Haryana stayed (October 2016) the encashment of bank guarantee. Ultimately, the objective of installing 12,000 bio-toilets remains unfulfilled.

Audit observed as under:

- ❖ Ministry of Science and Technology released funds in 2011-12 and 2012-13 without monitoring expenditure and savings of previous years. This violated Rules 52 to 56 of the General Financial Rules (GFR) which state, *inter-alia*, that Government departments shall be responsible for control of expenditure against the appropriations placed at their disposal; that appropriations can only be utilised during the financial year to which they relate; that Heads of Departments and Controlling officers should be in a position to estimate the likelihood of savings every month and to surrender them well in advance.
- ❖ By parking funds with LCS&T in advance of requirement, UTL Administration violated Rule 100 of the Receipt and Payment Rules which states that the funds provided during the financial year and not utilised before the close of the financial year should be surrendered to Government, and no money shall be withdrawn from the Government account unless it is required for immediate requirement.
- ❖ ₹ 11.67 crore continues to be parked with LCS&T (November 2016), on which, interest of ₹ 5.60 crore<sup>55</sup> accrued, which is also to be remitted to Government account.

In their reply (October 2016), DST informed Audit that LCS&T was authorised to retain and transfer Government funds to the contractor in fulfilment of its aims and objectives. The reply is not acceptable. Ministry of Science and Technology, who had approved the project and released funds had not authorised LCS&T in this regard. In any case, LCS&T is not authorised to park Government savings in violation of financial rules. UTL Administration has also not explained why funds were initially transferred to LDCL, who had no role in the project.

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<sup>55</sup> Estimated at minimum base rate (rate set by the RBI below which banks are not allowed to lend to its customers), which ranged between 9.30 *per cent* and 10 *per cent* during the period from 2011 to 2016 when LCS&T retained between ₹ 4.34 crore to ₹ 11.67 crore.

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Thus, failure of Ministry of Science and Technology to monitor expenditure on the installation of bio-toilets resulted in UTL Administration transferring funds to unauthorized entities and eventual parking of ₹ 11.67 crore, in violation of financial rules. Consequently, ₹ 17.27 crore (₹ 11.67 crore plus ₹ 5.60 crore interest) remains outside Government account (December 2016). Ultimately, the objective of commissioning 12,000 bio-toilets in the Union Territory of Lakshadweep was not achieved.

The draft paragraph was issued to the Ministry of Home Affairs in August 2016 and Ministry of Science and Technology in December 2016. Their replies are awaited.

## CHAPTER – III: UNION TERRITORIES (REVENUE SECTOR)

### Chandigarh

#### 3.1 Assessment of Value Added Tax at lower rate

**The Excise and Taxation Department failed to re-assess dealers of mobile charges at the higher rate in the light of Supreme Court judgement, resulted in short levy of ₹ 9.69 lakh.**

The Hon'ble Supreme Court of India decided in December 2014<sup>1</sup> that mobile cell phone chargers are separate items from mobiles and therefore are to be charged Value Added Tax (VAT) at 12.5 *per cent* instead of the rate of 4 to 5 *per cent* applicable on mobiles. Union Territory Administration, Chandigarh was not a party in this case.

Test check of records of two wards under the Excise and Taxation Department (September 2015 and December 2015) of UT Chandigarh for varying periods between 2007 and 2013 revealed that the Department had failed to re-assess dealers of mobile chargers at higher rate in the light of the Supreme Court judgement. The limited audit scrutiny alone revealed a short levy of ₹ 9.69 lakh.

Following the audit observation, the Department has reassessed and raised additional demand of ₹ 16.02 lakh in respect of the two dealers identified in the audit test check. Details of similar re-assessment and demand in respect of the remaining dealers in the Union Territory of Chandigarh are awaited.

The matter was referred to the Ministry of Home Affairs, Government of India, New Delhi and Finance Secretary, Union Territory of Chandigarh in July 2016. Their replies are awaited (January 2017).

