

Chapter 3

3 Transaction Audit Observations

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

Government companies

Haryana Vidyut Prasaran Nigam Limited

3.1 Failure to enforce terms of Notice Inviting Tenders

Lack of timely action to enforce terms of NIT relating to validity of security bid coupled with issue of purchase orders before signing of contract resulted in firm backing out from contract after being declared the lowest bidder. The Company has yet to recover the bid security of `48 lakh.

The Company invited (October 2013) tenders for supply, erection, testing and commissioning of 220 KV transmission lines in Panchkula area on turnkey basis. As per the Notice Inviting Tender (NIT), the bidders were required to furnish a bid security of `48 lakh valid for a period of seven months from the date of opening of bids and beyond for any extension subsequently required. The successful bidder was required to sign the contract agreement within thirty days of the notification of award (letter of acceptance by the Company) and submit a performance guarantee @ 10 per cent of the contract price. The security was forfeitable if the successful bidder failed to sign the agreement or furnish the required performance bank guarantee within the specified period.

In response to the NIT, three offers were received and the notification of award was issued to the lowest bidder for a value of `26.60 crore. The awardee had submitted Bank Guarantee (BG) of `48 lakh valid up to 31 July 2014 subsequently extended up to 30 September 2014. The Letter of Acceptance (LoA) was issued on 01 July 2014 for `26.60 crore.

In terms of the NIT, the contractor was required to sign the contract agreement and submit required Performance Guarantee (PG) of `2.66 crore in the shape of BG by 31 July 2014. The Company issued (16 September 2014) the purchase order though the contract had yet to be signed. The contractor did not deposit the PG of `2.66 crore. The Company took up the matter of signing of the contract on 22 September 2014 *i.e.* after expiry of required period of 30 days for signing the contract agreement and submission of the PG followed by reminders for bid security (October 2014 and November 2014). The BG lapsed on 30 September 2014.

The purchase order was eventually terminated on 11 March 2015 and re-awarded (November 2015) to another firm at a cost of `29.20 crore. The Company had made payments of `8.10 crore till July 2016.

Audit observed that the bid security which is an instrument to draw assurance that the selected bidder would sign the contract and in the event of default lose the bid security amount had lapsed on 30 September 2014 and there was no effort on the part of Company to ensure its extension. The Company should have ensured the continued validity of the bid security when it took up the matter of signing of the agreement on 22 September 2014 which was done only 8 days prior to expiry of the bid security validity of 30 September 2014.

Government stated (August 2016) that the firm had been blacklisted for three years and `48 lakh which were liable to be forfeited would be recovered from the contractor alongwith risk and cost amount after completion of remaining work.

The reply is not tenable as timely action by the Company to ensure the validity of the BG of `48 lakh as well as signing of the contract before issue of purchase order would have averted the situation and deterred the firm from backing out from the contract after being declared the lowest bidder.

3.2 Failure to enforce Bank Guarantee

Failure of Company to fully encash a bank guarantee on default of contractor resulted in non-recovery of `36.36 lakh.

The Company awarded (March 2011) work for construction of 66 KV transmission lines to a contractor at a cost of `29.12 crore with scheduled date of completion of 12 months from the date of signing of the contract *i.e.* by February 2012. The terms and conditions of the contract provided that in case the contractor failed to execute the work in accordance with the contract terms, the Company could terminate the contract. In such an event, the Company was entitled to recover from the contractor the extra cost, if any, for completing the work.

As per the terms of the contract, the contractor submitted (March 2011) Bank Guarantees (BG) of `2.86 crore towards performance security as well as two BGs of `1.95 crore and `0.91 crore. The Company paid (April 2011) `2.86 crore towards mobilisation advance recoverable along with interest from the running bills of the contractor.

The Company returned (December 2012) the BG of `1.95 crore after the mobilisation advance to that extent was recovered. However, the contractor was not able to execute the work and the Company terminated (February 2014) the contract. While terminating the contract, the Whole Time Directors (WTDs) decided (February 2014) that BGs of the contractor may be encashed to recover not only the mobilisation advance along with interest but also the Liquidated Damages (LD) and anticipated extra cost likely to be incurred for the work to be carried out in future at the risk and cost of the

defaulting contractor. Accordingly, the Company recovered `2.88 crore towards performance security by encashing (March 2014) BGs of `2.86 crore in full and deducting `2 lakh from the running bills of the contractor. The Company also deducted the LD of `2.91 crore from the running bills of the contractor. The remaining BG of `0.91 crore obtained against mobilisation advance was however encashed partially (March 2014) to the extent of `54.64 lakh equivalent to outstanding mobilisation advance and interest thereon.

In order to complete the left over work valued at `10.23 crore, the Company issued a Notice Inviting Tender (June 2014) and the work was awarded (January 2015) to another contractor at total cost of `16.75 crore *i.e.* an additional cost of `6.52 crore of which work valuing `14.61 crore has been completed so far (July 2016). Against the additional cost of `6.52 crore likely to be incurred, the coverage available with the Company was `4.40 crore¹ *i.e.* it was short by `2.12 crore. As such, to cover the extra cost, the Company should have encashed the full BG of `0.91 crore available with it towards mobilisation advance.

The Government stated (August 2016), that full invocation claim of BG was lodged (28 February 2014) with the bank, but the bank stated that the claim should be raised for all the money payable by contractor and the Company reduced the claim to the extent of mobilisation advance outstanding *i.e.* `54.64 lakh.

Audit observed (November 2015) that the Company had initially (28 February 2014 and 4 March 2014) demanded the full amount of bank guarantee from the issuing bank which was subsequently reduced to the extent of outstanding mobilisation advance. Perusal of the records brings out that the Company had itself confirmed to the bank that the total amount recoverable from the contractor was `54.64 lakh though it could have insisted upon and sought for invoking the full bank guarantee amount of `0.91 crore. Had it encashed the BG in full, it could have recovered a further `36.36 lakh that would have reduced the gap in extra cost to that extent.

3.3 *Extra expenditure due to re-tendering*

The Company breached the confidentiality of bid evaluation process and had to incur an extra expenditure of `2.02 crore in re-tendering of work.

The Company invited (July 2012) single part tender enquiry under World Bank (WB) funded schemes for procurement of plant, design, supply and installation, testing and commissioning of 220 KV and 132 KV transmission lines. The bid conditions required that information relating to evaluation of bids and recommendation of contract award were not to be disclosed to bidders until information on contract award was communicated to all bidders.

¹ `2.88 crore of performance security and `1.52 crore of retention money deducted from running bills of contractor which was to be released after successful completion of work.

Out of the four bids received (Package A), the lowest bidder (L-1) with quote of ₹ 18.14 crore participated in the bid as lead partner after entering into Joint Venture (JV) agreement with another firm. Ignoring the bid conditions cited above, the Company intimated (27 February 2013) to the L-1 bidder that its bid was non-responsive and asked it to supply further documents. The L-1 bidder clarified (7 March 2013) that the bid may be treated as final and evaluated.

The Company decided (15 March 2013) to obtain concurrence of WB to place the order on L-2 bidder at the quoted rate of ₹ 18.76 crore and sent (8 April 2013) the Bid Evaluation Report (BER) to WB for concurrence. The World Bank intimated (28 May 2013) that it cannot review the Package A since the Company had communicated the evaluated position to a bidder even before the submission of BER to WB for review. Consequently, the Company decided to cancel its evaluation for Package A and re-floated (1 August 2013) the tender. The contract was ultimately awarded (3 January 2014) to another firm at a cost of ₹ 20.78 crore after obtaining concurrence from WB.

The Government stated (August 2016), that there was no procedural lapse but due to pursuance by the L-1 bidder regarding submission of documents, the Company had to communicate with the bidder. The reply was not tenable as the Company in violation of WB instructions communicated with the bidder and informed it to submit further documents breaching the confidentiality of the bid evaluation process and had ultimately to re-tender where the rates received were higher by ₹ 2.02 crore (₹ 20.78 crore - ₹ 18.76 crore) from the first tender.

Uttar Haryana Bijli Vitran Nigam Limited

3.4 Excess purchase of cables

Company procured cables without considering actual consumption leading to blocking of funds of ₹ 7.70 crore and avoidable interest thereon of ₹ 1.68 crore.

The Company obtained financial assistance² of ₹ 24.04 crore (October 2012) and ₹ 118.58 crore (December 2013) at rate of interest of 12.25 *per cent* per annum for procurement of PVC³ cables during the years 2012-13 and 2013-14 for strengthening electricity distribution system in villages. The Company entered into rate contracts (22 June 2012) with two firms valid for one year up to 30 June 2013 for procurement of cables of 240 kms of cables of various sizes.

Audit noticed that the Company had 20.48 kms cables of the aforesaid specifications in its store as of 28 May 2013 and receipt of another 696 kms of cables was awaited against purchase orders placed during July 2012 to April 2013. The consumption of these cables during 2011-12 and 2012-13 was

² 90 *per cent* of the project cost.

³ Poly Vinyl Chloride.

nil and 31.50 kms respectively. Without considering the trend of consumption and the quantity held in stores and those in the pipeline, the Company placed (26 June 2013) six more purchase orders for 240 kms of cables with staggered delivery schedule up to March 2014. The firms supplied 227 kms of these cables during August 2013 to March 2014 at a cost of ` 7.70 crore.

The Government stated that it has cables of 638 kms of aforesaid sizes in its store as of July 2016.

Thus, the decision of the Company to place purchase orders for additional quantity of 240 kms cables in June 2013 without taking into account consumption trends and available inventory resulted in excessive purchase of quantity of 227 kms cables resulting in blocking of funds of ` 7.70 crore and avoidable interest liability of ` 1.68 crore⁴ up to December 2015.

