

Chapter III

3. Transaction audit observations relating to Government companies

Important audit findings emerging from test check of transactions of the State Government companies are included in this Chapter.

Haryana Power Generation Corporation Limited and Uttar Haryana Bijli Vitran Nigam Limited

3.1 Non recovery of statutory levies

Two PSUs did not recover workers' welfare cess amounting to ₹ 69.23 lakh from the contractors during October 2007 to October 2010.

The Government of India notified "The Building and Other Construction Workers' Welfare Cess Act, 1996" (Act) with a view to augment the resources for the Building and Other Construction Workers welfare. As per the Act, cess is to be levied and collected at one to two *per cent* of cost of construction from the contractor. Further, delay in remitting the cess payments to cess authorities could attract penal interest at the rate of two *per cent* per month or part thereof as per Section 8 of the Act *ibid*. As per provisions of the "Building and Other Construction Workers' Welfare Cess Rules 1998" (Cess Rules 1998) framed by Central Government, the cost of construction includes all expenditure incurred by an employer in connection with the building or other construction work excluding cost of land and any compensation paid/payable under Workmen's Compensation Act 1923 (Rule 3). Accordingly, the State Government directed (August 2007) all its Departments and Public Sector Undertakings (PSUs) carrying out construction activities to deduct one *per cent* of the cost of construction works from the bills of the contractor payable for such works and remit the same to cess authorities. The construction works include the construction, alteration, repairs, maintenance or demolition in relation, *inter-alia*, to generation, transmission and distribution of power. In view of the above, PSUs were required to deduct labour welfare cess at the rate of one *per cent* of cost of contracts entered into for execution of various civil works and remit the amount of cess so deducted to the cess authorities.

We observed (October/November 2010) that Panipat Thermal Power Station-I (PTPS-I), Panipat of Haryana Power Generation Corporation Limited (HPGCL) executed various civil works under nine work orders valuing ₹ 33.36 crore* during October 2007 to October 2010 on which it did not recover Workers' Welfare Cess of

* Work Order (W.O) No.120-₹ 7.51 crore, W.O.No.204-₹ 61.50 lakh, W.O.No.228-₹ 24.82 lakh, W.O.No.229-₹ 13.17 lakh, W.O.No.242-₹ 18.62 crore, W.O.No.244-₹ 16.22 lakh, W.O.No.256-₹ 23.90 lakh, W.O.No.269-₹ 5.53 crore and W.O.No.335- ₹ 29.90 lakh.

₹ 33.36 lakh at the prescribed rate of one *per cent* of the total expenditure from the contractors. However, other TPS were recovering cess from the contractors. Similarly, four construction divisions (Yamunanagar, Ambala, Sonapat and Jind) of Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) incurred expenditure of ₹ 38.80 crore[@] during October 2007 to August 2010 on turnkey erection contracts but did not recover Workers' Welfare Cess of ₹ 35.87 lakh^{*} at the prescribed rate. Thus, there was short recovery of ₹ 69.23 lakh from the contractors. This would also attract penal interest for delay in remitting the cess payments to cess authorities at the rate of two *per cent* per month or part thereof as per Section 8 of the Act *ibid*.

The HPGCL stated (March 2011) that the provisions of the said Act, were not applicable to the PTPS-I since it was covered under the provisions of the Factories Act, 1948. The reply is not based on facts as the civil construction works were executed by the contractors through the labour employed by them. As such, the provisions of the Factories Act, 1948 were not applicable and the Company was required to deduct the cess from the contractors. However, UHBVNL in its reply stated that it had started deducting cess from the contractors.

The matter was referred to the Government and the Companies in March/April 2011; replies of the Government and UHBVNL had not been received (September 2011).

Haryana Power Generation Corporation Limited

3.2 Excess payment of water charges

The Company made excess payment of water charges of ₹ 27.57 lakh at a higher rate from August to October 2007.

The Public Works Department (Irrigation Branch), Government of Haryana notified (July 2007) draft rules for revision of water rates and also invited objections/suggestions in this regard from the public within a period of 15 days. The draft rules, *inter-alia*, included the increase in rates for water supply in bulk for Power Plants from ₹ 100 to ₹ 250 per 2,500 cubic feet. The revised rates were finally notified on 25 October 2007 and circulated by the Irrigation Department in November 2007 for its implementation. The Company's Deenbandhu Chhotu Ram Thermal Power Project, Yamunanagar (DCRTPP) and Panipat Thermal Power Station (PTPS), Panipat receive water for industrial use from the Irrigation Department, Haryana.