<sup>1</sup> Civil Appeal Nos. 11486-11487 of 2014: State of Punjab and others (Appellant) versus Nokia India Pvt. Ltd. (Respondent)

## Dadra and Nagar Haveli

### 3.2 Non-levy of penalty on late file of VAT return

**Failure of the VAT department of Dadra and Nagar Haveli to levy penalty on late filing of return, resulted in non-recovery of penalty, of which, ₹ 21.79 lakh was recovered at the instance of Audit.**

In terms of sections 26 and 86 (8) of the Dadra and Nagar Haveli Value Added Tax Regulation 2005 (Regulation), any registered dealer who is liable to pay tax and fails to do so on the prescribed dates is liable to pay penalty of ₹ 100 for each day of default or ₹ 10,000 in all, whichever is less.

Test check of records for the period 2014-15 and 2015-2016 in the office of the Deputy Commissioner (VAT), Dadra and Nagar Haveli, Silvassa, revealed that 141 registered dealers had not filed returns on the prescribed dates viz., the 28<sup>th</sup> of the following month, but the department had not levied any penalty. Audit estimated that ₹ 52.18 lakh was liable to be collected from these 141 dealers alone.

Consequent to the audit observation, the department informed (April and August 2016) that notices had been issued for recovery of ₹ 52.18 lakh, following which ₹ 21.79 lakh has been recovered and the remaining penalty would be collected shortly.

In this connection it is to be mentioned that Audit had conducted test check of only two years' records relating to 250 dealers (approx.) out of 6,806 dealers. Though the department operates a computerized tax data base<sup>2</sup> it did not provide Audit with access to the database or provide hard/soft copies of records, though these were called for. The department is therefore required to verify the returns of all years covered by the Regulation and in respect of all registered dealers to estimate and collect penalty on account of delayed filing of returns, and not limit recovery to only those cases pointed out in audit.

The audit paragraph was issued to the Ministry of Home Affairs in July 2016; their reply was awaited (January 2017).

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<sup>2</sup> The Commercial Tax Mission Mode Programme (CT-MMP) and modules relating to registration, e-return, e-payment etc.

## Daman and Diu

### 3.3 Non-recovery of Land Revenue in urban areas

**Failure of Administration Daman to fix land revenue for urban areas on lines adopted for rural areas has resulted in non-recovery of ₹ 3.44 crore over 15 years.**

Chapter VII of the Goa, Daman and Diu (D&D) Land Revenue Code, 1968, provides for assessment and settlement of Land Revenue of lands used for non-agricultural purposes. Section 87 of the Code prescribes that the Collector shall, with the approval of the Government<sup>3</sup>, fix the standard rate of non-agricultural assessment (NAA) in an urban area. In accordance to these provisions, the Collector, Daman fixed (May 2001) for the first time, NAA in the urban area of Daman. However, faced with public protests, the Administrator stayed (November 2002) the notification and ordered the Collector to submit a revised notification in one month.

Though Audit pointed out in June 2006 that the revised notification was not issued, and the Administrator also ordered (August 2009) that a committee be constituted to re-fix the NAA and submit its report within two weeks, this has not been done till date (October 2016). Audit further observed that non-agricultural lands in rural areas of Daman are subject to NAA<sup>4</sup>. Audit has estimated that non-recovery of land revenue in the urban areas of Daman at the originally notified rates has resulted in loss of ₹ 3.44 crore for the period from 2002-03 till date (October 2016).

The audit paragraph was issued to the Ministry of Home Affairs in July 2016. Their reply is awaited (January 2017).

<sup>3</sup> The Administrator of the Union Territories of Daman and Diu and Dadra and Nagar Haveli in this case

<sup>4</sup> Two paise and one paise per sq.m. per year for Class I and Class II villages respectively. The rates were fixed in May 2001 and have not been revised thereafter.