3.5 Deficient contract management

Release of payment without first ascertaining physical progress of work resulted in excess payment of ` 1.04 crore.
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Para No. 2.1.7.4 of the Report of the Comptroller and Auditor General of India on PSUs for the year ended 31 March 2013 had pointed out that the Company made excess payment of ` 15.36 crore in four contracts due to release of payment of major portion of material (75 to 80 *per cent*) without linking it to erection. In response, the Company reduced the percentage of release of payment from 80/ 75 to 60/ 50 on the receipt of material and 40/ 30 *per cent* after erection of the same with the balance 10 *per cent* to be released after commissioning. The standard terms of awards of construction/ augmentation of sub-station and feeder works contracts also provided that the contractor would furnish a Performance Bank Guarantee (PBG) equal to 10 *per cent* of the total contract price for faithful performance of the contract valid up to 90 days after end of the warranty period.

The Company awarded (June 2011) a turnkey contract for supply and erection of material for bifurcation/ trifurcation of 51 overloaded feeders to a contractor at a cost of ` 7.70 crore (material ` 7.36 crore and erection cost ` 0.34 crore). The work was to be completed within six months by December 2011. The contractor supplied the material valuing ` 4.96 crore against which payment of ` 3.82 crore (` 2.98 crore as 60 *per cent* on receipt of material plus ` 0.84 crore on its erection) was made up to June 2013. The Company had obtained BG of ` 0.77 crore as 10 *per cent* value of the work order.

Audit noticed (February 2015) that the contractor failed to execute the work with erected material valuing ` 1.95 crore leaving un-erected material valuing ` 0.83 crore. Thus, the Company made an overpayment of ` 1.04⁵ crore to the

⁴ 90 *per cent* (percentage of REC funding in the Project) of total interest calculated @12.25 *per cent* per annum.

⁵ ` 3.82 crore (total payments made) less ` 1.95 crore (value of material erected) less ` 0.83 crore (value of material available with the Company).

contractor without monitoring physical progress of work. Though the Company claimed (January 2015) ₹2.06 crore from the contractor towards cost of material taken away, levy of penalty and interest after encashment of PBG of ₹0.77 crore, nothing had been recovered so far (March 2016).

Thus, release of payment without ascertaining physical progress of work resulted in excess payment of ₹1.04 crore.

3.6 Loss due to non-encashment of Performance Bank Guarantee

The Company suffered loss of ₹1.17 crore due to non-encashment of the performance bank guarantee besides loss of ₹0.60 crore on account of interest on borrowed funds. Damaged transformers valuing ₹1.95 crore have remained unutilised for long periods.

The Company entered (October 2007) into a contract with a private firm for supply and erection of 15 numbers of 33 KV sub-stations and associated lines under Operation Circles Ambala, Kurukshetra, Jind, Rohtak and Sonapat on turnkey basis at a total cost of ₹35.15 crore under a Rural Electrification Corporation funded project. The contract stipulated that the equipment should be free from defects for a period of twelve months. The contract also provided that the equipment supplied would be guaranteed for satisfactory operation for a period of five years. The contractor was required to provide Performance Bank Guarantee (PBG) equal to 10 per cent of the contract price to be released after the end of guarantee period of five years as per the bid documents.

The contractor submitted PBG of ₹3.51 crore valid up to 31 January 2009 extended up to 31 January 2010. The contract was executed successfully and 15 sub-stations were energised between September 2008 to May 2010. However, three Power Transformers (PTFs) went out of order as detailed below:

Table 3.1: Details of non-functional Power Transformers

Sl. No.	Name of sub station	OP circle	Capacity of PT	Date of commissioning	Guarantee up to	Date of Damage
1	Shamdo	Jind	8 MVA	27.02.2009	26.02.2014	17.12.2010
2	Jaitpura	Ambala	10 MVA	30.04.2010	29.04.2015	11.06.2014
3	Barsana	Ambala	10 MVA	24.05.2010	23.05.2015	16.10.2014

Source: Information obtained from Company

The contractor refused (July 2015) to repair the power transformers on the ground that the guarantee period was for twelve months. The Company referred the matter to the Legal Remembrancer who opined (August 2015) that the period of five years was part of the technical specification that was also a part of the contract and both provisions had to be complied with. Hence, the firm was bound to ensure satisfactory operation of the power transformers for five years.

Audit observed that the three damaged PTFs valuing ₹1.95crore⁶ have not

⁶ ₹55.72 lakh for PTF at Shamdo and ₹69.65 lakh each for PTFs at Jaitpura and Barsana.

been repaired/ replaced and remained unutilised from 16 months to over five years (March 2016). The non-functional PTs were not repaired/ replaced by the contractor. After expiry of the validity of PBG on 31 January 2010, the Company did not obtain the PBG during the period February 2010 to November 2010 and exposed itself to the risks arising from defects/ damage to the PTs. Thereafter, the contractor submitted (4 December 2010) PBG of `1.17 crore only instead of `3.51 crore, valid up to 31 July 2011. The Company did not object to the reduced amount of PBG and accepted the same. The Company approached (18 July 2011) the contractor to further extend the PBG up to 23 May 2015 but the contractor refused (27 July 2011) and pleaded that the guarantee period was 12 months. Meanwhile, the PBG expired on 31 July 2011. Thus, in view of damaged PT at Shamdo (December 2010) and refusal of the contractor (July 2011) to extend PBG, had the Company encashed PBG of `1.17 crore in July 2011 itself, a loss of `1.77 crore⁷ (including interest paid on borrowed funds up to March 2016) could have been partially avoided.

The Government stated (July 2016), that the Company would issue notice to the contractor to repair the damaged PTs and if the PTs are not repaired, the PBG available against another bid would be got encashed. The reply is not acceptable because the performance bank guarantees obtained against other contracts may not be encashable for this contract.

Dakshin Haryana Bijli Vitran Nigam Limited

3.7 Non recovery of outstanding dues on account of energy bills

Non-compliance with provisions of Electricity Act and HERC Regulations 2014 resulted in non-recovery of `84.14 lakh.

Section 56 of the Electricity Act, 2003 requires that where any person neglects to pay charges for electricity or any other sum, a licensee may after giving not less than 15 days' notice in writing, cut off the supply of electricity until such charge or other sum are paid to the licensee. The Haryana Electricity Regulatory Commission (Electricity Supply Code) Regulations, 2014 provides that a security deposit (Advance Consumption Deposit-ACD) equivalent to estimated power consumption of two billing cycles should be made by all consumers whose values should be reviewed by the licensee at the beginning of the year for adequacy based on the consumption pattern of the previous year.

Scrutiny of records of Chhainsa Sub Division under Operation Circle Faridabad revealed that a large supply consumer having two connections, C-1⁸ and C-2⁹, deposited ACD of `9.02 lakh (`2.52 lakh and `6.50 lakh respectively) at the time of release of connections in July 2008 and November 2009 respectively. The consumer defaulted in payment of dues

⁷ Amount of PBG of `1.17 crore plus interest of `0.60 crore calculated on `1.17 crore @ 10.90 per cent from August 2011 to March 2016 (i.e. 56 months).

⁸ Account no. CHHT-0001.

⁹ Account no. CHHT-0005.

from May and June 2015 respectively. To clear the dues up to August 2015, the consumer gave (5 September 2015) two cheques of `61.80 lakh (`10.93 lakh for C-1 and `50.87 lakh for C-2) which were dishonoured (14 September 2015). The Company disconnected the energy supply on 10 September 2015. The total dues increased to `84.14 lakh (with surcharge) as on December 2015 after adjusting the available ACD of `9.02 lakh.

Audit observed (December 2015) that though the Company was required to maintain ACD of `35.33 lakh (`5.29 lakh for C-1 and `30.04 lakh for C-2) during 2015-16 on the basis of consumption pattern of 2014-15, it did not obtain the additional ACD of `26.30 lakh.

The concerned Sub Divisional Officer (SDO) intimated (April 2016) that the defaulting amount was transferred (18 February 2016) to the consumer's residential connection account and would be recovered. However, it was observed that the consumer's residential account too has been disconnected (February 2016) by the Company and hence the chances of recovery are very remote.

Thus, non-compliance with the provisions of the Electricity Act, 2003 and HERC Regulations 2014 resulted in non-recovery of dues to the extent of `84.14 lakh. Had the additional ACD of `26.30 lakh been obtained, the non-recovery could have been reduced to that extent.

The Government stated (June 2016) that a charge sheet has been framed against the concerned officials for non-disconnection of supply to defaulter premises and non-recovery of due ACD in timely manner.

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

3.8 Restructured Accelerated Power Development and Reforms Programme (R-APDRP)

Implementation of R-APDRP suffered from delays as well as unfruitful expenditures. Towns were declared 'Go Live' though they did not fulfil the criteria for being declared 'Go Live'. Expenditure of `6.89 crore incurred on consultants proved unfruitful as the detailed project report prepared by them remained unutilised. Delay in updating of software to incorporate revised tariff resulted in delay in realisation of `299.96 crore.

3.8.1 Introduction

The Government of India (GoI) introduced (September 2008) the Restructured Accelerated Power Development and Reforms Programme (R-APDRP) with the aim of restoring the commercial viability of the power distribution sector by substantially reducing the Aggregate Technical and Commercial (AT&C) losses and strengthening of distribution network of State power utilities. Projects under the scheme were to be taken up in two parts. Part-A included projects for preparation of baseline data, adoption of IT applications for energy accounting/ auditing and IT based consumer service centre while

Part-B included renovation, modernisation and strengthening of sub-stations and lines. The scheme also envisaged establishment of Supervisory Control and Data Acquisition System (SCADA) in large towns.

Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) are the two Distribution Companies (DISCOMs) distributing electricity in the North zone¹⁰ and South zone¹¹ respectively through nine operation circles each.

Audit examined records of 25 projects (one town is considered as one project) out of 36 projects (UHBVNL: 20 and DHBVNL: 16) and SCADA¹² (Faridabad town) covering the period 2011-12 to 2015-16 to assess the implementation and adequacy of monitoring and achievement of the intended benefits.