We observed (April 2010) that while PTPS made payment for water charges at revised rates from the date of notification i.e. 25 October 2007, payments by

[@] Yamunanagar-₹ 11.35 crore, Ambala-₹ 4.38 crore, Sonapat-₹ 5.06 crore and Jind-₹ 18.01 crore.
^{*} ₹ 38.80 lakh less amount recovered ₹ 2.93 lakh.

DCRTPP were made at revised rate of ₹ 250 per 2,500 cubic feet for the water used from August 2007 onwards on the basis of draft rules notified in July 2007. This resulted in excess payment of ₹ 27.57 lakh to Irrigation Department.

The Company, while admitting the contention of Audit, stated (July 2011) that it had taken up the matter with Irrigation Department and its Sub-Divisional Officer Water Services, Dadupur, Yamunanagar, inturn, had sought (May 2011) the approval of the Executive Engineer, Water Services Division, Dadupur for refund or adjustment of excess amount received from the Company. However, the amount has not been adjusted/refunded so far (September 2011).

The matter was referred to the Government in May 2011; the reply had not been received (September 2011).

Haryana Land Reclamation and Development Corporation Limited

3.3 Loss due to unreasonable fixation of sale price

The Company suffered loss of ₹ 99.06 lakh during June 2010 to March 2011 due to adoption of unreasonable basis for calculating sale price of gypsum.

The Company sells gypsum to the farmers through its sale outlets for reclamation of alkaline soil under various sponsored schemes of Government of India and State Government. For the purpose, the Company procures gypsum from Rajasthan State Mines and Minerals Limited. The State Government provides subsidy at the rate of 65 per cent and remaining 35 per cent of the cost is borne by the farmers. The sale rate of gypsum is fixed by the Agriculture Department of the State Government on the basis of costing^r provided by the Company. The Company has been revising sale price from time to time to absorb the increase in various components of cost. After 2006, sale price was revised with effect from 21 May 2010 by the State Government from ₹ 1,800 per MT to ₹ 2,200 per MT due to manifold increase in administrative and other expenses during the intervening period mainly on account of implementation of 6th pay commission recommendations.

We observed (September 2010) that the Company while providing costing to the Government, worked out administrative and other expenses, on the basis of procurement targets and proposed sale rate of ₹ 2,200 per MT. However, the costing should have been made on the basis of actual sales since administrative and other expenses are recovered through sales only. By adopting this practice the sale rate should have been ₹ 2,346.27 per MT instead of ₹ 2,200 per MT. Accordingly, the

^r Components of cost includes cost of gypsum, packing, transportation, unloading, handling, insurance, interest, dealers margin and administrative and other expenses along with its own profit margin.

Company would have got ₹ 64.39 lakh (65 per cent) more from the State Government on account of subsidy and ₹ 34.67 lakh (35 per cent) more from the farmers on 67,724 MT of gypsum sold during June 2010 to March 2011. Thus, the Company suffered loss of ₹ 99.06* lakh due to adoption of unreasonable basis for finding per MT cost of the gypsum.

The Company stated (August 2011) that cost had always been calculated on the basis of total procurement target. The reply is not convincing as the Company being a commercial entity has to recover the burden of increased expenditure from actual sales. So working of cost per MT on the basis of procurement targets was unreasonable. The Company should consider fixing the administrative and other expenses on the basis of actual sales in the preceding year.

The matter was referred to the Government in March 2011; the reply had not been received (September 2011).

Haryana State Industrial and Infrastructure Development Corporation Limited

3.4 Non recovery

Improper survey and assessment of collateral securities led to non recovery of ₹ 4.17 crore.

The Company disbursed term loan of ₹ 2.11 crore to M/s Sonu Textiles Limited, Bhiwani (Unit) during March 2002 to March 2003 after verification of Collateral Security (CS) of agriculture land measuring 6 Kanals 13 Marlas at Charkhi Dadri with an assessed value of ₹ 1.42 crore. While processing the case the promoters got valued the property, from Government approved valuers at ₹ 1.42 crore. The location of the property was stated at front facing Mahindergarh highway and being used for commercial purpose. However, at the time of acceptance of CS the officers of the Company who were assigned the task of valuation/identification, did not identify the property to be mortgaged and resultantly assessed land other than that actually mortgaged. However, the CS was also got valued by the Company at ₹ 1.07 crore by North India Technical Consultancy Organisation Limited (NITCON) in March 2002. Due to persistent default, the Company took over (December 2006) the Unit under Section 29 of the State Financial Corporations Act, 1951.