## CHAPTER – IV: UNION TERRITORIES (COMMERCIAL SECTOR)

### Lakshadweep Development Corporation Limited

#### 4.1 Modernization of Tuna Canning Factory at Minicoy

Upgradation in capacity of Tuna Canning Factory, Minicoy from 1,500 cans per day to 10,000 cans per day was approved without ensuring the availability of raw material (tuna). UTL Administration also failed to ensure that proposals emanating from LDCL had the approval of its Board of Directors and scrutinize them accordingly. Further, failure of Ministry of Agriculture and Fisheries and Ministry of Commerce to adhere to financial rules, resulted in unfruitful expenditure of ₹ 7.64 crore and blocking up of ₹ 6.89 crore for more than six years.

##### 4.1.1 Introduction

Lakshadweep Development Corporation Limited (LDCL) has been operating the Tuna Canning Factory, Minicoy, Union Territory of Lakshadweep (UTL) since 1990. The Fisheries Department, UTL owns 99.99 *per cent* of LDCL, with the balance owned by the office of the Collector cum Development Commissioner, UTL. Due to age and obsolescence, the production of the factory, with installed capacity of three lakh cans per annum, has functioned below capacity<sup>1</sup> over the years.

Based on a Detailed Project Report (DPR) by NIFPHATT<sup>2</sup>, LDCL proposed (November 2009) to upgrade and modernize the factory and to increase the production capacity from 1,500 to 10,000 cans per day (i.e., from three lakh cans to 20 lakh cans per annum). Out of funds received from the Ministry of Agriculture and Fisheries, UTL Administration released ₹ 4.40 crore to LDCL in January/February 2010. Ministry of Commerce and Industry also approved (June 2010) ₹ 3.24 crore under ASIDE<sup>3</sup> against the total project cost of ₹ 7.64 crore. Subsequently, LDCL revised (July 2010) the scope of the project from semi-automated factory to fully automated factory, and UTL Administration released additional funds<sup>4</sup> from the grant of Ministry of Agriculture and

<sup>1</sup> 61,550 cans (2013-14), 42,586 cans (2014-15) and 88,128 cans (2015-16)

<sup>2</sup> National Institute of Fisheries Post Harvest Technology and Training, a Government of India entity

<sup>3</sup> Central Assistance to States for Developing Export Infrastructure and other Allied Activities (ASIDE) Scheme

<sup>4</sup> Total releases- Ministry of Agriculture and Fisheries: ₹ 8.45 crore (revenue head), ₹ 2.00 crore (capital head); Ministry of Commerce: ₹ 3.24 crore (capital head).

Fisheries for a total cost of ₹ 13.78 crore (project cost: ₹ 12.75 crore; working capital: ₹ 1.03 crore).

LDCL furnished revised estimates (September 2013) for ₹ 32.15 crore to the Department of Fisheries. In these estimates, the civil work component alone had increased from ₹ 4.40 crore to ₹ 9.73 crore. Department of Fisheries has not decided on the revised estimates which are beyond the Administrator's delegated powers of ₹ 20 crore.

### **Important findings noticed in audit are as under:**

#### **4.1.2 Unrealistic costing of the semi-automated canning process**

Based on NIFPHATT estimates (2009), LDCL Board approved and UTL Administration released funds to meet project cost of ₹ 7.64 crore, of which civil works were estimated at ₹ 4.40 crore. This was less than the ₹ 8.50 crore estimated by LPWD for the civil works. Consequently, at the instance of the Board, LPWD submitted revised estimates to LDCL which were approved for ₹ 3.51 crore (23 September 2010). After the modernization stalled, GTCS Cochin who had been appointed by LDCL as an expert, submitted a DPR (September 2013) on the status of modernization. Forwarding the DPR, LDCL informed UTL Administration that the estimates of NIFPHATT on the semi-automated canning process were flawed since the costing at ₹ 7.64 crore was not supported by (i) market quotations or Departmental Schedule of Rates (DSR) of the Central Public Works Department for civil works; and (ii) the estimates of the new building, refrigeration and cold storage did not meet international standards for tuna canning factory including HACCP<sup>5</sup>/European Union standards. Further, UTL Administration's decision (12 July 2010) not to demolish the existing factory as intended by NIFPHATT, and instead, to build a new structure on the adjacent land (and demolish the old building thereafter), caused the design to be highly complex.