3.8.2 Funding mechanism

In Part-A, 100 *per cent* funds for the approved projects were initially to be provided as loan from GoI that would be converted into grant once the establishment of the required system was achieved and verified by an independent agency appointed by the Union Ministry of Power (MoP). For Part B, GoI was to initially provide loan up to 25 *per cent* of the project cost and balance funds were to be raised from financial institutions *i.e.* Rural Electrification Corporation (REC)/ Power Finance Corporation (PFC). Fifty *per cent* of the project cost of Part-B was convertible into grants by GoI subject to compliance of terms and conditions of the scheme. The entire loan from GoI was to be routed through PFC.

Part-A and Part-B of the project were scheduled to be completed before September 2012 and March 2017 respectively and SCADA by August 2016. Details of eligible towns, loan sanctioned, amount received and expenditure incurred thereon (up to March 2016) are in table 3.2 below:

Table 3.2: R-APDRP projects

(in crore)

Projects	No. of eligible towns	Loan sanctioned	Revised cost ¹³	Loan received	Expenditure incurred	Remarks
Part-A	36	165.63	201.03	95.73 (DH:54.28, UH:41.45)	88.08 (DH:39.37, UH:48.71)	Works in progress
Part-B	33	1,322.58	-	Nil	Nil	Project dropped in total
SCADA (Part-A) Faridabad	1	24.29	-	7.29	2.03	Works in progress
SCADA (Part-B) Faridabad	1	120.61	-	3.50	NIL	Loan received in March 2016

Source: Information obtained from DISCOMs

¹⁰ North zone: Ambala, Jhajjar, Karnal, Kaithal, Kurukshetra, Panipat, Rohtak, Sonapat, and Yamunanagar.

¹¹ South zone: Bhiwani, Faridabad, Gurgaon, Hisar, Jind, Narnaul, Palwal, Rewari and Sirsa.

¹² Supervisory Control and Data Acquisition.

¹³ Revised cost/ Revised DPR not approved by PFC (sanctioning authority).

Audit observed that the tentative schedule of completion of Part-A projects had been extended up to September 2016 even though the DISCOMs had declared (September 2015) all 36 towns as Go-Live.

DISCOMs dropped (UHBVNL: February 2016 and DHBVNL: September 2015) Part B projects as the projects were delayed and time left for completion in regard to target date was very less. For SCADA (Part-A), the work was awarded in August 2015 and scheduled for completion by August 2016.

3.8.3 Audit findings

A) Deficiencies in preparedness for Scheme

Unfruitful expenditure on preparation of DPRs of Part B project

For execution of Part-B of R-APDRP project in 33 identified towns (UHBVNL: 20 and DHBVNL: 13 towns), the work for preparation of Detailed Project Reports (DPRs) were assigned (August and December 2009) to M/s REC Power Distribution Company Ltd. (REC-PDCL), New Delhi. The DPRs were submitted to PFC (July 2010 to March 2011) which sanctioned (March 2011 and November 2011) loan amounting to `673.58 crore. The work was to be awarded within three months of sanction of loan. However, DISCOMs had not initiated the bidding process during March 2011 to November 2012. Due to this delay, the DPRs needed to be updated/ revised as they were based on data of the year 2008-09. Resultantly DISCOMs awarded (December 2012) work of updating/ revision work of DPRs to M/s PFC Consulting Ltd. New Delhi¹⁴ (PFCCL) who updated (May 2013 to June 2013) the DPRs and PFC revised (27 September 2013) the loan to `1,107.26 crore for 29 towns. The DISCOMs released (January 2013 to May 2015) `6.89 crore (UHBVNL: `3.70 crore and DHBVNL: `3.19 crore) to the consultants.

Government stated (September 2016) that GoI had originally approved the DPRs in March 2011 with the completion period of three years. The revised DPRs submitted to PFC/ GoI in May 2013 were sanctioned in September 2013 but the NITs floated time to time could not be finalised. The State Government subsequently decided to drop implementation of Part-B on the ground that projects prepared under Part-B had become outdated. Government added that the DPRs prepared by the consultant were the intangible assets of the Company which were likely to be used in future for any system up-gradation.

The replies are not tenable as the purpose for which DPRs were prepared could not be achieved and these reports are project specific. Hence, the expenditure of `6.89 crore paid to the consultants was rendered unfruitful due to the inability of the Company to take timely follow up action on the approved DPRs.

¹⁴ A subsidiary Company of PFC.

B. Deficiencies in Execution of R-APDRP

i) Declaration of “Go-Live” status without compliance with the set criteria

As per terms and conditions of sanction of loan, the Part-A projects was to be completed within three years from the date of sanction *i.e.* by 27 February 2009 by UHBVNL and by 25 September 2009 by DHBVNL to make it eligible for conversion of loan into grant. As there was delay in appointment of Information Technology Implementation Agency (ITIA), the date of conversion of loan into grant was extended up to 30 September 2015. With the Go-live of R-APDRP Part-A project, all commercial operations like metering, billing, collection, new connection, disconnection, energy audit *etc.* should have been done from the IT system without any manual intervention. All the 36 R-APDRP towns were declared Go-Live in September 2015 by the DISCOMs.

Audit observed that DISCOMs declared Go-Live though all the declared towns did not fulfil the criteria required for being Go-Live. Activities like reconciliation of Customer Care & Billing (CCB), GIS data, asset mapping and complete consumer indexing had not been completed (March 2016). DISCOMs stated that the efforts were being made to clear the deficiencies for stabilisation of the system.

ii) Delayed realisation of revenue due to delay in updating of tariff

DISCOMs are to ensure that tariff revisions are immediately implemented in the bill generation system so that loss of revenue could be avoided. The Haryana Electricity Regulatory Commission (HERC) vide orders dated 27 March 2015 and 7 May 2015 revised the schedule of tariff applicable from 1 April 2015 and the levy of Fuel Surcharge Adjustment (FSA).

Test check of records revealed that revised tariff as per orders of HERC was implemented in September 2015 in 36 R-APDRP towns. Delay in implementation of orders in the software resulted in delayed realisation of `299.96 crore (UHBVNL-`92.15 crore and DHBVNL-`207.81 crore) from April to August 2015.

The Government stated (July/ September 2016) that although timely action had been taken for implementing the new tariff schedule, compelling circumstances had delayed its implementation. The reply was not acceptable as revision of tariff is part of the system which should have been implemented immediately.

iii) Non utilisation of MDAS in HT connections

Audit observed that though the MDAS¹⁵ has been made operational on HT

¹⁵ Meter Data Acquisition System (MDAS) is to acquire meter data and select consumer meters automatically from remote locations avoiding any human intervention and use meter data for accurate billing purposes.

connections in R-APDRP towns of DHBVNL, the DISCOM did not utilise it and instead paid ` 73.15 lakh to a contractor for meter data collection for 5,082 HT consumers during October 2015 to March 2016. Had DHBVNL used the R-APDRP system itself, the expenditure of ` 73.15 lakh could have been avoided.

The Government stated (September 2016) that MDAS could not be utilised during October 2015 to March 2016 as it was the transition period during which the bigger towns *i.e.* Faridabad and Gurugram were migrated to the new platform and the stability of MDAS system was yet to be achieved. The reply is not tenable as modems had been installed by ITIA in respect of HT consumers and the DISCOMs had declared Go-Live in September 2015 itself.

Conclusion

Implementation of R-APDRP suffered from delays as well as unfruitful expenditures. Towns were declared 'Go Live' though they did not fulfil the criteria for being declared 'Go Live'. Expenditure of ` 6.89 crore incurred on consultants proved unfruitful as the detailed project report prepared remained unutilised. Delay in updating of software to incorporate revised tariff resulted in delay in realisation of ` 299.96 crore. Thus, the primary objective of R-APDRP of restoring the financial viability of the Companies and reducing AT& C losses could not be fully achieved.

3.9 Working of Transformer repair workshops in DISCOMs

Transformer repair workshops were low on efficiency leading to accumulation of unrepaired distribution transformers (DTs) which impacted the maintenance of distribution networks. The percentage of repaired distribution transformers to damaged distribution transformers decreased from 57 per cent to 31 per cent in UHBVNL and from 70 per cent to 22 per cent in DHBVNL during the three year period till 2015-16. This was attributable to delay in finalisation of tender for repair and failure of Companies to provide the required raw materials and space to the firms.

3.9.1 Introduction

Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) undertake power distribution in the State. In order to repair damaged Distribution Transformers (DTs) and Power Transformers (PTFs)¹⁶, UHBVNL and DHBVNL (DISCOMs) maintain Transformer Repair Workshops (TRWs) and Transformer Handling Workshops (THWs). In case of TRWs, labour is outsourced to private firms for in-house repairs and material and infrastructure is provided by the DISCOMs while in THWs, the damaged distribution transformers are

¹⁶ It is used for the transmission purpose at high voltage level greater than 33 KV.

repaired by private firms on job order basis at the premises of the firm using their own raw material and infrastructure. As on 31 March 2016, there were two¹⁷ TRWs, five¹⁸ THWs and one Power Transformer Repair workshop (Panipat) in UHBVNL and seven¹⁹ THWs in DHBVNL.

An audit was conducted to assess the overall efficiency of the workshops. The audit covers the working of workshops for five years from 2011-12 to 2015-16.