We observed (July 2010) that the Company again got CS revalued (January 2008) from NITCON and it was revealed that area of the site and its location was not the same that was accepted as CS. Due to this, the realisable value of CS was assessed by NITCON at ₹ 60.35 lakh. Had the CS been at declared location with same area, the value of CS would have increased manifold over a period of time

* Calculated on 67,724 MT at the rate of ₹ 146.27 (₹ 609.47 – ₹ 463.20) per MT.

and been sufficient to recover entire outstanding amount of ₹ 4.17 crore (principal: ₹ 2.11 crore and interest: ₹ 2.06 crore). Thus, due to faulty verification of CS, recovery became doubtful.

The Company stated (July 2011) that an enquiry has been initiated against the erring officials. The final outcome is awaited (September 2011). However, the fact remains that the Company could not recover ₹ 4.17 crore.

The matter was referred to the Government in March 2011; the reply had not been received (September 2011).

3.5 Loss due to injudicious settlement of loan

The Company suffered loss of ₹ 34.66 lakh in December 2008 on account of injudicious settlement of loan account.

The Company disbursed a term loan of ₹ 2.53 crore to M/s Radha Nutrients Limited, Bhiwani (Unit) for setting up a 'frozen fruits and vegetables' unit at Ambala between March 2002 and January 2004. The Unit defaulted in making payment since beginning and on being approached by the Company, the Unit deposited (March 2004) post dated cheques of ₹ 56.50 lakh which were dishonoured. The Company issued notices between October 2004 to July 2008 for taking possession of the Unit under Section 29 of the State Financial Corporations (SFCs) Act, 1951. However, the Unit was not taken over. At the end of October 2008 outstanding amount worked out to ₹ 2.55 crore (principal ₹ 2.20 crore and interest of ₹ 34.66 lakh).

The Unit requested (August 2008) for settlement of loan under 'One Time Settlement' (OTS) scheme. The Company got the Primary and Collateral Securities (Security) mortgaged with the Company valued (November 2008) from NITCON at ₹ 5.05 crore which worked out to 198 *per cent* of the recoverable amount of ₹ 2.55 crore. However, the Company settled (December 2008) the account under OTS scheme at principal outstanding of ₹ 2.20 crore on the plea that Unit may be declared sick by Board for Industrial and Financial Reconstruction (BIFR).

We observed (May 2010) that the value of Security mortgaged with the Company was sufficient to recover the entire amount of default, as such the Company should have taken over the Unit and disposed it off as per Section 29 of SFCs Act, 1951 during 2004-08. Thus, the action of the Company to settle the loan under OTS at ₹ 2.20 crore by foregoing interest of ₹ 34.66 lakh was injudicious.

The Company stated (May 2010) that in view of continuous losses there was possibility of the Company approaching BIFR in which case the recovery of dues could have been withheld/delayed for a considerable time. The reply is not supported by facts since there were adequate mortgaged securities available to recover the outstanding dues, by selling the Unit in case the same was taken over under Section 29 of the SFCs Act, 1951.

The matter was referred to the Government in March 2011; the reply had not been received (September 2011).

Haryana Tourism Corporation Limited

3.6 Construction in prohibited area

The Company incurred unfruitful expenditure of ₹ 94.85 lakh on construction of additional rooms at prohibited area during October 2009 to December 2010.

Surajkund Masonry Tank, is declared protected monument of the National Importance since October 1921 under Ancient Monument Preservation Act, 1904 by the then Punjab Government and subsequently under Ancient Monument and Archaeological Sites and Remains Act, 1958 and Rules, 1959. In order to keep the protected monuments free from unauthorised construction, Government of India issued (June 1992) notification whereunder the area up to 100 meters from the protected limit was declared as prohibited area and no construction is allowed. Further up to 200 meters being regulated area, where construction was allowed with the permission of Archaeological Survey of India (ASI). The Company is operating a tourist complex at Surajkund in Faridabad district situated near Surajkund Masonry Tank.

We observed (January 2011) that the Company allotted (August 2009) the work of construction of additional rooms at Surajkund Complex within the prohibited area around Surajkund. ASI issued (January 2010) show cause notice to the Company to stop illegal and unauthorised work. However, the Company continued the work. Ultimately, ASI filed (December 2010) a petition in the Punjab and Haryana High Court, which ordered to maintain *status quo* at the site. The Company stopped the construction work (December 2010) after incurring an unfruitful expenditure of ₹ 94.85 lakh. Thus, construction of additional rooms in prohibited area resulted in unfruitful expenditure of ₹ 94.85 lakh.

The Company stated (June 2011) that due to temporary *status quo* granted by the Punjab and Haryana High Court, expenditure incurred cannot be termed as unfruitful and it continued the construction work expecting that approval from ASI would be received. The Government in their reply stated (November 2011) that the State Government in the Tourism Department, Haryana is implementing various schemes for beautification of area in the vicinity of the monument. Accordingly, project of providing additional accommodation in the existing complex at Surajkund was taken up.

