



LEGISLATIVE ASSEMBLY OF THE STATE OF GOA

COMMITTEE ON PUBLIC UNDERTAKINGS

2018- 19

TWENTIETH REPORT

**Report of the Committee on Public Undertakings on the Report of
the Comptroller and Auditor General of India for the year**

2012-2013

**LAI D ON THE TABLE OF THE HOUSE ON
____ JANUARY, 2019**

**GOA LEGISLATURE SECRETARIAT
ASSEMBLY COMPLEX
PORVORIM**

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(i)

**COMPOSITION OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS
(2018-19)**

CHAIRMAN

SHRI DIGAMBAR KAMAT

MEMBERS

- 1. SHRI DEEPAK PAUSKAR**
- 2. SHRI MILIND NAIK**
- 3. SHRI GLENN TICLO**
- 4. SHRI CARLOS ALMEIDA**
- 5. SHRI CLAFASIO DIAS**
- 6. SHRI WILFRED D'SA**

LEGISLATURE SECRETARIAT

**SHRI N.B. SUBHEDAR, SECRETARY, LEGISLATURE
SMT. CELIZA FERNANDES, UNDER SECRETARY, LEGISLATURE**

(ii)

INTRODUCTION

I, Chairman of the Committee on Public Undertakings (2018-19), Goa Legislative Assembly having been authorized by the Committee to present the report on their behalf, present the Eighteenth Report based on the Report of the Comptroller and Auditor General of India for the year 2012-2013 pertaining to Infotech Corporation of Goa Limited, Goa Handicrafts, Rural and Small Scale Industries Development Corporation Limited, Goa Industrial Development Corporation and Goa Electricity Department. The Report was adopted at the meeting held on 30th November, 2018.

During its meeting held on 10/01/2017 & 29/08/2018 the Committee on Public Undertakings considered the explanation of the Departments in respect of the Paras reflected in the Report of the Comptroller and Auditor General of India for the year 2010-2011. The Minutes of the meeting are at Appendix I and II. After careful consideration, the Committee formulated its recommendations, which are embodied in the Report. The draft Report was considered and adopted by the Committee at its meeting held on 30th November, 2018. Minutes of the meeting are at Appendix III.

The Committee expresses its gratitude to Shri Ashutosh Joshi, Accountant General and Shri Muralidharan Sr. Audit Officer (Report) - Audit, Porvorim, for their valuable guidance rendered to the Committee.

The Committee also places on record the cooperation extended to the Committee by Shri N. B. Subhedar, Secretary, Smt. Celiza Fernandes, Under Secretary, Smt. Perpetina D'Souza, Section Officer and concerned staff members of the Goa Legislature Secretariat and commends their contribution towards the Report.

ASSEMBLY HALL
PORVORIM, GOA
DATED: 30th November, 2018

DIGAMBAR KAMAT
CHAIRMAN

REPORT

CHAPTER I

ECONOMIC DEVELOPMENT CORPORATION LIMITED

PERFORMANCE AUDIT ON LOAN RECOVERY PERFORMANCE OF EDC LIMITED

Main Audit Observations

1. Out of total principal outstanding ₹474.09 crore as on March 2013, ₹142.30 crore (30.02 *per cent*) represented NPA as on 31/03/2013.
2. The actual recovery as a percentage of net recoverable ranged from 18.41 *per cent* to 19.77 *per cent*, during the period under review.
3. The percentage of recovery of old dues to outstanding at the beginning of the year ranged from 2.71 *per cent* to 6.48 *per cent*, during the period under review.
4. The Company was yet to formulate a manual containing 'Standard Operating Procedures' with a view to ensure transparency in its functioning and serve as a guideline in the entire process of granting of loan and its recovery.
5. In nine out of 15 cases test checked, where the Company had settled the accounts under OTS the total waiver amounted to ₹1,361.52 lakh.
6. Since inception there has been no separate "Policy relating to additional Collateral Security" or separate directions issued by the top Management, Board or Government of Goa for extending financial assistance.
7. No '*additional*' or '*collateral*' security was sought from promoters belonging to financially sound business groups as well.
8. Due to delayed recovery action the value of securities obtained had deteriorated by 23.46 *per cent* to 99.80 *per cent* amounting to ₹8.25 crore in 26 cases test-checked by audit.
9. Despite becoming CIBIL member in January 2011, the Company had not listed names of its defaulters.
10. The loss due to defective appraisal in three cases of loan disbursed during the period under review was ₹59.99lakh.
11. No penalty was prescribed for non-submission of documents such as financial statements, periodically to the Company.

Financial Assistance process – An overview

For financial assistance, an entrepreneur was required to submit detailed project reports, viability report, promoters' background, technical ability, experience in the proposed product and its marketability, financial capabilities of the promoters, security offered, personal guarantee of the borrowers, corporate guarantee of associate companies and contribution to be brought in by promoters. EDC has also formed a Preliminary Clearance Committee (PCC) for general evaluation after which loan application form is given to the borrower. Disbursement of loan is made after execution of prescribed agreement including creation of securities in favour of the Company. In the event of default by the loanee, recovery action under appropriate provisions of the law is initiated after providing adequate opportunity by serving notices to the borrower to clear the dues and on failure to clear dues after such notices, the assets are taken in possession by the Company.

Further, in cases where outstanding amounts are not fully recovered from the sale of mortgaged/hypothecated assets, any of the following recovery options are resorted to:

(i) if balance recoverable is less than ₹10 lakh, the case is referred to "The Collector", (of concerned District where a personal asset of the borrower is located or any other authority designated as District Recovery Officer), under *"The Goa, Daman and Diu Public Moneys (Recovery of Dues) Act, 1986 and The Goa Public Moneys (Recovery of Dues) Rules 1988 (PMRA)* for recovery of balance dues as arrears of land revenue.

(ii) where the balance recoverable are more than ₹10 lakh, the matter is referred to Debt Recovery Tribunal (DRT) under the provisions of *Recovery of Debts Due to Banks and Financial Institutions Act, 1993* for recovery in view of personal guarantees obtained from the promoters.

(iii) by approaching the District Judge under section 31(1)(a) of the State Financial Corporation Act 1951 (*SFC Act*) or for enforcing the liability of any surety under section 31(1) (aa) of the SFC Act.

As per the above, the Company was having 80.60 *per cent* of its loans under Standard category. This was due to the reason that the Company had disbursed Corporate loan ₹231.50 crore during 2012-13 to Info Tech Corporation of Goa Limited, GSIDC Limited and Kadamba Transport Corporation Limited and which was not under the category of NPA during the year.

It would be seen from the above that:

(i) The percentage of NPA to total principal outstanding at the end of each year during the period under audit ranged between 30.02 and 51.21 *per cent* indicating high NPA.

(ii) The percentage of doubtful and loss assets to total NPA showed increasing trend from 86.14 *per cent* in 2008-09 to 90.42 *per cent* in 2010-11 but reduced to 75.11 *per cent* in 2012-13. The position of doubtful and loss assets to total NPA indicates need for further efforts in the direction of recovery performance. This showed the need for improvement of appraisal process relating to project viability and competence of the promoter.

The Government, in reply contended (January 2014) that table above considered all the bad debts written off over the years, as a part of loan outstanding at the close of each year during the period under review and that this was not as per practice followed as the amounts had been written off during the respective periods.

The contention of the Government was not correct, since the process of writing off was only an accounting treatment in its books of accounts to present a fair position of its assets and liabilities as on Balance Sheet date. The amount written off was not actually waived off or communicated to the borrower as settled/closed. Moreover, the Company itself considered the amount written-off as a business expense in the year of its write-off and as income from recovery of bad debts, when received in future date.

Position of loans due for recovery, targets and achievements

The Company had disbursed total loans aggregating ₹1,112.28 crore up to 2012-13. Of this, principal and interest amounting to ₹347.82 crore were due for recovery as on 31 March 2013.

Audit observed that:

i. The target for recovery to net recoverable during the period under audit fixed by the company ranged from 19.07 *per cent* to 20.04 *per cent* was low and resulted in showing achievement of recovery target in the range of 91.85 *per cent* to 98.30 *per cent*. Even this low target fixed was not fully achieved by the Company during the period 2008-13.

ii. The actual recovery as a percentage of net recoverable marginally increased from 18.41 *per cent* in 2010-11 to 19.77 *per cent* during the period 2012-13. Absence of a scheme or a policy to effectively induce the borrowers/defaulters to repay, resulted in consistent low level of recovery.

iii. The percentage of recovery of old dues outstanding at the beginning of the year ranged from 2.71 *per cent* to 6.48 *per cent* during the period under audit. The recovery had fallen from 6.48 *per cent* in 2009-10 to 2.71 *per cent* in 2011-12 and marginally improved in 2012-13 to 3.75 *per cent*. This indicated that the percentage of recovery of old dues was not satisfactory.

iv. The targets fixed for recovery were overall and not separate for old dues, current dues or for amounts relating to BIFR cases, court cases, closed units, units in possession and deficit cases *etc.* Thus, the recovery of old dues in terms of percentage constituted only 2.71 *per cent* to 6.48 *per cent* of the amounts due at the beginning of the year compared to the percentage of recovery of current demand which ranged from 57.68 *per cent* to 73.08 *per cent*. In the absence of separate targets for old dues, the performance of recovery against old dues could not be assessed in audit.