3.9.2 Repair of Transformers

The position of DTs to be repaired, actually repaired and percentage of DTs repaired in workshops of both the DISCOMs for the last five years as on 31 March 2016 is depicted in chart 3.1 below:

Chart 3.1: Damaged transformers repaired in the UHBVNL

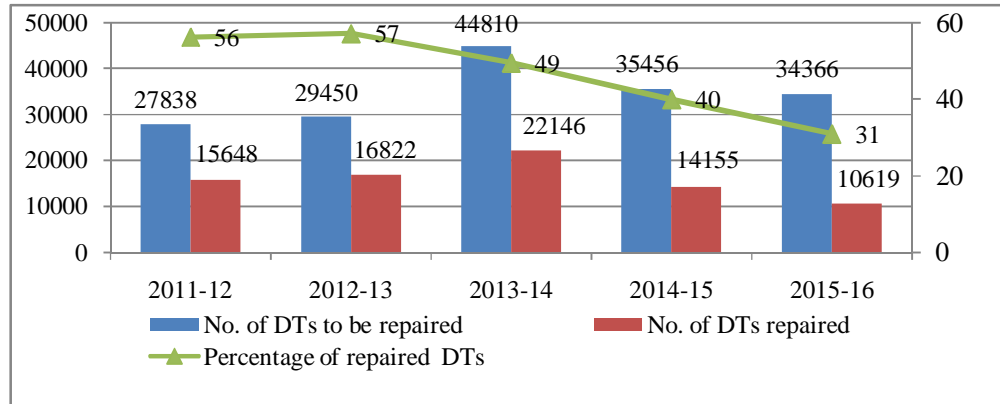
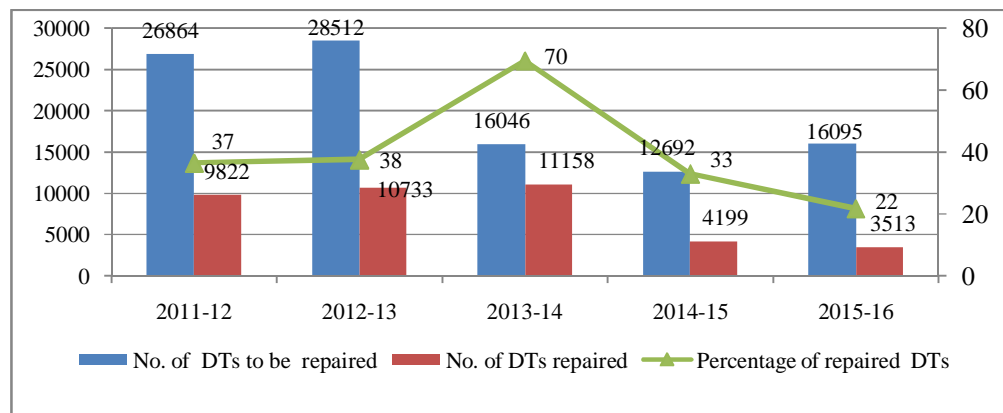


Chart 3.2: Damaged transformers repaired in the DHBVNL



(Source: Information obtained from DISCOMs)

¹⁷ Dhulkote and Kaithal.

¹⁸ Dahar, Jyotisar, Karnal, Rohtak and Sonapat.

¹⁹ Bhiwani, Faridabad, Hisar, Narnaul, Rewari, Sirsa and Sohna.

As brought out above, 23,747 and 12,582 DTs were lying unrepaired in UHBVNL and DHBVNL respectively as on 31 March 2016. The overall percentage of repaired DTs to total damaged DTs decreased from 57 *per cent* in 2012-13 to 31 *per cent* in 2015-16 and from 70 *per cent* in 2013-14 to 22 *per cent* in 2015-16 in UHBVNL and DHBVNL respectively.

The Government stated (July 2016) that the DTs were repaired by the firms up to the year 2014 through in-house and outsourcing contract and thereafter, the in-house repairing work was stopped and repairs were being outsourced.

Audit observed that there was an accumulation of unrepaired DTs in the workshops which would adversely impact the ability of the Companies to properly maintain their distribution networks. Further, the lack of a Workshop Manual specifying the duties and responsibilities of staff, procedures of joint inspection of transformers, arrangement of raw material, issue of stores and spares, opening of job card of repairable transformers, time frames for repair work to be undertaken and declaration of transformers as beyond economical repairs undermined prompt decision-making and effective monitoring that could have quickened the pace of repairs. This is evidenced by the following:

(i) While 86 *per cent* of DTs received for repair during September 2013 were repaired within 60 days, only 14 *per cent* DTs were repaired within 60 days in April 2011.

(ii) Failure of the Companies to provide raw materials and space to firms engaged for repair of DTs resulted in accumulation of 5,009 and 3,895 DTs in UHBVNL during 2011-12 and 2012-13 with the accumulations being eliminated by March 2016.

(iii) Similarly, there was accumulation of 63 and 100 KVA DTs during April 2011 to January 2013 in DHBVNL as the firm could repair only 56 *per cent* of the damaged DTs in three years during 2011-12 to 2013-14 leaving a deficit of 4,888 DTs. The accumulation started from January 2014 when successive tenders floated could not be finalised. The overall number of damaged transformers remaining unrepaired fell from 17,042 as on 31 March 2011 to 12,582 as on 31 March 2016 but this was partially due to lesser number of damaged transformers being reported.

(iv) Damaged Amorphous Core²⁰ DTs lying unrepaired in workshops increased from 923 (UHBVNL: 522, DHBVNL: 401) to 11,762 (UHBVNL: 7,554, DHBVNL: 4,208) during 2011-16. The Board of Directors (BoDs) of UHBVNL decided (October 2014) that DTs of Amorphous Core should be repaired within six months. However, UHBVNL could repair only 75 DTs while DHBVNL got repaired 874 DTs during 2011-16.

3.9.2.1 Extraction of materials from damaged transformers

Damaged DTs received in the workshops are issued for repairs after

²⁰ Core is made up of ferromagnetic amorphous metal (alloy of iron & silicon and phosphorus).

dismantling and removal of coils and transformer oil. Audit observed the following:

(i) Non recovery of cost of transformer oil and missing parts

As per the instructions issued in September 2002, transformer oil and parts of transformers are required to be topped up/ checked at regular intervals whenever damaged transformers are sent to workshops for repairs. The cost of shortage of transformer oil and missing parts, if any, are to be recovered from the officials responsible. During 2011-12 to 2015-16, 133.71 lakh litres of transformer oil and 1,05,701 HT/LT brass rods valuing `68.29 crore were found short in workshops of both the DISCOMs. While reports of these shortages had been sent to the respective operation circles for recovery, no effort was made to ascertain whether the recoveries had actually been effected. In Operation Division UHBVNL, Ambala City, recoveries pointed out in March 2008 had not been effected even by March 2016.

The Government stated (July/ September 2016) that the recovery had to be made by the operation wing.

(ii) Incorrect computation of weight of damaged coils

While repairing damaged DTs, the weight of new coils which are to be put into the repaired DTs should be equal to the weight of coils extracted, reduced by weight of transformer oil soaked by the coils which is one to two *per cent* of the weight.

Audit observed that in UHBVNL, the extracted coils were taken on Joint Verification Report (JVR) as scrap at their full weight without reducing the weight of absorbed oil. But at the time of transferring the coils from JVR to scrap account, one or two *per cent* was reduced from the weight of coils. This resulted in excess issuance of 40,556.67 Kg coil valuing `0.76 crore on repair of 79,390 damaged DTs during 2011-16.

Government stated (September 2016) that one or two *per cent* of weight of extracted coil entered in JVR was reduced when it is transferred to scrap account. The reply was not acceptable as logic of the reduction in weight at the time of disposal has no relevance.

3.9.2.2 Disposal of scrap

Damaged distribution transformers are surveyed and disposed off after their inspection by a Committee of Officers at reserve price fixed by each DISCOM separately on the basis of prevailing market rates. The dirty transformer oil, HV/ LV coils, HT/ LT brass rods and other materials extracted from damaged DTs are sold monthly/bi-monthly through e-auction at or above the fixed reserve price. E-auction is got done through M/s MSTC Limited. Audit observed the following:

(i) Loss of income due to delay in disposal of scrap

The Board of Directors (BoDs) of UHBVNL decided in April 2009 that

auction of scrap up to five *per cent* below the reserve price shall be allowed subject to approval of whole time directors and in case, the offered price has a gap of more than five *per cent* subject to maximum up to 10 *per cent*, the matter be referred to the whole time directors for fixing a revised reserve price. The BoDs in its meeting held on 6 May 2015 was informed that a large quantity of scrap material had collected in the workshops which could not be auctioned due to high reserve prices fixed. The BoDs decided (September 2015) that disposal of the scrap should be quick and no scrap should lie for more than 30 days.

In UHBVNL, scraps were not disposed off regularly. Test check of records revealed that UHBVNL had to forgo annual revenue ranging between ` 1.79²¹ crore and ` 2.61 crore per annum during 2011-16 due to non-disposal of dirty transformer oil, High Tension/ Low Tension aluminium coils and brass scrap. The disposal of scrap was slow due to fixation of high reserve price and it had not re-fixed the reserve price with approval of the whole time directors when the prices received were less by more than five *per cent* of the reserve price. In DHBVNL, scrap was disposed off regularly due to revision of reserve price in line with prevailing market price.

3.9.2.3 Power Transformer Repair Workshop

In UHBVNL, the Power Transformer Repair Workshop at Panipat was working as the handling workshop where Power Transformers (PTFs) were repaired by private firms on job order basis. Audit noticed the following:

- During 2011-16, out of 60 damaged PTFs, 13 PTFs were surveyed off, 21 PTFs were repaired while 26 PTFs remained unrepaired. It was further observed that against tender enquiry of August 2013 for repair of six PTFs²², the firms lifted (January and February 2015) two PTFs after the finalisation of tender in July 2014 but these remained unrepaired up to March 2016.
- Out of 26 unrepaired PTFs, five damaged PTFs were lying in the workshop for one to 13 years. As per decision (April 2014) of the whole time directors, all PTFs manufactured prior to 1995 were to be disposed off. However, no steps were taken to survey these PTFs which resulted in blocking of funds of ` 0.56 crore (worked out at minimum scrap value of the PTFs as per E-auction).
- Out of 13 PTFs surveyed off during 2011-16, nine surveyed PTFs were lying in the workshop for three to 13 years for want of disposal as on 31 March 2016. These transformers could not be disposed off during

²¹ Considering the minimum balance of scrap items per year which remained unsold at average sale rate for the respective year.

²² Six for UHBVNL and three for DHBVNL.

e-auction held 28 times during 2011-16 due to high reserve price which resulted in blocking of funds of `0.73 crore and loss of interest amounting to `0.58 crore.

Government stated (September 2016) that disposal of damaged and surveyed off Power Transformers was under process and would be disposed in future e-auction.

