Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Haryana had 22 working PSUs, (20 companies and two Statutory corporations) and seven non-working PSUs (all companies). The State working PSUs, which employed 0.40 lakh employees, had registered a turnover of ₹ 18,756.18 crore for 2010-11 as per their latest finalised accounts. This turnover was equal to 7.28 *per cent* of State GDP indicating an important role played by State PSUs in the economy. However, the working PSUs incurred a loss of ₹ 1,239.22 crore for 2010-11 while all the State PSUs had overall accumulated losses of ₹ 5,676.03 crore.

Investments in PSUs

As on 31 March 2011, the investment (capital and long term loans) in 29 PSUs was ₹ 27,710.70 crore. It grew by 155.64 *per cent* from ₹ 10,839.87 crore in 2005-06. Power Sector accounted for nearly 95 *per cent* of total investment in 2010-11. The Government contributed ₹ 6,847.58 crore towards equity, loans and grants/ subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 22 working PSUs, 17 PSUs earned profit of ₹ 426.30 crore and five PSUs incurred loss of ₹ 1,665.52 crore. The major contributors to profit were Haryana Vidyut Prasaran Nigam Limited (₹ 187.61 crore), Haryana Power Generation Corporation Limited (₹ 75.09 crore) and Haryana State Industrial and Infrastructure Development Corporation Limited (₹ 69.95 crore). The heavy losses were incurred by Uttar Haryana Bijli Vitran Nigam Limited (₹ 884.22 crore) and Dakshin Haryana Bijli Vitran Nigam Limited (₹ 779.01 crore).

The losses are mainly attributable to various deficiencies in the functioning of PSUs. A review of latest three years Audit Reports of CAG shows that the State PSUs losses of ₹ 1,870.24 crore and infructuous investments of ₹ 222.76 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Twenty one accounts finalised during the year received qualified certificates. There were 41 instances of non-compliance with Accounting Standards in these accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Seventeen working PSUs had arrears of 28 accounts as of September 2011. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were seven non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

(Chapter 1)

2. Performance audits relating to Government companies

Performance audits relating to **'Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited'** and '**Working of Haryana State Roads and Bridges Development Corporation Limited'** were conducted. Executive summary of Audit findings is given below:

Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited

The distribution network of power sector constitutes the final link between power sector and consumers. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. National Electricity Policy aims to bring out reforms in Power Distribution Sector with focus on system upgradation, controlling and reduction of transmission and distribution losses, power thefts and making the sector commercially viable besides financing strategy to generate adequate resources. The performance audit covering period from 1 April 2006 to 31 March 2011 was conducted to ascertain whether the aims and objectives stated in the National Electricity Policy were adhered to and how far the distribution reforms have been achieved.

Recovery of cost of operations

DISCOMs were not able to recover their cost of operations during 2006-07 to 2010-11 and revenue gap (after considering revenue subsidies and other income) increased from ₹ 403.32 crore during 2006-07 to ₹ 1,663.23 crore during 2009-10 and decreased to ₹ 405.38 crore during 2010-11.

Distribution network planning

The number of consumers increased from 41.46 lakh in 2006-07 to 47.88 lakh in 2010-11 and connected load also increased from 11,771 MW to 17,188 MW during this period. The transformation capacity of distribution transformers increased from 10,899 MVA to 16,786 MVA. However, as compared to connected load there was still a short fall of 4,699 MVA in capacity at the end of 2010-11.

Project and contract management

Delay in commissioning of 124 sub stations i.e. above two years in five cases, one to two years in 17 cases, six months to one year in 52 cases and less than six months in 50 cases during 2006-07 to 2010-11. The delays caused loss of envisaged benefits of ₹ 61.11 crore. Shared cost of ₹ 115.70 crore towards augmentation of power transformers in sub stations of urban estates developed by HUDA (Gurgaon city only) had not been recovered from HUDA.

Implementation of central schemes

The Rajiv Gandhi Grameen Vidyutikaran Yojna was launched in April 2005. In Haryana, DISCOMs received funds under this scheme for providing electricity connection to 'Below Poverty Line' households in rural areas. While UHBVNL incurred expenditure in excess of the funds received, DHBVNL could not fully utilise the funds. There were inordinate delays in completion of projects under this scheme. The Government of India launched (July 2008) Restructured Accelerated Power Development Reforms Programme. DISCOMs failed to utilise the funds of ₹ 49.68 crore under this scheme.

Operational efficiency

The damage rate of distribution transformers was higher than norms prescribed by HERC. There were delays in repair of transformers by firms. Due to non installation of targeted addition of capacitors banks, the DISCOMs could not achieve energy saving of ₹ 103.31 crore. UHBVNL incurred extra expenditure of ₹ 539.81 crore on 89,969 tubewell connections under HVDS in comparison to Andhra Pradesh model. In case of DHBVNL ₹ 204 crore was incurred under HVDS and work was lying idle for want of connectivity.

Billing and collection efficiency

Balances remaining outstanding from consumers at the end of year increased in both the DISCOMs. Amount recoverable from consumers in case of UHBVNL and DHBVNL increased from ₹ 1,482.75 crore to ₹ 2,377.97 crore and ₹ 1,388.07 crore to ₹ 2,250.57 crore respectively during 2006-07 to 2010-11.

Financial management

The financial health of DISCOMs deteriorated during 2006-07 to 2010-11 as accumulated losses increased from ₹ 1,774.31 crore to ₹ 6,127.04 crore due to heavy burden of interest on borrowings, high Aggregate Technical and Commercial losses and increase in employees cost.