The Company has taken note of audit observation and agreed (November 2013) to fix targets separately for old accounts.

The Company in its written reply stated that the principal recovery from old dues is 10.55% and interest recovery from old dues is 1.77% (overall recovery of old dues is 3.75%). As against this the principal recovery from current dues is 84.94% and interest over dues from current dues is 45.79% (Overall recovery of current dues is 69.83%). The principal recovery rate is 45.59%, the interest recovery rate is 7.40% and the overall recovery rate is 19.77%. Till 31/03/2013, the total non-performing assets are ₹ 14230.12 lakh. Of these an amount of ₹ 6635.00 lakh is written off towards principal and ₹14735.51 lakhs towards interest. These write offs were provided based on RBI policies and NPA guidelines, however the recovery process is on-going to recover these amounts by using all the techniques like filing of court cases, auction of assets, invoking the collateral security & personal guarantees *etc.* during the audit period Corporation has recovered principal amount of ₹ 391.11 lakhs of these write off cases and as on 31/03/2013, the net write off value is ₹ 6243.89 lakhs. But certain things are beyond the control of EDC like litigation cases in courts, identification of authentic personal (Lien free) assets, *etc.* In case these write off cases are excluded, the principal recovery from old dues is 28.61% and interest recovery from old dues is 4.24%. (Overall recovery of old dues is 9.36%). As regards the recovery of current dues, the same is not affected due to these write off cases. In case these write off cases are excluded, the overall principal recovery rate will be 72.72%, the interest recovery rate will be 15.05% and the overall recovery rate will be 36.92%.

Absence of Standard Operating Manual

The 'operating manual' in use at EDC was prepared in 1986 and was stated to have undergone several modifications in accordance with the re-finance limits stipulated by the SIDBI and IDBI. The Company was yet to formulate a manual containing 'Standard Operating Procedures' with a view to ensure transparency in its functioning and serve as a standard practice/guideline in the entire process of granting of loan and its recovery.

The Government replied (January 2014) that EDC was following an Operating Manual prepared in line with procedures followed by other SFCs and that the Board of EDC had recently decided that standard operating procedure be updated in the Operating Manual, expected to be completed by March 2014.

However, in the absence of specific guidelines, the following was observed by audit in the loan recovery process.

The Corporation has already formulated SOP Manual and put to operation with approval of Board of Directors.

Lack of timely action and delay in recovery

The manual did not specify any specific time bound action plan for step-by-step loan recovery process which involved providing adequate time and opportunity in the form of (i) time span for normal notice for default; (ii) show-cause notice; and (iii) recall notice to be provided to the borrower in a situation of default in paying quarterly outstanding dues and opportunity for the loanee to be heard. In the absence of the same such matters were not dealt with uniformly.

In the test-check of selected cases, lack of timely action, non-uniformity in the time provided to defaulters and delays in recovery process ranging from more than one year to 15 years from the date of loan becoming doubtful (*i.e.* two more years after becoming NPA) were noticed in 37 cases, as indicated in 28 cases the dues as on date of becoming 'doubtful' ranged from ₹0.49 lakh to ₹525.32 lakh. In the remaining nine cases where the Company had settled the accounts under one time settlement scheme (OTS) and the total waiver amounted ₹1,361.52 lakh.

The Company in its replies (May/September 2013) attributed the delay in attachment to; (i) adequate opportunity for the borrower to repay was provided as attaching the unit was a quasi-judicial function; (ii) the borrower and his family being dependent on the unit for livelihood; (iii) inability to seize movable asset *as* the vehicle was reported running outside the State and not traceable; (iv) low realizable value of security obtained and unit being operated in rented premises; (v) accepting the borrower's request for re-scheduling of repayment or re-structuring of loan due to factors beyond the control of the borrower; and (vi) time involved in the judicial/BIFR processes over which it had no control *etc.* The Government stated (January 2014) that EDC had switched over to commercial lending and necessary measures for timely recovery action had been initiated by installing alerts in the software and preparation of standard operating procedures.

The fact however was that as per the manual there were no defined timeline for providing opportunities to the borrower and thus there were delays in attachment of assets of the defaulters.

The Corporation in its written reply stated that the EDC has switched over to commercial lending and necessary measures for timely recovery action has been initiated by installing alerts in the software (Loan Manager). Time frame is fixed for initiating recovery action in the SOP manual as suggested and recommended.

Sanction of loan without sufficient security

The manual neither mentioned the type of assets to be accepted/not to be accepted as security towards loan nor value of depreciable assets to be considered towards security. This had provided scope for considering depreciable assets, intangible and miscellaneous expenses having no re-sale value as security and even when the value of tangible securities was less than the principal amount. During the test-check of 54 term loan cases for adequacy of security, it was noticed in 18 cases that the loans were sanctioned and disbursed without obtaining enough tangible security to cover the principal amount.

The Company replied (September 2013) that the working manual was prepared in the development banking era based on systems and procedures followed by other institutions as required by IDBI/SIDBI. The manual therefore did not provide for additional or collateral security. It was

further stated (November 2013) that there was no separate policy for obtaining collateral security approved by Government of Goa or directions issued by the Board.

The Corporation in its written reply stated that it was a practice followed by the Corporation not to insist on collateral securities as the role of Corporation under IDBI/SIDBI regime was that of Development Bank to promote First Generation Entrepreneurs who could not provide collateral securities for the loan. The Term loan was therefore extended by mortgaging/hypothecating of primary security of the borrower / company only. In addition personal guarantees of the promoters were taken. Now EDC has switched over to commercial lending and have been taking additional collateral securities from the borrowers / company (wherever required) in addition to the primary security.

Settlement under One Time Settlement (OTS) scheme

During the test-check of OTS cases, the following was observed:

M/s Super Urethane Products Private Limited, (SUPPL) promoted by Punj Group was sanctioned a loan of ₹65 lakh in April 1984 and availed a total ₹57.15 lakh upto January 1991. The only security obtained was the asset (unit) financed by the Company valued at ₹104.52 lakh and personal guarantee of the promoters. SUPPL paid only ₹44.15 lakh till the date of attachment (December 2003). Against a total outstanding ₹330.13 lakh, the Company recovered ₹80 lakh on sale of assets (March 2005). Further, the Company settled the account under OTS by offering ₹4.00 lakh plus other miscellaneous expenses as settlement amount and waiver of ₹238.11lakh.

The promoters of M/s Styrofoam Cups & Container Private Limited, (SCCPL) defaulted in interest and principal repayments since September/November 1998 and the Company did not take any action to attach and sell the financed unit for a period of six years. Against the total outstanding ₹332.47 lakh as on September 2006, the Company settled the account (April 2007) under OTS scheme ₹165.39 lakh plus simple interest at 12 *per cent* on principal balance from October 2006 till the date of offer and waived ₹167.08lakh.

M/s Shivam Synthetics Pvt. Ltd. (SSPL) defaulted in payments of principal and interest since February/September 1991. The Company did not take any action (June 1992 to November 1996) to attach and sell the financed unit for a period of four years after the date on which it had classified the loan account as doubtful (June 1992). Finally, the Company offered (September

2008) settlement of the account under OTS scheme ₹53.25 lakh plus other expenses and waived ₹142.39 lakh out of total outstanding of ₹195.63 lakh as in June 2008.

The Company replied (June-August 2013) that as regards the collateral securities, it was practice followed by the Company not to insist on collateral securities and the main security was of mortgage/hypothecation of fixed assets of the borrower and personal guarantees of the promoters.

The Corporation in its written reply stated that one time settlement scheme is the final recovery tool used by all the banks / FI and implemented by the Corporation wherein main security of the borrower/company is disposed off and cannot recover its entire dues. The Corporation was not having collateral securities to recover its balance dues. As such the Corporation had to offer One Time Settlement Scheme as a last resort to avoid long pending court proceedings.

Deterioration of value of assets due to delay in recovery

Due to delayed action in attachment of assets, the value of the security obtained (except that of land and building in some cases) gets reduced with the passage of time due to normal wear and tear or technological obsolescence. It was thus imperative that the company exercised its options for recovery at the earliest, giving due importance to the factor of reduction in the value of assets obtained as security.