The fact that the NIFPHATT estimates on civil works were not first vetted by Lakshadweep Public Works Department (LPWD) which was the implementing agency, subsequent reduction of estimates by deleting essential items covered in the DPR of NIFPHATT, and the non-revision of estimates after it was decided to retain the existing building and construct a separate new building, shows that the costing of the civil works for the semi-automated process was unrealistic.

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<sup>5</sup> Hazard Analysis and Critical Control Points. It is an internationally acceptable management system that advocates a systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level.

### **4.1.3 Injudicious decision to upgrade to fully automatic process**

#### **4.1.3.1 Injudicious decision to increase capacity to 10,000 cans per day**

LDCL's decision to increase the capacity from 1,500 to 10,000 cans per day was without basis. The DPR of NIFPHATT, based on which the project was approved, contained the disclaimer that it had not taken any step to assess the availability of the raw material (tuna) and that the report was prepared on the assumption that sufficient quantity of tuna existed.

The Planning Commission had estimated<sup>6</sup>, that the reasonable exploitation potential around Lakshadweep was 50,000 tonnes, while actual exploitation was only 10,000 tonnes. Production can only be enhanced through introduction of mother vessels that can take a number of smaller fishing vessels to far away fishing grounds. Presently, the surplus catch (after local consumption) of approximately 1,200 tons is converted to 'masmin' (traditional smoked tuna) and sold on the mainland. LDCL is operating a masmin packing unit at Agatti since December 2009 and also exports masmin collected from all the islands.

The Marine Products Export Development Authority (MPEDA) expert team also reported (March 2016) that three-fourths of the local tuna catch goes for masmin, and of the remaining, only a small share goes to the existing canning factory, which is insufficient to meet even the capacity of 1,000 cans per day. Also, the factory works only 9 months in a year because of non-availability of raw materials and boat repairs.

Even the DPR of NIFPHATT stipulated that the semi-automatic plant had to work at least 10 months in the year to ensure economic viability. Thus, to achieve economic viability, the semi-automated factory with capacity of 10,000 cans would require 880 MT of tuna<sup>7</sup>, which can be achieved only if the local fishermen and LDCL agree to divert almost three-fourths of their existing masmin production to the canning factory, which is unlikely.

The MPEDA expert team reported that the modernization project had been taken up on the assurance of the Fisheries Department that they would be procuring two mother vessels and developing deep sea fishing. This is supported by the reply of LDCL (9 June 2015) to Audit that the Board of Directors was informed that availability of raw material (tuna) would be ensured by the mother vessel that was being procured by the Fisheries Department; it

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<sup>6</sup> Lakshadweep Development Report, 2007

<sup>7</sup> 10,000 cans x 220 days i.e., 22 lakh cans. One kilo of raw tuna should give more than 2.5 cans of tuna.

was not anticipated that the proposal for procurement of the mother vessel would be scrapped (November 2012) due to high cost. Audit observes, however, that none of the minutes of the Board relating to the modernization discuss the procurement of the mother vessel. LDCL subsequently informed (18 May 2016) Audit that there was no proposal to procure mother vessel in connection with the modernization, and an earlier proposal was shelved as too expensive. LDCL also admitted (14 October 2016) that no market survey was conducted on the domestic and international markets for canned tuna.

It is therefore evident that without deep-sea fishing facilities, the project to increase the capacity to 10,000 cans per day was injudicious in the absence of adequate raw material and lack of information on domestic and international markets for canned tuna.