Subsidy and cross subsidisation

The State Government is providing subsidy with a view to ensure supply of power to Agricultural Pump set consumers at concessional rate of tariff. The subsidy support from the State Government to UHBVNL increased from 50.24 *per cent* to 68.97 *per cent* of revenue during 2006-07 and 2007-08. It again decreased to 33.86 *per cent* during 2010-11. Similarly, in case of DHBVNL the subsidy support increased from 24.04 *per cent* in 2006-07 to 31.37 *per cent* in 2009-10 which decreased to 26.65 *per cent* in 2010-11. Consumers of all the categories were getting power supply at tariff rates below average cost of supply and there was no cross subsidisation.

Tariff fixation

Due to deficient filing of Aggregate Revenue Requirement, there was delay in revision of tariff by HERC, resulting in loss of ₹ 163.32 crore (₹124.02 crore in UHBVNL and ₹ 39.30 crore in DHBVNL).

Energy Conservation and energy audit

The DISCOMs failed to utilise the grant provided by State Government (₹ 35.80 lakh in UHBVNL and ₹ 40 lakh in DHBVNL). Energy audit in DISCOMs was not effective and expenditure of ₹ 183.28 crore remained unfruitful.

Conclusion and Recommendations

DISCOMs had to depend on borrowings to carry out their operations due to poor operational efficiency. DISCOMs could not get any tariff hike due to deficient filling of ARRs. There was delay in completion of projects. Huge expenditure on HVDS remained unfruitful. Energy audit was also not conducted and expenditure incurred remained unfruitful. The performance audit contains seven recommendations to improve the performance of DISCOMs.

(Chapter 2.1)

Haryana State Roads and Bridges Development Corporation Limited

Haryana State Roads and Bridges Development Corporation Limited was established in May 1999 as a wholly owned Government Company with the objects to construct, repair, manage highways/ roads/bridges/tunnels, on Build-operate and Transfer (BOT)/Build-Own-Operate and Transfer (BOOT)/Build-Operate-lease and Transfer (BOLT) or any other scheme besides 29 ancillary and three other objects. The Company has not undertaken any activity mentioned in its main and ancillary objects. It is presently engaged only in construction of works on deposit work basis, which is part of its other objects. Besides, the Company was assigned the job of toll collection on toll points notified by State Government. It had seven field units to carry out its construction activities and running 35 points for toll operations. As on 31 March 2011, while the paid up capital of the

Company was ₹ 122.04 crore, the turnover was ₹ 79.64 crore which included interest income of ₹ 11.91 crore.

Financial Management

The Company suffered losses of ₹ 25.03 crore and ₹ 9.79 crore during 2006-07 and 2007-08 respectively due to heavy burden of interest and it started earning profit from 2008-09 onwards due to increase in service charges on construction activity and reduced interest burden. Due to shortfall in toll collection, the State Government provided budgetary support of ₹ 275.51 crore to the Company up to 31 March 2010 to repay its loans. The Company manages funds of Government departments who deposit their funds with the Company till they are utilised by PWD (B&R) for repair/construction of roads/ buildings. During 2006-07 to 2010-11, the Company received ₹ 1,148.66 crore and transferred ₹ 1,070.87 crore on this account. However, interest earned of ₹ 75.45 crore on these funds was not made part of the project funds. The Company has not been able to discharge its liabilities of ₹ 397.55 crore financed by the State Government to meet shortfall in repayment in its loans.

Operational performance

The Company executes works on deposit work basis. It did not have its own design cell and was dependent on consultants for preparation of Detailed Project Reports (DPRs). The DPRs were deficient as the same were not prepared keeping in view the site conditions and scope of work.

There was escalation of ₹ 73.47 crore (9.66 *per cent*) in five cases test checked, as those were prepared without considering site conditions which resulted in time and cost over-run. Out of 25 NCR road works undertaken during 2006-07 to 2010-11, no work was completed in time. Five works valuing ₹ 312.46 crore were completed with delay ranging from 10 to 16 months. Fourteen ongoing works valuing ₹ 1,249.48 crore were behind schedule by five to 15 months as at the end of 31 March 2011. Reasons for delay in completion of works were poor planning in deployment of resources, inadequate supervising staff of contractors, delay in shifting of utilities and changes in DPRs. The cost overruns were ultimately borne by the client departments thereby putting extra burden on State Exchequer. Time overruns also resulted in delayed utilisation of budgets and non achievements of intended benefits besides affecting the Company's ability to get more works from the State Government agencies. The Company also executed works of other State owned organisations. Eighteen works valuing ₹ 140.13 crore were completed and 17 works valuing ₹ 293.66 crore were in progress (March 2011).

Toll Activities

The Company failed to achieve the collection targets as the percentage of shortfall ranged between 65.08

and 75.05 *per cent* during 2006-07 to 2010-11 due to delay in award of toll contracts, delay in initiating cases for notification for new toll points etc. The share of departmental collection increased from 4.55 *per cent* in 2007-08 to 34.97 *per cent* in 2010-11. Delay/non-award of toll contracts attributed to non-achievement of collection targets.

Manpower

The manpower with the Company was not adequate in view of the works undertaken by the Company. The dependence of the Company on supervision consultants has increased as expenditure thereon increased from ₹ 11.60 lakh in 2007-08 to ₹ 10.25 crore in 2009-10. Majority of the manpower was on contract basis who cannot be held accountable for their lapses.

Conclusion and Recommendations

The deficiencies in the Company's functioning were controllable and there is immense scope for improvement of performance through better management of its operations. This performance audit contains six recommendations to improve the Company's performance.

(Chapter 2.2)

3. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 3.35 crore in five cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1, 3.2, 3.3, 3.6 and 3.7)

Loss of ₹ 4.84 crore in four cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.4, 3.5, 3.8 and 3.9)