It was observed that the value of the security obtained had deteriorated by 23.46 *per cent* to 99.80 *per cent* in 26 cases and the Company was unable to recover substantial value of the asset and the amount recovered was not enough to cover the principal and interest outstanding as on the date of attachment/taking recovery action.

The Corporation in its written reply stated that the role of the Corporation under IDBI/SIDBI regime was that of Development Bank to promote First Generation Entrepreneurs. Even after the account was classified as NPA, the corporation was providing rescheduling/restricting package so that the unit was kept in operation and generated employment. Even then if the unit did not repay the dues, EDC has attached the unit and sold the assets to recover its dues. Due

to this long process, the assets like plant and machinery, etc. have deteriorated or they are outdated. But now EDC has switched over to commercial lending and has initiated timely recovery action by installing alerts in the Loan Manager software. These time frames are fixed in the SOP manual for initiating recovery action.

Absence of action resulting in claims being irrecoverable/time- barred

The Company did not have a defined time-plan to pursue the recoverable balance to avoid cases of recovery becoming time-barred (*i.e.* three years) as per 'The Indian Limitation Act, 1963' by filing a case in the court for recovery. Such lapses were observed in four cases mentioned below:-

- i. After auction of available assets of M/s Maruti Cement Products in February 2005, the Company failed to file FIR for missing machinery and court case for balance recovery of ₹41.69 lakh which had become irrecoverable and time barred inspite of detection (July 2008) of four stationery shops of the defaulter. There was no progress of the case since August 2011.
- ii. After sale of attached assets (December 2005) of M/s Harichandra Enterprises, no further action was taken or a court case filed for recovery of the balance ₹37.33 lakh (including interest) till March 2013 resulting in the recovery becoming irrecoverable/time barred.
- iii. After sale of attached assets of M/s Ameya System and Printers (May 2002), no further action or court case was filed for recovery of the balance of ₹119.95 lakh as on March 2013 (including ₹76.18 lakh interest) resulting in the recovery becoming irrecoverable/time barred due to inaction for 11 years.
- iv. After sale of attached assets of M/s Enarai Vapour Lamp Ignitor Private Limited in August 1996, no further action or court case was filed for recovery of the balance ₹4.25lakh making the same irrecoverable/time barred.

Similarly, in three cases as detailed below the Company had filed cases for recovery under the Goa, Daman and Diu Public Moneys (Recovery of Dues) Act 1986, but did not pursue the case for balance recovery after partial recovery of dues were made from sale of attached assets.

- v. M/s Shubhdwar Engineering Private Limited: Case filed in February 1993 but there was no correspondence with DRO or defaulter since March 1996. The outstanding as on March 2013 was about ₹32.39lakh.

vi. M/s Chamunda Cashew Industries: Case filed in July 1992 but there was no correspondence with DRO or defaulter since May 2002 for balance recovery. The amount due for recovery as on March 2013 ₹25.15 lakh (including interest).

vii. M/s Phoenix Limited: Case filed in 1994 but there was no correspondence or efforts seen on record to recover the amount due since 1997. The balance of ₹12.72 lakh (including interest) was recoverable as in March 2013.

viii. In the case of Shri Hemant M Bandekar, there was no filing of FIR or Court case in past 16 years since January 1997 when loan was recalled. The party had been promising to repay dues. No repayment was made nor action taken to attach assets/vehicle. The outstanding recoverable stood at ₹42.62lakh as September 2012.

The Government stated (January 2014) that EDC had the remedy to file recovery cases under the provisions of PMRA Act in all loans irrespective of the outstanding amount as arrears of land revenue. The Government further stated that, the remedy available to the Company to file cases under PMRA for loans above ₹10 lakh was curtailed upon its attaining the status of a public financial institution in the year 2007 and consequently the said cases were hit by limitation.

The fact remains that had timely action been taken by the company in all these cases which arose during the period 1996 to 2005 and much before the limitation period came into effect in 2007, the recoveries could have been effected totally.

The Corporation in its written reply stated the Corporation has been filing cases under provisions of PMRA for all loans outstanding and these cases were pursued with the respective courts. The remedy available to the Corporation to file cases under PMRA for loans above ₹ 10.00 lakh was curtailed upon its attaining the status of public financial institution in the year 2007. After withdrawal from the PMRA courts, the Corporation has civil suits, DRT cases, etc. but these cases are dismissed being time barred and hit by limitations.

Inadequate utilisation of CIBIL's system of reporting on defaulters

The Company resolved (November 2010) to apply for membership with Credit Information Bureau (India) Limited (CIBIL). This would have helped the Company in appraisal of new loan applications in the light of details of previous defaults by the applicant, if any and also to report the past defaulters

of the Company to CIBIL thereby preventing the defaulters from availing loans from other banks without clearing the dues of EDC Limited. In the test-check of CIBIL data for March 2013, it was observed that:

The Company had not started appraising new loan applications based on defaulters' data of CIBIL till March 2013 despite obtaining CIBIL membership in January 2011. Due to delay of over two years in complying with the Board directives, the Company would have sanctioned financial assistance to applicants who would have been classified as defaulters by other Banks or Financial Institutions.

The Company started reporting of its borrowers (including past defaulters) to CIBIL from November 2012. Scrutiny of details of borrowers (including past defaulters) furnished monthly by the Company to CIBIL in March 2013 revealed that the names of defaulter promoters, guarantors were not being reported while reporting the defaulter companies, partnership concerns *etc.* This could enable past defaulters to avail fresh loans from other sources.

The Company stated (October 2013) that the CIBIL reports were not downloaded for all the cases as observed by audit but were done for some cases. The Company has also assured audit that the old loan manager software would be streamlined to include all details of promoters/guarantors and update the data by March 2014.

The Corporation has been using the CIBIL reports for all the new proposals which are considered for sanctions.

Incorrect appraisal resulting in loan at reduced rate of interest

Applications for loan were evaluated by the Company as per general financial norms like favourable Debt-Equity ratio, Debt-Service Coverage Ratio, adequate margin on security *etc.* It was observed that during the period under performance audit (2008-2013), the company had followed a practice of evaluating the loan applicants on the basis of 20 parameters (reduced to 18 parameters w.e.f. March 2010) classified broadly under management factors, industry risk factors, financial risk factors and operational experience (applicable to second time borrowers). The interest rate applicable was worked out on the basis of marks obtained in the evaluation (present

interest rate band being 11.50 *per cent* to 15 *per cent*). The following deficiencies were observed in the present system of loan appraisal:

In the past, the Company charged floating rate of interest so as to pass on their refinance cost from SIDBI and IDBI. This provision protected the Company during periods of adverse (higher) interest rate. However, all the loans sanctioned during the audit period were under fixed interest rate condition as the Company did not depend on refinance from IDBI and SIDBI. Further, the Company reduced (July 2011) the prepayment penalty from one *per cent* for every year of balance tenure to flat rate of one *per cent* on outstanding of the subsequent year only. This has resulted in the Company not being able to raise interest rates for existing borrowers whenever interest rates rise in the economy.

The Government stated (January 2014) that EDC was following market conditions in deciding the interest rate, interest type (fixed or floating), levy of penalty and that reduction in prepayment penalty based on existing practice of other players in financial sector.

The reply was not correct since audit scrutiny revealed that the agenda proposal for reduction of prepayment penalty to the Board was based on practice of other players in the industry catering to home, personal and vehicle loans and there were no documents to substantiate such general practice by 'industrial loans' players.

While evaluating the credit rating of the loan applicants, the marks awarded under the 'industry and unit risk' factors were always 100 *per cent*, without any documentary evidence, company level reports *etc.* in support of the analysis. The purpose of evaluating risk was thus defeated. The company did not issue any periodical reports classifying certain industry sectors to allow for a transparent evaluation and avoidance of discretion on the part of appraising officer.

Further, the company had not evolved a mechanism to evaluate the loan applicants on the three parameters *i.e.* (i) associate concern's profitability, (ii) adequacy of associate concern's profits and (iii) repayment performance of associates. The company depended on declaration/documents submitted by loan applicants without any independent verification of the actual number of Associate (profit & loss making) concerns of the loan applicant. Because of this critical evaluation of risk factors associated with the

application for the loans was prevented and this allowed interest rates to be fixed subjectively.

The Company stated (November 2013) that the decisions were already taken to improve the loan appraisal procedure to eliminate subjectivity.

On a test check of appraisal process in seven out of total 21 cases (money value above one crore) to whom loans were sanctioned during the period under performance audit (2008-13), there was loss of interest to the Company due to incorrect appraisal in three cases, as detailed below.

The percentage of marks secured against applicable parameters was used to determine the interest rate to be applied for the loan applicant.

The percentages and parameters were changed in the years 2008, 2009 and 2010.

M/s.AVR Goa Promoters Pvt. Ltd.