#### **4.1.3.2 Insufficient raw material (tuna) for fully automated process**

In response to observation of Audit on insufficient raw material, LDCL confirmed (August 2016) that the minimum capacity production (i.e., below which the machinery cannot run) of the fully automatic equipment that had been procured was 1,145 cans per hour. This requires 806.08 MT of tuna for full capacity utilization. Even if the entire landed capacity of tuna fish (including normal domestic consumption and masmin production) in all the islands of Lakshadweep (132 MT per annum) is diverted to the fish canning factory, the fully automated canning factory can run for only 60 days in the year. In reality, since the production of even the existing factory is far less, mainly due to raw material shortage, this would mean that the 17 regular and 14 casual employees of even the existing canning factory would be rendered jobless for most part of the year, thereby defeating the primary objective of the canning factory, which is to uplift the socio economic condition of local fishermen.

#### **4.1.3.3 Bypass of due process in decision to upgrade**

(i) Ministry of Home Affairs increased (5 July 2010) the delegated powers of the Administrator from ₹ 10 crore to ₹ 20 crore. On the date of receipt of these orders (12 July 2010), the Administrator decided in a meeting chaired by him in his capacity as Chairman LDCL to upgrade the factory from semi-automatic to fully automatic. Bypassing the Board at this stage, LDCL approached UTL Administration for additional funds. Since the proposal had the approval of the Administrator in his capacity of Chairman LDCL, UTL Administration also, released funds without examining the merits of the proposal. Though the 85<sup>th</sup> (17 December 2010), 86<sup>th</sup> (27 January 2011), 88<sup>th</sup> (15 March 2011), and 89<sup>th</sup> (27 June 2011) Board meetings discussed the stages

of tendering and award of the contract for machinery, at no time was the change in specifications from semi-automated to fully automated factory and increase in project cost tabled or discussed by the Board.

(ii) The Board ordered (27 June 2011) that the cost of machinery be submitted to competent authority. In this case, the competent authority was the Administrator (the previous Administrator had handed over on 11 July 2011) who should have been approached through the UTL Administration. Without getting the approval of the Administrator, the Managing Director, LDCL awarded (July 2011) the contract for ₹ 6.84 crore to a Thai firm.

In a meeting held by the previous Administrator in his new capacity of Joint Secretary in the Ministry of Commerce with LDCL officials (August 2011), it was decided to get Board ratification.

(iii) Despite the refusal of NIFPHATT to certify on the need or high cost of the new machinery, the Board of Directors accorded *ex-post facto* ratification in its 91<sup>st</sup> meeting (30 December 2011). Evidently, the Board had little choice, but to accede to the *fait accompli* since by this time, formal agreement had been signed (August 2011) and advance paid for the fully-automated machinery.

#### **4.1.3.4 Refusal of NIFPHATT to certify on reasonableness of need and cost of new machinery**

Pursuant to the above decision, the Managing Director, LDCL directed (August 2011) that NIFPHATT be asked to confirm the reasonableness of the higher cost of ₹ 6.84 crore for the equipment (against NIFPHATT's original estimate of ₹ 3.24 crore). After examining the matter through an expert committee, NIFPHATT refused (December 2011) to assess the reasonability of cost of the fully automated machinery on the grounds that (i) NIFPHATT's expert consultant had earlier recommended a semi-automated plant on the basis of available fishery resources and projected resource potential of Lakshadweep; and (ii) the capacity and cost of fully automated machinery could not be justified and fully automated machinery cost was bound to be very high.