The reply is not based on facts, as the area where the construction activity had been undertaken was a declared prohibited area. Further, the Company should have stopped the construction work in the prohibited area when it received show cause notice from ASI in January 2010, as it had spent only ₹ 6.30 lakh by that time.

Haryana Seeds Development Corporation Limited
3.7 Extra expenditure

The Company incurred extra expenditure of ₹ 44.52 lakh due to rejection of valid offers and subsequent purchase at higher rates during May 2010.

The Company requires jute bags in the first week of May for packing of raw and processed seed of various crops and accordingly it needs to place the order preferably by 15 April so as to ensure availability of certified and packed seeds to the farmers well in time. The Company invited open tenders for purchase of seven lakh jute bags. Out of five quotations received (February 2010), the lowest three ranged between ₹ 2,565 to ₹ 2,717 per 100 bags. The matter was put up (March 2010) before the State High Power Purchase Committee (SHPPC) which invited the three lowest firms for holding negotiations. During negotiations, one of the firms agreed to supply jute bags at the rate of ₹ 2,539 per 100 bags. However, the SHPPC found the rate on very high side as compared to last year supply rate of ₹ 1,980 per 100 bags and decided to re-invite the tenders. Accordingly, the Company re-invited (March 2010) the tenders and the same three firms quoted their rates ranging from ₹ 3,225 to ₹ 3,232 per 100 bags. The SHPPC approved (May 2010) placement of supply order for supply of seven lakh jute bags on these three firms at negotiated rate of ₹ 3,175 per 100 bags. Thus, the Company purchased jute bags at a higher rate by ₹ 636 per 100 bags and incurred extra expenditure of ₹ 44.52[⊗] lakh.

We observed (November 2010) that the Company did not conduct any market survey so as to assess the reasonability of rates quoted in the tenders before putting the case to SHPPC. This led to rejection of negotiated rates and re-tendering. Thus, failure of the Company to assess the reasonableness of rates offered in February 2010 resulted in extra expenditure of ₹ 44.52 lakh.

The Company stated (February 2011) that there was no loss since the entire cost had been recovered through sale price as packaging cost of seeds. The contention of the Management is not in the best interest of the farmers as they have been overburdened.

The matter was referred to the Government in April 2011; the reply had not been received (September 2011).

[⊗] Calculated at ₹ 6.36 per bag for 7,00,000 bags.

Haryana Roadways Engineering Corporation Limited

3.8 Injudicious investment

Due to injudicious investment in October 2009, the Company lost the opportunity to earn additional interest of ₹ 19.13 lakh.

For optimum management of surplus funds, State Government issued (June 1997) guidelines on investment of deposits/surplus funds by State Public Enterprises (SPE). Investment was to be made only in debt securities providing highest safety by adopting transparent procedure. The State Government specified permissible institutions in which investment could be made which, *inter-alia*, included all nationalised banks besides Regional Rural Banks. Gurgaon Gramin Bank (GGB) was also approved by State Government for making investment of surplus funds. Further, half yearly status of investment portfolio by each Department and SPE was to be submitted to State Government in April and October each year.

The Company had surplus funds (October 2009) of ₹ 38 crore. The Company invited quotations (October 2009) from various banks for making investment. Amongst the four banks that responded to quotations, GGB quoted the highest rate of interest of 8.25 *per cent per annum* on term deposit for period of one to two years. The Company invested ₹ 15 crore in 16 Fixed Deposits (FDs) with Allahabad Bank at the rate of 7 *per cent per annum* for the period ranging between 365 to 380 days ignoring the offer of GGB and invested the balance funds with IDBI bank in short term FDs.

We observed (May 2011) that had the Company invested ₹ 15 crore in FDs with GGB during October 2009 to October 2010, it could have earned additional interest of ₹ 19.13 lakh. Thus, due to injudicious investment of funds, the Company could not earn additional interest of ₹ 19.13 lakh. Further, the Company had not complied with the directions of State Government with respect to submission of investment portfolio.

The Management stated (July 2011) that the funds were not placed with GGB keeping in view the security and safety aspect of Government funds. The reply is not convincing as the State Government had already approved GGB for investment of surplus funds and the Company had also subsequently invested (April 2010) ₹ eight crore in FDs with GGB.

The matter was referred to the Government in August 2011; the reply had not been received (September 2011).

Haryana Forest Development Corporation Limited

3.9 Mismanagement of surplus funds

The Company could not earn additional interest of ₹ 13.54 lakh during April 2009 to November 2010 due to imprudent financial management.