As per the Company's credit rating evaluation, M/s. AVR Goa Promoters Private Limited secured 66 marks out of applicable 82 marks (*i.e.* 80.40 *per cent* marks with very good rating) and was sanctioned a loan of ₹5 crore at an interest rate of 10.50 *per cent*. The loan of ₹4.72 crore was disbursed between June 2009 and March 2012. Out of 66 marks secured in the credit rating, 52 marks pertaining to management factors (technical experience, profitability of associates), industry risk factors (marketing arrangements, industry cycle *etc.*) were given without any documentary evidence, working calculation, *etc.*

Further, AVR did not provide details of their associate concerns' repayment status with the Company or any bank. This parameter (comprising of eight marks) was considered 'Not Applicable' instead of treating it as 'Zero'.

As per the Company's evaluation of AVR's financial risk factors, AVR was given '15 marks out of 20'. However, while computing the total marks the financial risk factors were shown as '10 marks out of 10'.

AVR was given five marks for keeping the Debt-equity ratio below 2.0. This was based on the assumption that AVR would bring equity ₹8.25 crore for the project ₹19.11 crore (debt ₹10.86 crore) with debt-equity ratio 1.3 (10.86/8.25). However, AVR actually brought in equity of ₹4.26 crore

only for the project of ₹19.07 crore raising the Debt-equity ratio to 3.48 (14.81/4.26). AVR should have been given 'zero out of five marks' for the debt-equity ratio parameter of more than three, as per the Company's own criteria.

Thus, incorrect method of evaluating parameters had resulted in undue favour to the borrower. The actual score of 66 out of 100 (Good rating) would have allowed the Company to fix interest rate of 11.50 *per cent* instead of 10.50 *per cent* as charged. The loss of interest due to incorrect evaluation of parameters and charging of lower interest rate till March 2013 worked out to ₹12.69 lakh.

M/s Premium Estates Infrastructure (India) Private Limited

As per the Company's credit rating evaluation, M/s Premium Estates Infrastructure (India) Private limited (PEI secured 101 marks out of applicable 126 marks (80.16% with excellent rating). PEI availed disbursements ₹3.72 crore only (from August 2011 to June 2013) on which the Company levied an interest rate of 10.50 *per cent*.

The credit rating involved marks for 14 parameters (comprising of management factors, industry risk factors, financial risk factors and operational experience). The rate of interest *as per* predefined slabs was dependant on marks obtained.

The Company omitted a parameter of eight marks resulting in PEI scoring 101 out of 126 marks instead of 101 out of 134 marks. Further, no documentary evidence was available in support of 27 marks which were awarded to PEI as a matter of routine. These marks entitled the borrower for lower interest rates.

Thus, considering 27 ineligible marks being awarded to PEI, the actual score obtained would have been 74 out of 134 (satisfactory rating), indicative of an interest rate of 13.50 *per cent* to be levied on loan sanctioned. The loss of revenue up to June 2013 worked out ₹16.39 lakh.

Phoenix Township Limited (PTL)

PTL an existing borrower applied (September 2009) for additional loan of 5.00 crore for expansion of hotel project. The loan was sanctioned in January 2010 with interest rate of 13.75 *per cent* per annum based on unsatisfactory operational experience of the borrower (multiple restructuring of loans, irregular repayments, non-submission of financial statements *etc*). The borrower communicated reluctance to accept a higher rate (13.75 *per cent*) instead of

old rate (10.50 *per cent*). The Board lowered (March 2010) the credit rating format to relax the weightage of past operational experience from 100 marks to 66 marks. The Company re-evaluated on the revised credit format and sanctioned an interest rate of 11.50 *per cent* on the loan.

The Company disbursed ₹5.00 crore between September 2010 and November 2010. It was observed from the records made available by the Company that 53 marks were awarded to PTL against parameters for which PTL did not submit evidences/fulfill the requirements.

Thus, omitting the ineligible marks of 53 awarded to PTL, the actual score would have been 88 out of 194 (average rating) and an interest rate of 14 *per cent* was to be levied on loan sanctioned instead of the 11.50 *per cent* charged. The loss of interest revenue up to June 2013 worked out ₹30.91 lakh.

The Company stated (September/November 2013) that marks awarded in credit appraisals were *as per practice* of accepting submissions made by loan applicants and considering 'interest free unsecured loans' as 'equity' as per practice prevailing in banks and other financial institutions. Further, the Company also stated that there was no practice of obtaining documentary evidence in support of marks for 'industry specific technical expertise' and 'profitability and loan repayment of associate concerns'. The reply was not correct since it was not in the interest of Company to disregard a parameter and award marks without any documentary evidence. The Company further had no documentary evidence to show that interest free unsecured loans were to be treated as equity and to classify amounts acknowledged as loans by promoters as 'equity'.

The Corporation in its written reply stated that the Corporation has finalize a well-designed credit rating mechanism duly approved by Board of Directors for deciding the rate of interest which factors various aspects related to the management, Financial and Operational Experience of the Borrower. Most of the marks allotted are based on documentary evidence. The only marks (15 marks) allotted subjectively are related to the industry performance expected in future of unit being set up. This credit rating is approved by the Committee of officers and the sanctioning authority at the time of sanction of Term Loan.

Absence of penalty for non-furnishing of periodical financial documents

The Company had included safeguards in the terms and conditions for loan disbursement for periodical submission of project progress reports submission of financial statements, right to inspection of projects and accounts

of the borrower *etc.* These conditions were to enable the Company to evaluate and detect defaults due to adverse business environment or willful misuse of funds, payment of abnormally high dividends salaries to promoters *etc.* and to monitor delays or non-commencement of projects.

In all the cases test checked, there was no evidence of analysis of borrowers' financial statements nor project progress reports being submitted to management periodically. Further, no penalty was prescribed for non-submission of documents required periodically. Three examples are listed below:-

- M/s Maruti Cement Products did not submit the project commencement report after availing disbursement ₹8.95lakh (date of last disbursement April 1999). The Company waited for four years for repayment before attachment of assets (July 2003) even though there was no record to prove that project was running. The non-commencement was also confirmed by the borrower later.
- M/s Millennium Wineries and Distilleries did not submit the project commencement report after availing loan of ₹19.93 lakh (date of last disbursement December 2001). However, the Company waited till April 2005 for repayment and there was no record to prove that the project had commenced. This resulted in deterioration of realizable value of machinery by 16.25 lakh.
- In the case of M/s Chamunda cashew, even though the unit was found closed in March 1990 and no subsequent financial statements were furnished the Company delayed the attachment of assets by seven years (February 1997).

The Government stated (January 2014) that EDC would revise the terms to penalise non-submissions of periodical financial statements as observed by audit.

The Corporation in its written reply stated that as a part of recovery process, financial statements and other documents are obtained wherever required from the borrowers/company. Levy of penalty is not actually practiced as it may scare away the borrowers. However, specific clauses are mentioned in the sanction to submit the same failing which the borrower is to be penalized.

Record keeping system of loan application

A scrutiny of the system of recording receipt of applications for loan/financial assistance under the two broad categories of financing schemes *i.e.* (i) term loans (loans above ₹25 lakh) and (ii) micro finance (loans up to ₹25 lakh) was taken up with a view to assess the extent of transparency in system to ensure timely processing of loan applications until sanction or rejection within prescribed time period. In this connection, following was observed:

Term Loan Department

The data provided to audit pertaining to applications received and their further status *i.e.* rejected or sanctioned *etc.*, was compiled manually. Further, the applications for financial assistance (term loan) were not entered into the system at the time of its receipt. There was no system of issuing acknowledgement of loan applications through the system. The applications were entered in the system only after their sanction and thus did not provide for recording the exact date of receipt of application. Thus there was no audit trail and following observations are made in this regard:

- i. it was not possible to ascertain the exact number of applications received, sanctioned or rejected during any period.
- ii. there was lack of transparency in the system of recording receipt of applications for loan/financial assistance which did not rule out delay in processing of applications.
- iii. data provided was compiled manually and did not tally with the system data.
- iv. type of loans included under main category of 'Term Loan' were not readily ascertainable from the system.
- v. there was no system of monthly reporting to the management by the 'Inward section' of the total number of applications received nor summarized reporting by concerned sanctioning Department of the number of applications sanctioned/rejected/pending.
- vi. The date of rejection of application was not recorded in the system.
- vii. The data provided to audit which was compiled manually did not tally with data available on the 'Loan Manager' system in respect of term loan application received and sanctioned during 2008-09 to 2012-13.

The 'Loan Manager' system was not designed to be utilized as a tool for the management to watch the timely progress of processing of applications, to call for explanations for delay/non-processing of applications. Due to the limited use, the system did not provide for transparency.