DHBVNL had not established any PTFs Repair Workshop and was getting damaged PTFs repaired through private firms. Audit observed that as on 31 March 2016, 27 damaged PTFs were lying damaged for the last three to 15 years resulting in blocking of funds of `2.28 crore.

Conclusion

The percentage of repaired distribution transformers to damaged distribution transformers decreased from 57 per cent to 31 per cent in UHBVNL and from 70 per cent to 22 per cent in DHBVNL during the three year period till 2015-16. This was attributable to delay in finalisation of tender for repair and failure of Companies to provide the required raw materials and space to the firms. The companies failed to recover cost of transformer oil and missing parts valued at `68.29 crore found short in the workshops of both DISCOMs. Lastly, damaged power transformers were lying undisposed for periods ranging up to 15 years resulting in blocking of funds of `2.28 crore.

Haryana Mass Rapid Transport Corporation Limited

3.10 Execution and operation of metro link

HUDA entered into a concession contract assuming 80 per cent of liabilities of concessionaire in the event of termination of the contract and default of the concessionaire without full visibility as to the costing of the project and the extent of its potential liabilities. HUDA and its successor HMRTC failed to enforce the terms of the concession contract which resulted in non-recovery of interest of `1.57 crore for delayed payment of connectivity charges and charging of excess passenger fares amounting to `11.84 crore by the concessionaire.

The Haryana Mass Rapid Transport Corporation Limited (HMRTC) was incorporated in March 2012 with the objective, *inter-alia*, of taking over the existing urban mass transport projects owned by State Government agencies alongwith the assets and liabilities related to these projects and operating them. Accordingly in February 2015, the Haryana Urban Development Authority (HUDA) transferred two Public Private Partnership (PPP) projects²³ for development of metro links to HMRTC and the work relating to these projects is being looked after by the Corporation since then. Of the two

²³ Metro link from Sikanderpur to NH-8 Gurugram and from Sikanderpur to Sector-56, Gurugram.

projects, the metro link from Sikanderpur Station to National Highway (NH)-8 in Gurugram was completed and operationalised in November 2013.

Audit test checked the records (May and June 2016) relating to the completed project and the audit findings are enumerated in the succeeding paragraphs.

Entering into Concession Contract

A private company²⁴ proposed (September 2007) to develop and operate a metro link between Sikanderpur and NH-8 Gurugram that would mitigate congestion and pollution which was likely to occur due to increase in traffic on occupation of areas of Gurugram that it had developed. In December 2007, the company submitted a feasibility study which it had got conducted through RITES Ltd. The feasibility study envisaged a metro link of 3.2 kms length at a capital cost of ` 403 crore which would become financially viable within a time period of 30 years with a financial internal rate of return of 15.1 *per cent* per annum on equity.

In order to see whether any other party was interested in the project, HUDA invited Expressions of Interest (EoI) twice in December 2008 and February 2009 for development of the metro rail link on Built-Operate-Transfer basis for 99 years. The EoI provided that the bidder could either design and implement the project as per the feasibility study or submit technical proposals for alternative route. The entire cost would be borne by the bidder and the State Government/ HUDA would not provide any financial support in form of equity or grant or any subsidy during operation and maintenance nor provide exemption from payment of taxes and duties. The EoI also provided for recovery of connectivity charges of ` 765 crore²⁵ in instalments up to the 35th year of operation and lease rent for the use of HUDA land. The basis of award of work was highest share in the revenue generated out of advertisement and property development by the bidder.

Response to the EoI was received (March 2009) only from one consortia, namely, Rapid Metro Rail Gurgaon Ltd (RMGL²⁶) which proposed an alternative metro route of length of 5.1 kms at an estimated project cost of ` 900 crore. The bidder quoted sharing one *per cent* of income from the advertisement and property development which after negotiation was increased to five to 10 *per cent*²⁷. The concession contract was signed between HUDA and RMGL on 9 December 2009. RMGL informed HUDA (June 2010) that they had arranged loans from banks of ` 761.60 crore for

²⁴ DLF Commercial Developers Limited which was developing Cyber city through which this metro link was proposed.

²⁵ ` Five crore on signing of concession agreement and ` 40 crore per year from the beginning of 17th year till 35th year *i.e.*, for 19 years.

²⁶ A consortium of ITNL Enso Rail Systems Limited, IL&FS Transportation Networks Limited and DLF Metro Limited.

²⁷ From the beginning to 16th year – five *per cent*, from 17th to 21st year – six *per cent*, from 22nd to 26th year – seven *per cent*, from 27th to 31st year – eight *per cent*, from 32nd to 36th year – nine *per cent* and from 37th year till end of concession period – 10 *per cent*.

construction of the metro link and the balance will be funded by the consortia partners.

Audit observed that HUDA had not stipulated in the EoI nor did it subsequently seek at any stage the detailed costing for the alternative metro route length of 5.1 kms though it got the technical aspects of the project verified from the Delhi Metro Rail Corporation (DMRC). After completion of the project, the concessionaire reported the project cost as ` 1,088 crore. In the absence of any prior estimates of cost or financial viability, the reasonableness of this project cost could not be assessed.

Audit further observed that a clause was inserted in the concession contract which stipulated that HUDA would take over the complete system including project assets alongwith 80 *per cent* of the liabilities in case of default on the part of the concessionaire to run the project in accordance with the concession contract. This constituted an assurance to lenders of the consortia that HUDA/ HMRTC would bear the major portion of the liabilities in the event of termination of the contract and the failure of RMGL to meet its liabilities. It may be added that RMGL has been continuously incurring losses which had accumulated to ` 334.54 crore²⁸ as on March 2016.

Government stated (December 2016) that as no grant/ equity of HUDA was involved, it was not necessary to get the cost of the project worked out by HUDA. They added that the clause to take over the assets and liabilities of the project in case of default on the part of the concessionaire to run the project was inserted as per model concession agreement (Public Private Partnership in Urban Rail Systems) of Planning Commission, Government of India. The fact remained that it would have been prudent for HUDA to seek and examine the detailed project cost so as to gain assurance as to the reasonableness of the overall cost as well as its potential liability in the event of termination of the contract due to default on the part of the concessionaire. It would also have provided an objective basis for determining the length of the concession period as also the quantum and recovery period of connectivity charges.

Delay in payment of connectivity charges

The concession contract provided that RMGL was to pay a connectivity charge of ` five crore to HUDA within 60 days of signing of the contract *i.e.*, by 8 February 2010. The contract stipulated that it was the obligation of the concessionaire to obtain all approvals, clearances and sanctions of appropriate agencies including permission for setting up a metro system under the applicable laws.

RMGL did not deposit the connectivity charges as stipulated in the concession contract and requested for extension of time on the plea that necessary approvals were awaited from the Union Ministry of Urban Development (MoUD). In May 2010, HUDA asked RMGL to obtain the requisite approval

²⁸ Loss up to 2011-12 ` 3.60 crore, for 2012-13 ` 4.03 crore, for 2013-14 ` 63.67 crore, for 2014 15 ` 135.33 crore and for 2015-16 ` 127.91 crore.

from MoUD within 30 days and deposit the connectivity charges within seven days of receipt of approval from MoUD. Subsequently in February 2011, HUDA asked RMGL to remit the connectivity charge of ` five crore as construction had commenced on the ground since July 2010 and `105 crore had been spent till 31 December 2010. This was followed by reminders issued in May, June and August 2011. The concessionaire received the approval from MoUD in December 2011 and deposited the connectivity charges on 19 December 2011. HUDA asked (December 2011) RMGL to pay interest @ 18 *per cent* compounded annually for delayed payment of connectivity charges from 1 July 2010 to 18 December 2011. This was denied by RMGL on the ground that HUDA had itself agreed to payment of connectivity charges within seven days of sanctioning of the project by MoUD. In August 2012, HUDA informed RMGL that no interest was chargeable on the delayed payment.

Audit observed that there was no consistency in the approach of HUDA in implementing the terms of the concession contract as it initially agreed to link deposit of connectivity charges to receipt of approval of MoUD and thereafter issued repeated notices for immediate deposit of the charge, alongwith interest, since work had actually commenced on the ground. HUDA could not however enforce the demand in light of its initial agreement to deviate from the express terms of the concession contract and allow extension of time. The deviation from the terms of the concession contract resulted in non-recovery of interest of ` 1.57 crore calculated at the rate of 18 *per cent* per annum on ` five crore for 21 months²⁹ for delayed payment of connectivity charges.

Government stated (December 2016) that such approvals take time and are beyond the control of the concessionaire. The concessionaire had been allowed two cure periods of six months and there was no question of charging interest on the delay period. The reply was not convincing as the concession contract provided for payment of connectivity charges within 60 days upon signing of the contract and it was not linked with approval from MoUD. Further, the work had commenced on the ground and HUDA had itself repeatedly sought payment of the connectivity charges.

Fixation of fare on higher side

The concession contract stipulated that the passenger fares shall not be more than the Delhi Metro fares for the corresponding zone slab and shall be revised as and when Delhi Metro fares were revised. Further, as per the Delhi Metro Railways (Operation & Maintenance) Act, the concessionaire could fix the initial fare which shall remain applicable till the time a Fare Fixation Committee constituted as per the Act was constituted to revise the fares.

RMGL commenced passenger service on 14 November 2013 and fixed an initial fare of `12 per trip. It revised the fare to `20 per trip from 1 August 2014 though no fare had been increased by DMRC. In October 2014, HMRTC issued notice to RMGL seeking reasons as to why it had increased

²⁹ March 2010 to November 2011.

the fares in violation of the terms of the concession contract. RMGL contested the notice stating that ₹ 12 was a promotional fare since the system was not fully operational and later on full fare of ₹ 20 was applied as initial fare when the complete system was made operational. HMRTC obtained legal opinion from the State Advocate General who opined (April 2015) that the fare of ₹ 12 fixed by RMGL was a fare fixed on initial opening in terms of Delhi Metro Railways (O&M) Act and it cannot be said to be a promotional fare.