#### **4.1.4 Failure of LDCL to revise estimates in light of changed scope**

##### **4.1.4.1 Failure to revise civil works estimates**

LDCL failed to prepare a fresh DPR incorporating the change in civil works and refrigeration consequent to the upgradation of scope from semi-automated to fully-automated factory. In their replies to Audit, LDCL informed that they had not been asked to revise the DPR to meet the new requirements. The replies are

unacceptable. The layout was prepared by LPWD and they were aware of the height and structure of the machinery. The construction was entrusted to LPWD and the plan of the factory was approved by the Executive Engineer and Consultant, Fisheries appointed by LDCL. As the client, it is LDCL's responsibility to arrange to revise and approve the DPR. LDCL had never requested LPWD to prepare revised estimates to accommodate the change in scope; and neither the Executive Engineer nor Consultant is competent to approve the plans of the factory. Failure of LDCL to revise the plans of the factory in tune with the modified requirements is the reason why the imported machinery could not be installed, and critical equipment lying in the open is liable to damage as mentioned in elsewhere in the para. Out of ₹ 3.51 crore deposited by LDCL (September 2010), LPWD has completed only part of the work (on the ground that the approved estimates are unviable) and remitted the balance of ₹ 1.62 crore plus interest (₹ 0.85 crore) to LDCL in December 2015.

#### **4.1.4.2 Failure of LDCL to revise refrigeration estimates**

Storage and refrigeration of tuna to meet the minimum production requirement is essential for the functioning of the canning factory, since the catch is sporadic and the fishing season is limited to six months in a year. Accordingly, NIFPHATT had estimated the refrigeration system for the semi-automatic factory at ₹ 1.5 crore. The estimate for the refrigeration system for the fully automatic process approved, at the instance of the Administrator, however, was only ₹ 0.40 crore, which was unrealistic and would have rendered the factory completely non-functional. This became evident when, subsequently, LDCL itself endorsed and submitted to Department of Fisheries a revised DPR (September 2013) for ₹ 32.15 crore, where the HVAC<sup>8</sup> and Refrigeration costs were estimated at ₹ 6.53 crore.

#### **4.1.5 Non installation of imported machine**

After global tendering, LDCL signed an agreement (August 2011) with a Thailand based firm (supplier) for USD 1.49 million (₹ 6.84 crore) to supply, install and commission machinery for the tuna canning factory<sup>9</sup>. Though the machinery was delivered (March 2012), it is lying unopened on the ostensible ground that the LPWD has not completed the civil works. Since the machinery has been kept idle for a very long period of time in the vicinity of the sea and exposed to monsoons, the working condition of the machine parts is in doubt; and warranty would have lapsed. The LPWD had agreed to cut a horizontal

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<sup>8</sup> Heating Ventilation and Air Conditioning

<sup>9</sup> A fish waste using biogas generating plant for ₹ 0.40 crore has been procured through a separate agreement with a Coimbatore based firm.

beam at the entrance that was preventing entry of the largest box into the new building but till date (November 2016) this has not been done and the machinery continues to lie in the open, uninstalled.

#### **4.1.6 Failure of Finance Department and Fisheries Department, Union Territory Administration, and Ministry of Agriculture and Fisheries and Ministry of Commerce to follow financial rules**

Rules 26 and 52 to 56 of the General Financial Rules delineate the manner in which Central Government Ministries and Departments are required to control expenditure against the Budget approved by Parliament and also surrender savings arising during the year. Rule 100 of the Central Government Receipt and Payment Rules stipulate, *inter-alia*, that all charges actually incurred must be paid and drawn at once, and under no circumstances they may be allowed to stand over to be paid from the grant of another year; no money shall be drawn from Government account unless it is required for immediate disbursement. It is not permissible to draw money from Government account in anticipation of demands or to prevent the lapse of budget grants.

In this connection, Audit observed that though a substantial portion of the amount was released (in 2009-10 and 2011-12) by Ministry of Agriculture and Fisheries (₹ 8.45 crore under revenue head and ₹ 2.00 crore under capital head) and Ministry of Commerce (₹ 3.24 crore under the capital head), the same was not expended during the related financial year. The Ministries did not ensure surrender of savings at the end of the financial year as stipulated in the GFRs. Further, though Ministry of Commerce had specified the total project cost of ₹ 7.64 crore, the Administrator (in his capacity of Chairman LDCL) unilaterally revised it to ₹ 13.78 crore (without routing it through the Finance Department, UTL) by using his delegated powers, without informing Ministry of Commerce, who in any case had never monitored the progress of the project except for the single meeting (August 2011) held by the previous Administrator in his capacity as Joint Secretary, Ministry of Commerce. An amount of ₹ 7.64 crore has been spent (December 2016) on the project and ₹ 6.89 crore is lying with LDCL.