The Company stated (September 2013) that most of the observations of audit were well taken and in near future it would ensure the compliance of the requirements. It stated that monitoring the status of applications was done by the Preliminary Clearance Committee (PCC).

The reply was not correct in the context that PCC's role was only at the preliminary stage. The loan application was to be monitored for its progress and timely sanction by the management. The reasons for rejection, cancellation or undue delay in sanction or disbursement if any, thereafter were recorded only in the concerned file and not in the system.

The Government stated (January 2014) that suitable measures would be initiated by EDC to rectify the discrepancies noticed by audit.

The Corporation in its written reply stated that in the past only the loan applications which are sanctioned were recorded in the Loan Manager software. But as per the audit observations, the system has been designed to record the loan applications after they were in warded for processing.

Conclusion

In the sample cases test-checked during the review, the recovery performance was found to be affected due to following reasons:-

- Absence of a definite time bound action plan for execution of recovery action;
- Absence of documented procedure of tracing the borrowers/guarantors and their assets for recovering the outstanding amount after sale of attached assets;
- Non-obtaining of any additional or collateral security other than the financed asset and a personal or corporate guarantee without mortgage or hypothecation of any personal assets.
- Absence of penalty for non-submission of documents relating to accounts *i.e.* financial expenses, salaries, wages, debtors *etc.* that would be required by the Company to monitor the functioning of the unit and ensure that no funds are drained-off in any manner by the promoters of the unit.
- At the time of appraisal, external factors such as market conditions, demand for finished products, experience and ability of the promoter to market the products *etc.* were considered to be favourable. However, there was no subsequent monitoring of project commencement, adequacy of turnover and profits, quarterly financial statements to detect defaults in advance and initiate corrective action.

The Corporation in its written reply stated that the conclusions as mentioned in the report have been analyzed and adequately addressed as under:

This has been put in order by formulating the SOPs for time bound recovery action.

At the appraisal stage, the Corporation is taking an undertaking from the borrowers/guarantors about the personal assets held by them and also the liabilities so as to ascertain the net worth of the promoters/guarantors.

EDC has been taking additional collateral securities from the borrowers / company (wherever required) in addition to the primary security.

At the time of sanction of loan, penalty clause is introduced for non-submission of Financial Statements and other documents.

The Corporation has introduced the time frame mechanism in the SOP for monitoring the performance of the unit after the sanction and commencement of the project.

Recommendations

The following recommendations are made:

- Formulate a Standard Operating Procedure Manual defining time-bound action plans and detailing course of action and procedures to be followed in order to ensure transparency and arrest scope for favoritism in the recovery action;
- Introduce penalty for non-adherence to terms and conditions of loan such as non-submission of financial statements and any other documents required to be submitted to the Company periodically.
- Grant incentives to loan applicants for providing additional/collateral security.
- Explore the possibility of either shifting to floating interest rate mechanism or levying higher penalty for prepayment by borrower to protect its revenue.
- Ensure that the various modules of the computerized system put in place are modified to allow for security and accuracy of data.

The Corporation has prepared SOP Manual as recommended.

As a part of recovery process Financial Statements and other documents are obtained wherever required from the Borrowers. Levy of penalty is not envisaged as it may scare away borrowers.

This point is taken care while deciding the interest rates for the units.

Borrowers providing additional/collateral security are considered loan at lower interest rates and higher amounts. The lending rate is examined by the Corporation periodically and revised so as to be competitive in the market.

The Corporation has taken due care for security and accuracy of data by having individual login passwords for each employee.

The Committee would like to know why there was a delay in commencement of attachment of collateral securities rather than opting of one time settlement of dues without initiating attachment.

CHAPTER II

GOA STATE INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

AVOIDABLE PAYMENT OF INCOME TAX

The Company treated interest received on mobilization advance paid out of funds provided by the State Government as own income resulting in avoidable payment of Income Tax off ₹1.31crore.

Goa State Infrastructure Development Corporation Limited (GSIDC) was established (February 2001) by the Government of Goa (GoG) as a Special Purpose Vehicle (SPV) for executing infrastructure works on behalf of the Government. GoG approved (November 2006) a new accounting policy framed by GSIDC. As per the policy, the expenses incurred by GSIDC (contractor, consultants, land acquisition and miscellaneous expenditure) related to projects completed or ongoing shall be reimbursed by the State Government. The GSIDC was entitled to receive development fees (ranging from 0.25 per cent to 4 per cent depending on the total project expenditure of the year) to cover its administrative expenses. State Government was to provide funds for mobilization advances on project to project basis while entrusting works.

According to Rule 31.2(e) of Government Accounting Rules, capital receipt accruing during construction of a project should be utilized to reduce the capital expenditure and should not be credited to the revenue account of the undertaking. Since State Government provided funds for mobilization advances, any income earned from such funds should have been deducted from the amount receivable from the Government/credited to the Government.

The company however, treated interest received on mobilization advance amounting to ₹5.04 crore for the period 2008-09 to 2010-11 as their own income. This resulted in inflating the income of the company and avoidable payment of Income Tax ₹1.31crore during these three years.

In reply, the Company stated (July 2012) that the Board had decided to net off interest on mobilization advance against the amount receivable

from GoG from 2011-12 onwards. However, the fact remained that the Company had already incurred an avoidable expenditure ₹1.31 crore.

The Corporation in its written reply stated that Goa State Infrastructure Development Corporation Limited was established in February 2001 by the Government of Goa as a special purpose vehicle for executing infrastructure works on behalf of the Government of Goa.

In December 2004, Government approved an accounting policy framed by the company. This accounting policy provided for the following:

1. Government will pay development fees at 1% of the project expenses and administrative and other expenses.
2. The expenses incurred by GSIDC (contractor, consultant, land acquisition, miscellaneous, expenses including expenses on maintenance of projects upto handing over of the project). Any administrative expenditure incurred by GSIDC is to be funded by the Government of Goa every year.
3. any other source of income to GSIDC would be off set against the financial/ budgetary support given by the Government.

In November 2006, new accounting policy was framed by the company and was approved by the Government. New policy provided for:

1. payment of Development fees ranging from 0.25% to 4% as per fees slab provided in proposal.
2. the expenses incurred by GSIDC (contractor, consultant, land acquisition and miscellaneous expenditure) related to project completed or ongoing shall be reimbursed by the State Government.
3. the Government of Goa shall also reimburse all other expenditure related to project development like land acquisition, payment to Electricity department, Municipal fees etc.
4. all other income & expenditure related to financing and other activities shall be accounted separately.
5. the Corporation shall bear its entire administrative expenditure. The state Government shall not reimburse this expenditure to GSIDC.

Basic difference between accounting policy followed by the company previously (as approved in December 2004) and currently followed by GSIDC

(as approved in November 2006) is that previously, Government of Goa had agreed to bear all the administrative expenditure by the company and in lieu of which any other source of income was off set against the financial/budgetary support.

As per new policy, Corporation is responsible for all its administrative expenditure and Government will not reimburse this expenditure to the company.

Similarly, any other source of income should not be set off to the Government and should be accounted separately.

This policy was framed in 2006, during which there was no mobilization advance paid to the contractor. Hence, there is no specific mention of mobilization advance interest in the accounting policy.

However, accounting of mobilization advance interest has been done as per the underlying concept of new accounting policy and there is no deviation from the approved policy.

As per accounting policy framed, Government has to provide funds for Mobilization Advance on project to project basis. However in practice, there is no advance payment from Government, rather GSIDC has availed loan from Market for expenditure on projects (including payment of Mobilization advance to contractors). Hence Rule 312(e) of Government Accounting Rules cannot be strictly made applicable.

Accounting treatment of interest on Mobilization Advance was consistently followed by GSIDC from 2006-07 onwards and this was in accordance with the accounting policy adopted then. Audit raised its first objection on accounting of interest on Mobilization Advance in the year 2012-13. Subsequent to the Audit Objection, Board of Directors have decided to net off interest for Mobilization Advance against amount receivable from Government of Goa for Financial Year 2011-12 onwards.

The Committee sees that the Corporation acted in undue haste without consultation with the Government in the matter of accounting of interest on mobilization advances. This has led to an avoidable expenditure on payment of

Income Tax. The Committee recommends that in future the Corporation should seek consultation in such matters.

CHAPTER III

GOA INDUSTRIAL DEVELOPMENT CORPORATION

LOSS OF ₹40.81 LAKH DUE TO SHORT RECOVERY OF SURRENDER CHARGES

Corporation recovered surrender charges at lower rates compared to the rates applicable for surrender of plots resulting in short recovery of ₹40.81lakh.

Goa Industrial Development Corporation (GIDC) had fixed (August 2005) uniform rate of surrender charge at one *per cent* per annum of the prevailing premium amount of the plot for those who had paid the entire cost and at five *per cent* per annum of the prevailing premium amount for those who had opted to pay in installments/not paid the entire cost.