In October 2015, HUDA/ HMRTC informed RMGL that it could not fix fare higher than Delhi metro fare and directed the concessionaire to restore the fare from ₹ 20 to ₹ 12 per trip. RMGL was also directed to deposit the amount of excess fare charged by it from 1 August 2014 onwards with HMRTC. However, despite lapse of more than two years since issue of the notices, RMGL had neither reduced its fare nor deposited the excess fare charged by it with HMRTC. The Corporation had not taken any further action to enforce the terms of the concession contract resulting in undue benefit to concessionaire at the cost of the public. The excess fare collected by RMGL worked out to ₹ 11.84 crore³⁰ as on March 2016.

Government stated (December 2016) that MoUD has been requested to constitute Fare Fixation Committee (FFC) and the matter will be resolved as and when the FFC will give its final verdict.

Conclusion

Thus, HUDA did not ensure full transparency and visibility as to the costing of the project which would have a bearing on the liabilities that would accrue to HMRTC in the event of termination of the contract due to default of the concessionaire. Further HUDA/ HMRTC failed to enforce the terms and conditions of the concession contract which resulted in non-recovery of interest of ₹ 1.57 crore for delayed payment of connectivity charges and charging of excess passenger fares amounting to ₹ 11.84 crore by the concessionaire.

Haryana Financial Corporation

3.11 Recovery Performance

The Corporation suffered loss of ₹ 10.43 crore in 15 accounts due to violation of the guidelines of One Time Settlement Schemes. The Corporation could not recover outstanding dues of ₹ 38.29 crore due to non-availability of security or defective title of the security and had to write off this amount.

3.11.1 Introduction

The Haryana Financial Corporation (Corporation) was established in April 1967 under the State Financial Corporation's (SFCs) Act, 1951, to

³⁰ Calculated at differential fare of ₹ 8 (i.e. ₹ 20 less ₹ 12) for 148.06 lakh commuters from August 2014 to March 2016.

provide loan assistance to small and medium scale industrial units. The Corporation had sanctioned loans of ` 2,870.40 crore to 18,531 units since its inception to May 2010 and disbursed ` 1,781.06 crore to 17,160 units. The Board of Directors (BoDs), taking cognizance of the liquidity position of the Corporation, formed a committee³¹ to study the liquidity. The Committee recommended in March 2010 for either revival/ rehabilitation of the Corporation or to continue operations in the present form/ winding up of the Corporation. On the basis of the Report, the Corporation stopped (May 2010) its disbursement activity finding its operations unviable and restricted itself to only recovery of outstanding loan accounts.

The present audit covers recovery performance of the Corporation during April 2012 to March 2016. Besides scrutinising 283 loan cases (54 per cent) out of 524 cases pending for recovery at the beginning of the year 2012-13, audit also covered 60 out of 170 loanees whose accounts were settled under One Time Settlement (OTS) Schemes which were earlier (March 2008) written off but the Corporation had retained the rights of future recovery.

3.11.2 Recovery position

The Corporation maintains two sets of accounts viz. memorandum accounts as per standard practice and final accounts. In memorandum accounts, the dues/ recoveries of borrowers are adjusted as per the terms of the agreement. It is also maintained in respect of accounts which were earlier written off with right to recovery while in final accounts, the dues and recoveries are shown and adjusted as per norms prescribed by the Small Industries Development Bank of India for recognising interest income and making provision for doubtful assets.

The details of loan accounts outstanding as per memorandum account and final account during the period 2012-16 are brought out in Table 3.3 below:

Table No. 3.3: Outstanding loan accounts during 2012-16

(` in crore)

Particulars	2012-13		2013-14		2014-15		2015-16	
	As per Memorandum A/c	As per final A/c	As per Memorandum A/c	As per final A/c	As per Memorandum A/c	As per final A/c	As per Memorandum A/c	As per final A/c
Principal outstanding	140.00	88.27	116.63	68.94	98.55	18.06	80.30	31.94
Interest Outstanding	3215.92	0.00	3527.94	0.00	3880.97	0.00	4656.72	0.00
Total outstanding	3355.92	88.27	3644.57	68.94	3979.52	18.06	4737.02	31.94

Source: Information obtained from Corporation

As per the memorandum accounts, outstanding loans increased from ` 3,355.92 crore as on March 2013 to ` 4,737.02 crore as on March 2016 whereas as per final accounts, it decreased from ` 88.27 crore to ` 31.94 crore during 2013-16. Percentage of recovery of the amount due and previous

³¹ Managing Director (MD) Haryana Financial Corporation, MD Haryana State Industrial and Infrastructure Development Corporation, General Manager Small Industries Development Bank of India and Director HFC.

overdue decreased from 46.31 to 13.37 during 2013-16 in the memorandum accounts whereas it increased from 53.80 to 99.28 during 2013-15 due to recovery of outstanding loan through one time settlement scheme in the final accounts. As per guidelines of Small Industries Development Bank of India on Uniform Accounting Practices, the Corporation may write off advances against which 100 per cent provisioning has been made for prudential write off. Accordingly, the Corporation wrote off (March 2015) 246 loan accounts against which `2,027.72 crore (principal & miscellaneous expenses³²-`38.29 crore and interest-`1,989.43 crore) was recoverable.

3.11.2.1 Recovery through OTS Schemes

Two One Time Settlement (OTS) Schemes 2011 namely “Compromise Settlement of Non-Performing Assets³³ (NPAs)” and “Compromise Settlement of Loss Assets³⁴ (Loss)” were introduced with the approval (December 2011) of State Government for settlement of loans of chronic defaulters. The minimum recoverable amount under OTS-NPA was to be ascertained by recasting the loan account from the date of its becoming doubtful. While recasting, the amount realised from the sale of assets was to be adjusted in the sequence of miscellaneous expenses, principal and interest. The total settlement amount after recasting was to be decided keeping in view the net realisable value of the properties mortgaged. Under OTS-Loss, loan accounts were to be re-cast as in case of OTS- NPA but the settlement amount would be the principal outstanding plus miscellaneous expenditure after recasting.

Table 3.4 below indicates the number of cases settled, outstanding amount thereagainst and amount settled and waived off during four years ended 31 March 2016 in the two OTS Schemes.

Table No. 3.4: Details of cases settled, outstanding amount thereagainst and amount settled and waived off

(` in crore)

Year	No. of cases settled	Principal and misc. expenses outstanding at the time of OTS	Interest outstanding at the time of OTS	Total outstanding at the time of OTS	Amount at which account settled	Amount waived off	Percentage of waiver of total outstanding	Percentage of recovery out of principal outstanding before re-casting
(1)	(2)	(3)	(4)	(5)=(3)+(4)	(6)	(7)=(5)-(6)	(8)=(7)/(5)x100	(9)=(6)/(3)x100
2012-13	136	48.50	1,346.97	1,395.47	18.77	1,376.70	98.66	38.70
2013-14	50	16.39	468.87	485.26	7.31	477.95	98.49	44.60
2014-15	34	7.83	340.26	348.09	6.27	341.82	98.20	80.08
2015-16	9	2.92	34.18	37.10	3.76	33.34	89.86	128.77
Total	229	75.64	2190.28	2,265.92	36.11	2,229.81	98.41	47.74

Source: Information received from Corporation

³² Expenditure incurred by the Corporation in the process of recovery of dues from the concerned borrower.

³³ Non-performing assets are those in which principal or interest is overdue for more than three months.

³⁴ Loss assets are those borrowers/ loan cases whose accounts are classified as NPA and there are no securities available.

The Corporation settled 229 cases during 2012-16 waiving an amount of ₹2,229.81 crore. Percentage of amount waived off to total outstanding amount ranged between 89 per cent and 98 per cent of the total outstanding amount. The Corporation could recover only 47.74 per cent of the principal outstanding before re-casting of the loan accounts.

3.11.2.2 Recovery through Statutory modes

Sections 29 and 31 of the SFCs Act 1951 empower the Corporation to recover its outstanding dues through sale of assets taken over and through recovery as arrear of land revenue from the original borrower and the guarantor. The details regarding recovery effected during 2012-15 through Sections 29 and 31 are in table 3.5 below:

Table No. 3.5: Details of recovery affected through Section 29 and 31

(₹ in crore)

Recovery Performance under Section 29 and 31 during 2012-15	2012-13	2013-14	2014-15
Amount recovered under Section 29 cases	3.16	0.31	1.49
Amount recovered as arrear of land revenue under Section 31	5.02	6.15	5.02
Total recovery through all modes	39.36	29.29	13.08
Percentage of recovery under Section 29 to total recovery	8	1	11
Percentage of recovery as arrear of land revenue to total recovery	13	21	38

Source: Information obtained from Corporation

Out of the total recovery of ₹81.73 crore made during 2012-15, the Corporation recovered ₹21.16 crore (26 per cent) through sale of primary/collateral security. The Corporation did not take over any asset under Section 29 of the SFCs Act during 2012-16. Assets having assessed value of ₹27.20 crore were pending for sale as on March 2016 due primarily to non clearance of statutory charges and court cases.

3.11.3 Audit findings

3.11.3.1 Deficiencies in implementation of OTS Schemes

During discussion on Para 3.2 of Audit Report for PSUs-Government of Haryana for the year ended 31 March 2012 - covering implementation of OTS Schemes, COPU had been informed (January 2016) that the Corporation had not forgone any principal amount and the settlement was made at the amount of the principal outstanding or value of security whichever was higher. As per the guidelines of OTS Schemes 2011 also, the Corporation should consider the value of mortgaged security while working out the settlement amount. However, Audit noticed that the Corporation either failed to link the settlement amount with the value of mortgaged security or failed to settle the account in accordance with the guidelines of the Scheme thereby incurring loss of ₹10.43 crore in 15 cases as summarised in *Appendix 7*.