The Company decided (October 2005) in the meeting of Regional Managers (RMs) that all revenue would be deposited in the bank account of the Company at its Head Office (HO). The field offices would receive funds from HO as required by them from time to time. During April 2009 to November 2010, balances lying in current accounts of the six RM offices[⊗] ranged between ₹ 1.33 crore and ₹ 2.24 crore.

We observed (December 2010) that neither the HO monitored the implementation of decision taken in October 2005 nor RM offices transferred funds to HO. Had the balances lying in the current accounts in six RM offices been transferred to the HO and invested in fixed deposit, the Company could have earned interest of ₹ 13.54 lakh calculated at the rate of interest of 6.25 per cent per annum during April 2009 to November 2010 on the funds of ₹ 1.30 crore*.

The Company accepted (September 2011) the contention of Audit and stated that it had invested ₹ 11.29 crore in FDs during January to July 2011. Thus, imprudent financial management led to loss of interest of ₹ 13.54 lakh.

The matter was referred to the Government in August 2011; the reply had not been received (September 2011).

General

3.10 Follow up action on Audit Reports

Replies outstanding

3.10.1 The Report of the Comptroller and Auditor General of India represents the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Haryana issued (July 1996) instructions to all Administrative Departments to submit replies to paragraphs/reviews included in the Audit Reports within a period of three months of their presentation to the Legislature, in the prescribed format without waiting

[⊗] Ambala, Gurgaon, Hisar, Jind, Kurukshetra and Rohtak.

* Worked out after providing margin of ₹ 2.50 lakh for urgent financial needs as stated by the Management in its reply dated 8 June 2011.

for any questionnaires.

Though the Audit Reports for the years 2007-08, 2008-09 and 2009-10 were presented to the State Legislature in February 2009, March 2010 and March 2011 respectively, all six departments, which were commented upon, did not submit replies to 34 out of 66 paragraphs/reviews, as on 30 September 2011, as indicated below:

Year of the Audit Report (Commercial)	Number of reviews/paragraphs appeared in the Audit Report		Number of reviews/paragraphs for which replies were not received	
	Reviews	Paragraphs	Reviews	Paragraphs
2007-08	4	22	1	2
2008-09	3	21	3	13
2009-10	2	14	2	13
Total	9	57	6	28

Department-wise analysis is given in *Annexure 15*. The Power department was the major defaulter with regard to submission of replies. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and deficiencies in execution of various schemes.

Outstanding action taken notes on Reports of Committee on Public Undertakings (COPU)

3.10.2 Replies to 16 paragraphs pertaining to five Reports of the COPU presented to the State Legislature between March 2007 and March 2011 had not been received (September 2011) as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paras in COPU Report	No. of paragraphs where replies not received
2005-06	1	21	1
2006-07	1	47	3
2008-09	1	14	3
2009-10	1	06	2
2010-11	1	10	7
Total	5	98	16

These reports of COPU contained recommendations in respect of paragraphs pertaining to four[@] departments, which appeared in the Reports of the Comptroller and Auditor General of India for the years 1999-2000 to 2006-07.

Response to Inspection Reports, Draft Paragraphs and Performance Audits

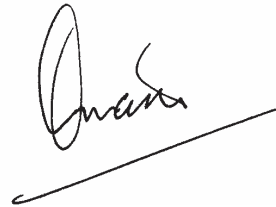
3.10.3 Our observations noticed during audit and not settled on the spot are communicated to the respective heads of the PSUs and concerned departments of the State Government through Inspection Reports (IRs). The heads of PSUs are required to furnish replies to the IRs through respective heads of departments within a period of six weeks. Review of IRs issued up to March 2011 revealed that 879 paragraphs relating to 274 IRs pertaining to 21 PSUs remained outstanding as on 30 September 2011. Department-wise break up of IRs and audit observations outstanding as on 30 September 2011 is given

[@] Power (eight), Industries (four), PWD (B&R) (two) and Agriculture (two)

in *Annexure 16*.

Similarly, draft paragraphs and reports on performance audit on the working of PSUs are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 10 draft paragraphs and two performance audit reports forwarded to various departments during March 2011 to August 2011 as detailed in *Annexure 17* had not been replied to so far (30 September 2011).

It is recommended that the Government may ensure that: (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/draft paragraphs/reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayments is taken within the prescribed period; and (c) the system of responding to audit observations is revamped.



Chandigarh

Dated:

(Onkar Nath)
Principal Accountant General (Audit),
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Countersigned



New Delhi

Dated:

(Vinod Rai)
Comptroller and Auditor General of India