GIDC allotted (June/November 2006) land admeasuring 67,457.50 m² to Miditech Private Limited (MPL) in Shiroda Industrial estate for a total premium ₹185.51 lakh. The premium amount was paid by MPL in seven installments (from October 2006 to February 2012). In March 2012, MPL expressed their willingness to surrender the land and requested GIDC to refund the amount paid in full. The Board considered the matter (June 2012) and resolved to authorize the Chairman to take decision on the matter. The Chairman decided to recover surrender charges at one *per*

cent and Board ratified the decision (November 2012). Accordingly, the Company recovered (excluding lease rent, processing charges and service tax) ₹10.20 lakh towards one *per cent* surrender charges instead ₹51.01 lakh, being five *per cent* of the premium amount.

The decision of recovering one *per cent* surrender charges was not correct, as the recovery should have been at five *per cent* of the premium amount as per the prevailing rate, since the payment was made in installments. This had resulted in loss ₹40.81lakh by way of short recovery of surrender charges.

The GIDC stated (April 2013) that considering the objective of the Corporation to encourage building up of new industries and developing infrastructure, decision of charging one *per cent* as surrender charges was taken. It further replied (January 2014) that the decision of the chairman was ratified by the Board which had wisdom and authority to charge one/five *per cent* for full/installment payment of surrender charges.

The Corporation in its written reply stated that:-

1. The Board of the Corporation under its Resolution No. 48/2005 of the 282nd Board meeting held on 01/08/2005 decided to charge surrender charges @ 1% p.a. of the prevailing premium amount of the plot for those who have paid the entire cost of the plot and 5% p.a. of the prevailing premium amount for those who have not paid the entire cost of the plot/opted to pay in installments.
2. The earlier decision of charging 5% to those who have opted to pay in installments on re-examination was therefore not found logical as the installment payment has interest components collected from the Allottee and was decided to be reviewed.
3. The new decision for charging 1% as decided by the chairman in terms of an earlier resolution of the Board was ratified by the Board. Therefore the said decision is a Board decision which had in its own wisdom and authority decided earlier to charge 1% and 5% deduction, for full payment and installment respectively payment of surrender charges.
4. In this particular case, no infrastructure including road, power and water was ever provided to the said lands, total payment had been received by the Corporation, all necessary charges had been recovered and therefore the surrender of the land was considered to

be the best available option i.e. to have the land back as it was not utilized by the allottee. If the Corporation entered into litigation with the allottee, it would have blocked the land for a longer period and thereby defeating the very purpose of allotment i.e. to start the industry.

5. With the reclaimed land, the Corporation will be in a position to do another lease at the revised rate i.e. @ ₹1250/- per m² as against ₹ ₹275/- per m² and Goa IDC will earn much more additional premium amount and lease rent thereto.
6. It must be noted that whilst dealing with land matters, as has been held by the Hon'ble Supreme Court of India in the case of Raunaq International v/s IVR Constructions Ltd. & Ors. Reported in AIR 1999 SC 393 and several other Judgments, the Government is in the same position as a private entrepreneur. In the present case, all the installments have been paid by the allottee. The surrender is being accepted as it is beneficial to the Corporation in as much as land prices of the said land have definitely gone up. In other words, by accepting the surrender, the Corporation would stand to benefit. Further, the allottee has been unable to start the unit for several reasons. One percent (1%) charge under these circumstances was found to be commercially sensible as the Party had paid all the installments and the repossession of the said land and the availability thereof to the Corporation would be beneficial and in the interest of the Corporation. This being the position, the principles of fairness and responsible Governance requires the Corporation to act fairly by balancing all the required aspects thereof.
7. The Board of Directors considered that being the Component Authority to amend/ratify the decisions derived by it in the past, it has unanimously resolved to ratify the decision of the chairman to charge 1% as surrender charges. Hence the question of result of short recovery as stated by the audit party from MPL does not arise. Moreover the said decision is also now clearly spelt out in the Goa- IDC Transfer & Sublease Regulations, 2013 and uniformly applied to all further cases of surrender.
8. Instead of merely terminating the said lease which would have been a doubtful matter as the party had already paid the installments and getting into litigation, it is commercially wise to reap the benefits of inflation in prices and avail of the high price which would be done to the Corporation as a result of the said Surrender of the land.

Moreover, the Board has held that if the suggestion brought out in audit para of the CAG were to be considered than there would be likely hood of the land being in litigation in turn hampering the industrial growth, thereby causing loss to the Corporation and the State of Goa. Considering the justifications referred to above, the Board have come to the conclusion that the decision has been taken by proper and conscious application of mind and upon consideration of all the relevant aspects of the matter.

The Committee would like to know on what basis the decision to collect the surrender charges at 1% instead of 5% was taken by the Board and chairman without reverting back to the Government. It sees nexus between the party and the IDC Board allowing collection at a very much lower rate than applicable. The Committee recommends that any such relaxations effectively bringing the revenue due to the Corporation needs to be cleared by the Government to avoid such arbitrary actions detrimental to the Corporation interest.

CHAPTER IV

GOA ELECTRICITY DEPARTMENT

REIMBURSEMENT OF DIFFERENTIAL SALES TAX BASED ON FALSE DOCUMENT

Goa Electricity Department failed to ensure genuineness of document submitted in support of claim for differential Sales Tax resulting in payment of ₹3.46 crore based on a false document.

Goa Electricity Department (GED) entered (March 2006) into an agreement with M/s Power Grid Corporation of India Ltd. (PGCIL) for the work of design, supply, installation, testing & commissioning of 220/33 KV sub- station at Amona along with associated lines. As per the agreement, PGCIL was to award the works to a successful bidder on behalf of the State Government. All invoices of materials/equipment should

be directly raised by the contractor in the name of Chief Electrical Engineer (CEE) routed through PGCIL. The CEE shall arrange issue of concessional Sales Tax Form (D Form) against such invoices to the contractor through PGCIL.

According to Central Sales Tax (CST) Act, sale to Government was taxable @ four *per cent* or applicable Sales Tax rate for sale within the State whichever was lower. This concession on CST was applicable if Form D was issued by the Government Department which purchases the goods. The practice of accepting D form was abolished with effect from 01 April 2007. Consequently, M/s Jyothi Structures Ltd. (JSL), Nasik the contractor of PGCIL claimed (June 2010) through PGCIL, reimbursement of ₹3.49 crore towards differential Sales Tax under VAT (₹2.79 crore) and interest thereon ₹0.70 crore) for the material supplied.

After taking the opinion of the Commissioner of Commercial Taxes, Panaji, Goa, the CEE communicated (August 2010) to the Division IX of OED and PGCIL that in case the Department desired to reimburse the payment of VAT in lieu of D form, then it should be legally checked after confirming that the dealer had really incurred this liability by payment of VAT to the Government through tax returns, but interest should not be paid on the amount of VAT. Accordingly, Executive Engineer (EE) (Division IX) requested (December 2011) PGCIL to produce documentary evidence in support of payment of additional VAT. Meanwhile CEE instructed (December 2011) the Division to pay the differential VAT based on certification by PGCIL on the rates applicable for the materials and production of documentary proof for payment of VAT by the contractor, before effecting payment. PGCIL in turn, submitted an undated certificate produced by JSL issued by the Sales Tax Authorities of Nasik and the Division paid (March 2012) the differential Sales Tax amount of ₹3.46 crore to PGCIL.

Audit took up the matter (July 2012) with the Sales Tax Authority at Nasik and the Joint Commissioner of Sales Tax, in turn, confirmed (September 2012) that no such letter was issued by them nor any adjustment of Sales Tax had been made as claimed in the certificate. Thus it was evident that the certificate produced by JSL was not genuine.

We observed that GED did not exercise vigil in verifying the genuineness of the document and to comply with the directions of

Commissioner of Commercial Taxes, Panaji, Goa while releasing differential Sales Tax claims of ₹3.46 crore.

The matter was brought to the notice of the EE/CEE and the Secretary (Power) in October/November and December 2012 respectively, urging them to take immediate action on the matter. The matter was further brought to the notice of the CEE (January 2013) who replied (March 2013) that PGCIL had not yet reimbursed the amount to JSL. The CEE further replied (May 2013), that the GED would ensure that the amount of ₹3.46 crore would be paid only on receipt of proper documents towards payment of differential CST to the concerned tax authority. Subsequently the PGCIL intimated OED (February 2014) that since JSL did not produce any documentary proof in support of payment of differential CST, no reimbursement had been made while processing their final bill and that the amount was still with PGCIL and the same would be adjusted/refunded to OED against settlement of final bills of other works.