3.11.4 Non-issuance of Recovery Certificates

Section 32G of SFCs Act, 1951, entitles the Corporation to seek attachment of

the property of the borrower/ guarantor or recovery of dues as arrear of land revenue. During 2012-15, the Corporation recovered ` 16.19 crore by issue of Recovery Certificates (RCs) through District administration. At the end of 2015-16, 26 RCs involving recovery of ` 32.33 crore issued during 1991 to 2004 were pending for execution.

Audit noticed that the Corporation had written off ` 1,598.47 crore³⁵ in 148 cases out of 343 cases test checked in audit. However, the Corporation did not exercise the option of resorting to Section 32G of the SFCs Act in 47 cases involving ` 686.99 crore³⁶ for which reasons were not found on record.

3.11.5 Write off of dues

During 2014-15, the Corporation had written off principal and miscellaneous expenses of ` 38.29 crore and interest of ` 1,989.42 crore against the disbursed amount of ` 48.81 crore in 246 cases. The Corporation could recover only ` 11.85 crore towards principal (24 per cent) up to the date of writing off the amount in these 246 cases.

Audit test checked 148 of the 246 cases as tabulated in table 3.6 below:

Table 3.6: Details of Written off 148 test checked cases

(` in crore)

Nature of case	Number of cases	Amount disbursed	Recovery of Principal and Miscellaneous Expenses up to date of write off	Written off Principal and Miscellaneous	Written off Interest
Court cases	21	7.64	2.17	6.19	423.91
Defective security	60	11.66	1.58	10.96	391.86
Security fraudulently sold by the borrower	29	2.67	0.47	2.27	167.14
Non availability of security	31	10.69	2.17	8.88	453.19
Under Liquidation	7	2.77	0.88	2.10	131.99
Total	148	35.43	7.27	30.40	1,568.09

Audit observed that the main reasons for non-recovery of dues was security with defective title (60 cases), non-availability of security (31 cases), security fraudulently sold by borrowers (29 cases) and other reasons *i.e.*, unit under liquidation or court cases (28 cases). It was evident that the controls exercised by the Corporation in sanctioning loan and safeguarding the security was deficient which resulted in loss of principal of ` 30.40 crore to the Corporation.

Conclusion

The Corporation suffered loss of ` 10.43 crore in 15 accounts due to violation of the guidelines of One Time Settlement Schemes. The Corporation could not recover outstanding dues of ` 38.29 crore due to non-availability of security, defective title of the security and had to write off this amount.

The matter was referred to the Government in April 2016; their replies are awaited (October 2016).

³⁵ Principal and miscellaneous expenses ` 30.40 crore and interest ` 1,568.07 crore.

³⁶ Principal and miscellaneous expenses ` 10.51 crore and interest ` 676.48 crore.

Haryana Forest Development Corporation Limited

3.12 Working of the Company

The Company could neither achieve the profit targets fixed by it nor could it ensure the expected return from felled timber and forest produce. The Company also suffered a loss of ` 3.27 crore due to less recovery compared to norms of minimum 50 per cent fixed for the recovery of round timber and faulty planning in respect of plantation project on unsuitable land.

3.12.1 Introduction

The Haryana Forest Development Corporation Limited (Company) was incorporated in December 1989 under the Companies Act, 1956, as a wholly owned Government Company with the main purpose of assuring reasonable prices to the farmers for their standing trees and other forest produce and to ensure the welfare of the farming community and development of forest based and allied industries.

The working of the Company was last reviewed and featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2008, (Commercial), Government of Haryana. The recommendations of audit regarding fixation of reserve price for sale/ auction of timber and clearance of arrear of accounts have been implemented. The Report was discussed by the Committee on the Public Undertakings (COPU) and its recommendation regarding recovery from the responsible officers/ officials for extra expenditure contained in the 58th Report, presented to State Legislature on 9 March 2012, was pending compliance.

The activities of the Company were reviewed in audit between January to May 2016 covering the period from 2011-12 to 2015-16. The audit examination involved scrutiny of records of the head office and four Regional Offices³⁷ selected thorough random sampling. The views of the Management and the Government have been considered while finalising this.

Audit Findings

3.12.2 Financial Management

The Company had finalised its accounts up to the year 2014-15. The financial position of the Company during the period 2011-15 (*Appendix 8*) shows that the net profit of the Company had increased from ` 4.23 crore in 2011-12 to ` 6.29 crore in 2012-13 due to increase in turnover of forest produce and wooden crates. However, it declined to ` 5.81 crore and ` 2.68 crore in 2013-14 and 2014-15 respectively. The profit before tax as a percentage of revenue

³⁷ Ambala, Kurukshetra, Hisar and Gurgaon.

from operations was in the range of 7.8 per cent to 12.78 per cent during the period under review. The operating income of the Company was from 94 per cent to 97 per cent of total income.

To regulate its operations and ensure efficient functioning of all operational units, the Company should prepare annual operation/ action plan, fix activity-wise physical targets and prepare budget for head wise expenditure in respect of operational, trading and other activities. The Board of Directors (BoDs) directed (May 2009) preparation of an annual operation plan for its approval. However, no such plans or targets were presented to the BoDs for their consideration or approval. The targets fixed by the Company and achievements thereagainst are brought out in table 3.7 below:

Table No. 3.7: Regional Office wise Profit Targets and Achievements

(` in crore)

RO/Year	2011-12		2012-13		2013-14		2014-15		2015-16	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
Ambala	1.25	1.72	2.00	2.54	2.10	1.16	2.50	0.96	2.00	0.74
Gurgaon	1.50	0.61	1.75	2.27	2.00	3.04	3.00	2.89	3.00	1.58
Hisar	1.00	0.09	1.00	1.00	1.00	-0.23	0.75	0.04	0.75	1.01
Jind	0.80	0.03	0.75	-0.05	0.75	0.10	0.75	1.36	1.50	0.24
KKR	0.50	2.11	2.00	2.65	2.10	3.86	3.50	0.92	2.00	1.40
Rohtak	1.00	1.43	1.00	1.02	1.25	-0.15	1.25	-0.29	0.75	0.43
Total	6.05	5.99	8.50	9.43	9.20	7.78	11.75	5.88	10.00	5.40

Source: Company data

Out of six ROs, three ROs in 2011-12, one RO in 2012-13, four ROs in 2013-14 and five ROs each in 2014-15 and 2015-16 could not achieve the profit targets set for them. The RO wise achievement of profit targets in percentage terms ranged between 16 (RO Jind) and 135 (RO Hisar) in 2015-16. The main reason for shortfall in achievement of targets was that the Company fixed the profit targets without linking with anticipated business of the unit.

The Management replied (July 2016) that the Company has now fixed physical and financial targets for the financial year 2016-17 and they had been approved (June 2016) by its BoDs.

Audit also noticed that the Company had received four orders from Government departments during 2012-15 for supply of furniture worth `48.95 crore (excluding VAT and transport) on which excise duty was leviable. However, the Company had neither included excise duty in its costing nor billed and deposited it in respect of furniture supplied worth `47.60 crore. The liability on account of excise worked out to `5.95 crore³⁸.

The Management stated (July 2016) that the Company has now started depositing excise duty for orders received during 2015-16.

³⁸ `47.60 crore X 12.50 per cent = `5.95 crore.

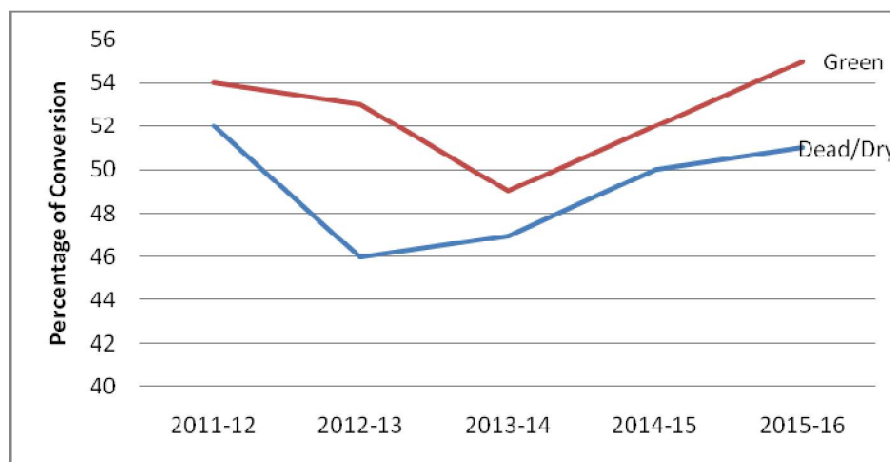
3.12.3 Harvesting of Trees

The Company carries out felling of dead, dry as well as green standing trees allocated by the Forest Department, Haryana from its forest areas. The State Government earmarked certain forest areas³⁹ for the Company for felling of trees as per approved working plans of the Forest Department. The Company also purchases trees from farmers, panchayats, Government departments and institutions at purchase price fixed by the Company. Audit observed the following:

(i) During 2011-16, felling of trees from the non-forest area⁴⁰ ranged between 5,306 to 11,016 cubic meters while felling from forest areas increased from 37,296 in 2011-12 to 61,506 cubic meter in 2015-16. However, there was no purchase from the Panchayats and farmers during the last five years except purchase of 423 cubic meter and 50 cubic meter in 2011-12 and 2015-16 respectively. Management stated (July 2016) that farmers can sell their standing trees and forest produce in open market if they get higher price. The reply was indicative of unrealistic fixation of prices leading to the prices being not remunerative for the farmers.

(ii) After felling of trees, the Company recovers round timber and firewood from these trees for sale. The Company issued (September 2008 and November 2013) instructions that recovery of round timber in forest areas should be 50 to 65 *per cent* of standing volume of the tree. Recovery performance of round timber and firewood from standing volume of dead/ dry and green trees in respect of forest areas are presented below:

Chart no. 3.3.: Conversion of round timber



Source: Company data

³⁹ Ambala District, Indri Range, Rohtak District, Jhajjar District, Hisar District, Jind District, Gurugram District, Faridabad District, Palwal District, Mewat District and Rewari District.

⁴⁰ Area other than earmarked forest area and forest area means, the area recorded as "Forest" in Government records.