Finance Department, UTL Administration who had released the funds to the Department of Fisheries failed to monitor the expenditure. Rather, the Department of Fisheries is being permitted to re-appropriate funds from other projects that have been closed or postponed, without the approval of Finance Department. Consequently, Department of Fisheries was able to accommodate the enhanced requirements of LDCL for increase of project cost from ₹ 7.64 crore to ₹ 13.78 crore without referring the matter to Finance Department for additional funds. Department of Fisheries also did not review the project

viability and reasonableness of the demand from LDCL for additional funds, since these had been approved by the Administrator in his capacity of Chairman, LDCL. Fisheries Department replied (November 2015) to Audit that the role of Fisheries Department was limited to financial support. The reply is untenable since it is contrary to the Rule 26 of the GFRs which states that it is the duty of the fund sanctioning authority to verify whether the fund was utilized properly for the purpose for which it was sanctioned.

#### **4.1.7 Customs liability due to non-fulfilment of export obligations**

LDCL has availed (April 2012) of customs exemption<sup>10</sup> of ₹ 1.36 crore on import of machinery on the condition that they export ₹ 8.16 crore worth of tuna within six years. Since LDCL has not exported any tuna since the import of machinery, it is liable to refund the entire duty along with applicable interest to the customs authorities. In their reply, LDCL informed (18 May 2016) Audit that this period (i.e., by April 2018) can be extended. The reply is not acceptable as LDCL has admitted that it had not conducted any market survey to substantiate its confidence that there is an international market for its exports and even if the important machinery is commissioned, the factory does not meet international food safety standards, which are essential for exports.

#### **4.1.8 Conclusion**

The Finance Department and Fisheries Department failed to ensure that proposals emanating from LDCL had the approval of its Board of Directors and were not subjected to detailed scrutiny in the Departments of Finance and Fisheries for formal approval of the Administrator. Ministry of Agriculture and Fisheries and Ministry of Commerce also failed to ensure adherence to GFRs. Consequently, the entire expenditure of ₹ 7.64 crore has been rendered infructuous apart from the blocking of ₹ 6.89 crore with LDCL, and non-achievement of objectives of modernization of tuna canning factory.

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<sup>10</sup> Under the Export Promotion Capital Goods scheme

The matter was referred to the Ministry of Home Affairs (June 2015 and January 2017), Ministry of Agriculture and Fisheries (January 2017) and Ministry of Commerce (January 2017). Their replies are awaited (January 2017).



**New Delhi**  
**Dated: 02 March 2017**

**(MUKESH PRASAD SINGH)**  
**Director General of Audit**  
**Central Expenditure**

**Countersigned**



**New Delhi**  
**Dated: 06 March 2017**

**(SHASHI KANT SHARMA)**  
**Comptroller and Auditor General of India**

# Appendix

**Appendix-I**  
**(Referred to in Paragraph 1.7)**  
**Year wise pendency of ATNs**

Sl. No.	Name of the UT	Report for the year ended March	Position of ATNs		
			Due	Not received at all	Under correspondence
1.	Andaman and Nicobar Islands	2014	4	1	3
		2015	4	3	1
2.	Chandigarh	2014	2	1	1
		2015	5	5	-
3.	Dadra and Nagar Haveli	2014	-	-	-
		2015	1	1	-
4.	Daman and Diu	2014	2	-	2
		2015	2	2	-
5.	Lakshadweep	2014	1	-	1
		2015	3	2	1
<b>Total</b>			<b>24</b>	<b>15</b>	<b>9</b>