The reply of the GED was not correct since the reimbursement to PGCIL., was made without verifying the genuineness of certificate submitted by PGCIL in support of payment of VAT. The amount paid has neither been adjusted nor settled by PGCIL with GED till date (January 2014).

The Department in its written reply stated that:-

1. As per the term of the contract, D forms were to issued by the department to Power Grid Corporation of India, Colvale for the materials brought to the site (sub agency M/s. Jyoti structures Ltd) in respect of the work of design and supply of equipment and materials for 220/33/11 KV Amona (New) Substation for Goa Electricity Department against the dispatches of Tower Parts and bought out components.
2. Accordingly, D forms were issued to the M/s. Power Grid Corporation of India-Colvale for the materials received at site till 31 March, 2007.
3. However, w.e.f. 01/04/2007, form D has been abolished as per Government of India Taxation Laws (Amendments) Act, 2007 by

- amendment in section 6 of the Central Sales Tax Act, 1956 has removed special provisions relating to the Government Department.
4. As a result of this amendments, D forms for the materials supplied by M/s. Jyoti Structures Ltd. Subsequent to 01/04/2007 could not be issued by this office.
 5. Consequent to this amendment, sub-contractor of M/s. Power Grid Corporation of India, i.e. M/s. Jyoti Structures Ltd. requested to issue C forms in the place of D forms.
 6. This being the situation neither this office could issue C forms nor D forms for the supplies made by the M/s. Jyoti Structures Ltd. For the supplies made after 01/04/2007.
 7. In the meantime, M/s. Jyoti Structures Ltd. had claimed for the differential Sales Tax in lieu of C forms amounting to ₹ 3,45,72,757/- after duly obtaining approval from the Chief Electrical Engineer vide letter No. CEE/Accts-354/2010-11-11/2712 dated 12/08/2010, 2) CEE/Accts.-354/2011-12/5356 dated 22/12/2011 for fund of ₹3,45,72,757/- has been placed to M/s. power Grid Corporation of India, Colvale, during the month of March, 2012.
 8. Based on Audit observations, this office sought clarification from M/s. Power Grid corporation of India Ltd, Colvale, and accordingly clarification received from Power Grid Corporation of India Ltd./M/s. Jyoti Structures Ltd. along with the certificate from the Chatered Accountant supported with Form No. 704 and the year wise statement of sales invoices for the financial year 2007-08, 2008-09 and 2009-10 is attached herewith.
 9. Though this office has placed the fund to M/s. Power Grid Corporation of India, Colvale the same has not been released to M/s. Jyoti Structures Ltd till date.
 10. in absence of any declaration form D or form C, we are liable to pay full CST to the supplier, as per the provisions of the Central Sales Tax Act and hence, this payment of differential tax, occasioned by our inability to provide Form D / Form C cannot be construed as a loss to the department, even though the same may result in an increase in the cost of project.
 11. In view of the clarification, it is quite evident that no amount has been paid to M/s. Jyothi Structures Ltd. on forged certificate. However, this department does not fall within the definition of dealer under sec. 2(k) of the Goa Value Added Tax Act, 2005 besides cannot be registered as dealer under the Central Sales Tax

Act, 1956 and hence issuance of C forms does not arise. In absence of any declaration form D or form C, we are liable to pay full CST to the Supplier, as per the provisions of the Central Sales Tax Act and hence, this payment of differential tax, occasioned by our inability to provide Form/Form C cannot be construed as a loss to the department, even though the same may result in an increase in the cost of project.

Further, the Power Grid Corporation of India has informed that since the Jyothi Structures Limited did not produce any documentary proof in support of payment of differential CST to Sales Tax Authorities, no reimbursement has been made by Power Grid to the Agency while processing their bill and thus amount is still with Power Grid and same shall be adjusted / refunded to GED against their final bill to be issued.

This office has taken note of the CAG Report and the same will be followed.

The Power Grid has paid the excess amount of ₹ 3,98,14,230/- paid to them by the department which includes the excess payment to them towards reimbursement differential sales tax of ₹ 3.46 crores as raised in the audit para.

The above amount is included in the total differential amount ₹ 8,24,62,000 paid by the Power Grid of all projects undertaken and same is remitted in the Government Treasury vide chalan No. 9 dated 25/05/2017 (copy enclosed)

The Committee recommends that in future all documents submitted as guarantees or sureties should be cross checked in writing with the issuing officer to avoid forged documents being handed over by bidders. This lapse on the part of the concerned officials processing the documents has led to a large amount sitting with the PGCIL which has lost interest to the Exchequer.

NON-RECOVERY OF CHARGES FOR SHORT SUPPLY OF ENERGY BY GOA ENERGY PRIVATE LIMITED (GEPL) ₹ 5.61 CRORE FOR YEAR 2011-12

The Department failed to raise bills on GEPL for shortfall In power supply below the minimum commitment of 14MW.

The Government of Goa had approved (September 2004) setting up of a 30MW Waste Heat Recovery Power Plant by Goa Energy Private Limited (GEPL) based on waste heat generated by Sesa Industries (SESA) with a commitment to supply about 7MW power to SESA. Goa Electricity Department (OED) entered into an agreement (January 2007) with Power Trading Corporation (PTC) to purchase the entire available power from GEPL corresponding to 14MW to 21MW round-the-clock @ ₹2.40 per unit (plus a trading margin of four paise per unit). OED also entered into an agreement (May 2007) with GEPL for purchase of the said 14MW to 21MW power. Accordingly, GEPL set up a 30 MW Power Plant at Amona (June 2007).

Para 1.1 of the Procedures agreed (March 2007) to by all the three parties, required GEPL to schedule the power supply injection details everyday by 12 noon (for next day's supply) except for reasons of '*force majeure or scheduled outage*' which was to be confirmed by the Executive Engineer/Asst. Engineer of the Ponda sub-station. The Department was also obliged to purchase all the excess power beyond the scheduled saleable energy @ ₹2.40 per unit. In case of any shortfall/deficit of power supply vis-a-vis scheduled saleable energy, the Department has to raise a bill on GEPL for the shortfall in supply @ ₹2.40 per unit.

During test check (2011-12) of power purchase bills, load survey report, hourly energy import-export data *etc.* it was found that GEPL did not adhere to the commitment of 14MW power supply on any month. Moreover, GEPL in its daily power injection schedules (for next day's supply) had mentioned much lower energy ranging from 0.5MW to 2.5MW. During 2011-12 there was a shortfall in power supply of 23.37 Million Units (MUs) compared to guaranteed 14MW. However, the Division did not raise any bills for compensation towards short supply.

Non-raising of bills on GEPL for the shortfall in supply resulted in loss of ₹5.61 crore (@ ₹2.40/unit X 23.37 MUs) for the year 2011-12 to GED.

The Department in its written reply stated that no remedial action as there is no clause to levy the penalty for short supply.

The Committee sees that para 7.1 of the agreement between Goa Electricity Department(GED) and Goa Energy Pvt. Ltd., (GEPL) clearly states

that in case of negative deviation attributed to GEPL the excess energy availed by GEPL from the Government grid shall be paid by GEPL at the rate of ₹2.40/unit.

The Committee recommends that as there is clause 7.1 in the agreement for recovery through billing for energy used by GEPL, due to short delivery into the Grid, the shortfall should be collected from GEPL. The Committee further recommends that it be kept updated in the matter of recovery.

IRREGULAR REFUND OF EMD

The Department refunded Earnest Money Deposit and failed to initiate legal action against the Supply Contractor who resorted to fraudulent practices to secure contract by submitting forged records.

Executive Engineer (EE), O&M Division X of Goa Electricity Department (GED) invited (June 2011) tender for supply of 33 KV (E), 3 Core, 400 sq.mm. XLPE armoured cable for laying from Kadamba Sub Station to Kundaim Sub Station at an estimated cost of ₹822.80 lakh { @ ₹2,420/mtr.) put to tender. Tenders were opened in July 2011 and four suppliers qualified in their techno-commercial bids. M/s Terracom Limited {Terracom) who had quoted ₹700.40 lakh { @ ₹2,060/mtr.) being 14.88 per cent below the estimated cost in the financial bid was the lowest. While evaluating the tender by the Technical Advisory Committee (TAC) of Electricity Department (September 2011), the EE informed TAC that co-bidders had expressed doubts about the genuineness of the documents submitted by Terracom. Meanwhile the EE had verified (August 2011) that the test report issued by Central Power Research Institute (CPRI) had indicated that the samples failed to withstand some of the tests. CPRI labelled the test report submitted by Terracom fraudulent. Besides the mandatory performance certificate (certificate of experience in similar class of works from M/s Torrent Power) submitted by Terracom was also reported false and fabricated by Terracom.

TAC, considering the above and with the approval of Goa State Works Board (GSWB) (October 2011), set aside the bid submitted by Terracom and the work was finally awarded (April 2012) to M/s Polycab Wires Pvt. Ltd. (second lowest tenderer) at the negotiated rate of ₹2,420/Mtr.

We observed (June 2012) that even though Terracom had resorted to fraudulent practices to secure the contract by producing forged documents

and violated the code of integrity, no legal action was initiated against them and earnest money deposit (EMD) of ₹16.45 lakh was also refunded (December 2011).

The GED replied (March 2013) that TAC and GSWB had not proposed or decided to forfeit EMD of Terracom and forfeiture of EMD was against provisions of the CPWD Works Manual.

The reply of the Department was not tenable as the EMD was ordered to be refunded by GED. Further even when CPRI had requested GED to initiate legal action for tampering and fraud committed by Terracom, the Department had not taken any action.

The Corporation in its written reply stated that:-

1. TAC has rejected the lowest bidder due to forged documents. Hence as per the procedure, the EMD was refunded (copy enclosed).
2. As TAC has not recommended any action on the said bidder, no action was initiated.

The Committee sees a lack of commitment in the department as the contractor that submitted forged documents has still not been formally black listed. Though the Committee sees that there is no scope for the forfeiture of EMD, it feels that immediate steps should have been initiated for blacklisting of the contractor concerned and legal action initiated for fraud and illegally tampering of document.

APPENDIX -I

**MINUTES OF THE MEETING OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS HELD ON 10TH JANUARY 2018.**

The meeting of the Public Undertakings Committee was held on 10th January 2018 at 3.30 pm in the PAC Room, Assembly Complex, Porvorim, to examine paras reflected in the CAG's Report for the year 2010-11, 2012-13 and 2014-15 of the Comptroller and Auditor General of India.

The following were present:

CHAIRMAN

Shri Digambar Kamat

MEMBERS

- | | |
|------------------------|--------|
| 1. Shri Deepak Pauskar | Member |
| 2. Shri Wilfred D'sa | Member |

GOA LEGISLATURE SECRETARIAT

1. Shri N.B. Subhedar, Secretary, Legislature
2. Smt. Celiza Fernandes, Under Secretary, Legislature

AUDIT DEPARTMENT

1. Shri Dattaprasad Sirsat, Dy. Accountant General
2. Shri Jayvant Vernekar Sr. Audit Officer

2. The programme for the day included the examination of the representatives of the Goa Information Technology Development Corporation Ltd. in relation to Para 6.2 reflected in the CAG's Report 2010-11, Goa State Infrastructure Development Corporation in relation to Para 5.3 of the year 2012-13, Para 3.3 of the year 2014-15 and Goa Industrial Development Corporation Ltd. in relation to Para 6.4 for the year 2010-11.

3. At the outset, the minutes of the meeting held on 13th December 2017 were circulated to the Members. The Committee examined the Officers GITDC on Para 6.2 of the year 2010-11 regarding IT park at Dona Paula-irregular compensation to contractor and undue benefit to PMC-Rs 71.91 lakh. The Committee asked the concerned officers to send the replies to the AG within a week.

4. The Committee further examined the officers GSIDC in regards to Para 5.3 of the year 2012-13 on avoidable payment of income tax of 1.31 crore. The Committee decided to close the para as corrective measures were taken. The Committee also warned the officers that in future such things do not happen.
5. The Committee also examined the Officers, GSIDC in relation to Para 3.3 of the year 2014-15 regarding Thematic audit on execution of works by GSIDC for Government Departments. The Committee asked the Officers to send the file to AG within a week as it was a collection of paras.
6. The Committee examined the Officers IDC, regarding para 6.4 of the year 2010-11 on Idle investment on Utility Service Centre Building - Rs. 33.54 lakh. The Committee informed that it was a wasteful expenditure and if it was retendered then the Department would create liability.
7. Digital and verbatim records of the proceedings of the meeting were kept.
8. The Committee adjourned its sitting at 4.44 pm.

APPENDIX -II

MINUTES OF THE MEETING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 29TH AUGUST 2018.

The meeting of the Public Undertakings Committee was held on 29th August 2018 at 3.30 pm in the PAC Room, Assembly Complex, Porvorim, to examine the Paras reflected in the CAG's Report for the year 2012-13.

The following were present:

CHAIRMAN

Shri Digambar Kamat

MEMBERS

- | | |
|----------------------|--------|
| 1. Shri Milind Naik | Member |
| 2. Shri Wilfred D'sa | Member |

GOA LEGISLATURE SECRETARIAT

1. Smt. Celiza Fernandes, Under Secretary, Legislature

AUDIT DEPARTMENT

1. Shri Ashutosh Joshi, Accountant General
2. Shri Murlidharan Sr. Audit Officer (Report)

2. At the outset the Chairman of the Public Undertakings Committee welcomed the Committee Members and the Officers. The programme for the day included the examination of the representatives of EDC Limited in relation to Para 5.2, Goa Industrial Development Corporation Ltd. in relation to Para 5.4 and Goa Electricity Department in relation to Para 5.5, 5.6 and Para 5.7 reflected in the CAG's Report 2012-13.

3. The Committee examined the Secretary Industries in relation to Para 5.4 regarding loss of Rs 40.81 lakh due to short recovery of surrender charges. The Committee wanted to know whether they had the powers to surrender the plots and how the Corporation could take such an important decision.

4. The Committee also examined Secretary Finance in relation to Para 5.2 regarding Performance Audit on Loan recovery performance of EDC Ltd. The Committee informed the Officer concerned that the main problem was that recoveries were not taking place in time. The Committee was informed that since EDC was taking refinance from IDBI they made it very clear not to insist for collateral security and that 90% of the cases were settled by one time settlement.
5. The Committee further examined the Officers of Power Department in relation to Para 5.5 regarding reimbursement of differential Sales Tax based on false document. The Committee was informed that the differential sales were already being refunded in March 2017.
6. Para 5.6 regarding non-recovery of charges for short supply of energy by Goa Energy Private Limited (GEPL) Rs. 5.61 crore for the year 2011-12. The Committee was informed that Para 7.1 of the Agreement says that in case there was any deviation between the scheduled Saleable Energy and the Delivered Energy at the injection points it shall be accounted for at a flat rate of Rs. 2.40 per paise and in the third Para it says that in case deviation was negative and the same was due to GEPL, the excess energy availed by GEPL from the Government grid would be paid by GEPL to the Government at Rs. 2.40 per paise. This was not enforced at the point of agreement but could be enforced since the agreement was till 2020.
7. Para 5.7 regarding irregular refund of EMD the concerned officer informed the Committee that as per CPW works manual there was no provision to forfeit the EMD. The Committee brought to the notice of the Officer to black list the contractor so that he could not participate further.
8. Digital and verbatim records of the proceedings of the meeting were kept.
9. The Committee adjourned its sitting at 5.07 pm.

APPENDIX -III

MINUTES OF THE MEETING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 30TH NOVEMBER 2018.

The meeting of the Public Undertakings Committee was held on 30th November 2018 at 3.30 pm in the PAC Room, Assembly Complex, Porvorim, to examine the Paras reflected in the CAG's Report for the year 2014-15.

The following were present:

CHAIRMAN

Shri Digambar Kamat

MEMBERS

1. Shri Clafasio Dias
2. Shri Wilfred D'sa

GOA LEGISLATURE SECRETARIAT

1. Shri N.B. Subhedar, Secretary, Legislature
2. Smt. Celiza Fernandes, Under Secretary, Legislature

AUDIT DEPARTMENT

1. Shri Ashutosh Joshi, Accountant General
2. Shri Muralidharan Sr. Audit Officer (Report)

2. The Chairman of the Public Undertakings Committee welcomed the Committee Members and the Officers. The programme for the day included the examination of the representatives of Goa Industrial Development Corporation in relation to Para 3.2 and Goa State Infrastructure Development Corporation in relation to Para 3.3 for the year 2014-2015 reflected in the CAG's Reports.

3. The Committee did not examine Para 3.2 regarding Performance Audit of Estate Management of Goa Industrial Development Corporation as the Secretary Industries, and other officers of Goa IDC were not present as they had to attend the Hon'ble Supreme Court in connection with the filing of application for extension of time in the SEZ matter.
4. The Committee examined the Link Officer/MD GSIDC in relation to Para 3.3 for the year 2014-15 regarding Execution of works by Goa State Infrastructure Development Corporation for Government Departments. The Committee wanted to know about the works under taken by the Corporation and not completed. The Committee wanted to know the status of the construction of Kala Bhavan at Sancoale. The Committee informed that it would take a review of GSIDC for the last 5 years.
5. Draft Reports of the years 2011-12 and 2012-13 were circulated to the Members of the Committee and adopted.
6. Digital and verbatim records of the proceedings of the meeting were kept.
7. The Committee adjourned its sitting at 4.55 pm.