There was wide variation in recovery of round timber and dry/ dead trees across the regional units. In respect of dead/ dry trees, recovery percentage in 2011-12 at Gurgaon was 37 *per cent* whereas it was 77 *per cent* at Rohtak. Similarly, in respect of green trees, recovery percentage at different ROs ranged between 43 (Hisar in 2012-13) and 62 *per cent* (Jind in 2015-16). The value of less recovery of round timber amounted to `2.86 crore⁴¹. Management stated (July 2016) that conversion depends upon various factors and there is variation in species as well as site conditions.

The reply was not tenable as Company itself had issued instructions that recovery of round timber in forest areas should be 50-65 *per cent* of standing volume of the tree and it was up to the Company to take into account the species and site specific conditions while fixing the norms. Further, given the wide variations and the revenue implications, it was incumbent upon the Company to look into the causes of the variations and fix more specific norms where necessary.

(iii) In the forest areas earmarked for the Company, concerned Forest Division hands over/ allocates standing trees of the Forest area to Regional Office (RO) of the Company for harvesting/ felling. Forest Division, Hisar did not allocate any dead/ dry tree to the RO Hisar during 2011-14. RO Hisar took up matter regarding allocation of trees with Divisional Forest Officer, Hisar only in July 2013 after a delay of more than two years and did not follow up the matter till the allocation of trees in February 2015. The Company incurred a loss of `97.91 lakh⁴² during 2011-15 (except during 2012-13) due to non-allocation of trees as RO continued to incur fixed costs during this period.

(iv) After harvesting/ felling of trees and its conversion into timber and fire wood the same are transported to sale depots⁴³ of the Company. Zone wise⁴⁴ reserve prices of these products are fixed for a year (April to March) on the basis of species, length and category⁴⁵.

Audit observed that the Company did not maintain any record of the bids received at prices lower than reserve price and the ROs communicated the price to Head office only when there was a proposal to sell the timber below the reserve price. Due to non-maintenance of any record of the bids received lower than the reserve price, the Company could not ascertain price trend as well as price discovered in the auction process where the timber was not sold. Further, the system of disposal in these cases was faulty as instead of going for re-auction with reduced reserve price, the Company disposed the timber at less than reserve price. In the 27 test checked cases where timber was sold below reserve price, it was noticed that 25,507 cubic metre eucalyptus of different

⁴¹ Loss worked out on a conservative basis, on less than 50 *per cent* conversion of round timber in each month multiplied by average monthly sale rate.

⁴² Worked out by the Management.

⁴³ As on March 2016- 113 sale depots (Hisar-8, Kurukshetra-9, Ambala-35, Rohtak-26, Jind-11 and Gurgaon-24).

⁴⁴ Zone 1 and Zone 2 comprise 4 and 2 ROs respectively.

⁴⁵ Round timber, Fire Wood Grade-I&II and hollow & defective.

sizes and categories fetched ` 11.81 crore against reserve price of ` 15.94 crore resulting in under realisation of ` 4.13 crore with reference to the reserve price.

While accepting the audit observation the Management replied (July 2016), that the bid forms are now being maintained in case the price received is less than reserve price.

3.12.4 Faulty Planning in a Plantation Project

For diversification of its activities, the Company entered into an agreement effective from January 2008 to take 63.2 acres land from a co-operative society at Yamunanagar on lease for 11 years at the rate of ` 5,000 per acre per annum to plant eucalyptus and aloe vera plants. The Eucalyptus clones were to be harvested after five years and aloe vera twice a year. The Company estimated an income of ` 1.22 crore against expenditure of ` 85.20 lakh likely to be incurred during the period of five years on the project. The Company planted about 32,600 eucalyptus and 88,000 aloe vera plants incurring expenditure of ` 88.31 lakh during 2007-08 to 2015-16. However, the revenue earned till March 2016 was only ` 5.26 lakh. Besides, only 22,227 eucalyptus plants (68 *per cent*) could survive. The Company had planned harvesting two crops of eucalyptus trees in 11 years but even after more than eight years, not even one crop of Eucalyptus could be harvested. The Company estimated (February 2016) ` 42.27 lakh as the realisable value of timber and firewood from sale of the mature eucalyptus plants. However, auction had not been conducted so far (July 2016).

Audit observed that the Company had not conducted soil testing before undertaking this project. The land was filled with boulders that hampered the growth of trees in the initial years. Thus, the Company had already incurred a minimum loss of ` 40.78 lakh⁴⁶ after considering the value of trees as arrived at by the Company, in hand.

The Management replied (July 2016) that it had issued notice for auction for harvesting and sale of trees in June 2016 but the same was postponed and profit/ loss of the project could not be assessed at this stage. The reply of the Company was not tenable as it had planned two crops during lease period of 11 years but even after lapse of eight years (July 2016) not even one crop had been harvested.

3.12.5 Excess consumption of materials in manufacturing activities

The Company has two manufacturing facilities for polybag and barbed wire at Hisar and Kurukshetra respectively. The Company is also engaged in manufacturing of various types of office/ school furniture.

The Company received two orders (January and October 2013) from Education Department, Haryana, for supply of 52,300 butterfly tables and

⁴⁶ ` 88.31 lakh - ` 5.26 lakh - ` 42.27 lakh (estimated realisable value) = ` 40.78 lakh.

1,56,900 chairs of identical specifications at the rate of `3,323 and `953 per piece respectively. The Company supplied 52,046 tables and 1,56,138 chairs at its ROs for which payments were received during March 2013 to January 2014.

Audit observed that there was excess consumption of material valuing `22.96 lakh in manufacturing of tables against the first supply order in comparison to use of material in manufacturing of tables by Ambala and Kurukshetra region in the second order as brought out in table 3.8 below:

Table 3.8: Consumption of sunmica and plywood

Sl. No.	Regional Office	Consumption per table in 1 st Order (in sqft per unit)		Consumption per table in 2 nd Order (in sqft per unit)		Excess Consumption in 1 st Order (in sqft per unit)		Total money value (in lakh)
		Plywood	Sunmica	Plywood	Sunmica	Plywood	Sunmica	
1	Ambala	11.25	16	10	10.67	1.25	5.33	7.73
2	Kurukshetra	10.04	16	10	10.67	0.04	5.33	15.23
Total								22.96

Source: Company data

The Management replied (July 2016) that at the time of second order, the Company again constituted a committee to fix the norms for consumption of raw material and other items as per experience gained from the first supply order. The reply was not tenable as the Company was already manufacturing furniture since 2008 at RO Kurukshetra and should therefore have been aware of consumption of material. Further, excess consumption of sunmica and plywood led to increase in cost and thus profit of the Company was reduced by `22.96 lakh.

3.12.6 Non-adherence to directions for e-tendering

The Head Office had directed (June 2014) adoption of the tendering/ e-tendering for executing work through contractors of value above `one lakh. Audit observed that the regional offices were not adhering to these instructions thereby resulting in lack of transparency in award of works and raising the risk of irregularities.

(i) The Company engages contractors for felling and conversion of trees, loading/ unloading, stacking of timber & firewood, carriage/ transport to sale depots, manufacturing/ transport of furniture. During 2011-16, the selected four ROs paid `71.38 crore to labour and transport contractors other than petty contracts. All the ROs had engaged labour and transport contractors through quotations collected from registered contractors without open tendering. Further, mostly the rates quoted by the lowest contractor were exactly same as the schedule of rates/ cost norms approved by the Head Office. In majority of the cases, the quotations obtained were in identical handwriting (in case of Gurgaon for felling operations only) and without any letter head/ stamp of the contractor. Management stated (July 2016) that some of the contractors who are doing the work of felling are uneducated and may have taken help of

Company's staff in writing the rates but the quotations have been signed by the contractors themselves.

(ii) RO Gurgaon was carrying out projects related to plantation and landscaping for different Government agencies⁴⁷ besides developing eco-tourism site at Masani Barrage, Rewari. RO Gurgaon was awarded 61 projects on tender or on nomination basis up to March 2016. Of these, 21 projects were test checked in audit. Of the test checked projects, 16 projects were completed and five projects were under implementation. It was noticed that despite directions (June 2014) of the Head Office for adoption of tendering, the works relating to projects were got executed by the RO on quotation basis. The Company stated (July 2016) that tendering was not possible as some projects were executed in defence areas where security was an issue. The reply was not tenable as the Company had also executed projects for other than defence such as for National Highway Authority of India (NHAI), National Buildings Construction Corporation Limited (NBCC) and Municipal Corporation Gurugram and even in these locations tendering was not done for execution of works.

(iii) Forest Department transferred (October 2015) land measuring 22.57 acres located at Masani Barrage Rewari to the Company for operation and maintenance of eco-tourism facilities. To make it operational, the Company incurred `96.91 lakh up to March 2016. The entire work was executed⁴⁸ through quotations (including even in those cases where amount of work exceeded ` five lakh) despite Head Office instructions (24 June 2014) to adopt the tendering/ e-tendering system for executing work beyond ` one lakh in order to maintain transparency.

Conclusion

Thus, the Company could neither achieve the profit targets fixed by it nor could it ensure the expected return from felled timber and forest produce. The Company also suffered a loss of `3.27 crore due to less recovery compared to norms of minimum 50 *per cent* fixed for the recovery of round timber and faulty planning in respect of plantation project on unsuitable land. Lastly, non-adherence to guidelines mandating e-tendering provided no assurance as to the integrity and transparency of the process for award of work to contractors.

⁴⁷ Ministry of Defence, National Highway Authority of India, National Building Construction Corporation Limited, RITES, Department of Forests & Wildlife, Municipal Corporation Gurugram, Indian Institute of Technology, New Delhi and Indian Railways.

⁴⁸ Construction of boundary wall, assets to be fixed in existing buildings, repair of existing building and creation of nature interpretation centre.

Haryana Agro Industries Corporation Limited

3.13 Disallowance of carryover charges

Failure to comply with instructions of supply of wheat directly to Food Corporation of India resulted in the Company having to bear carryover charges of ` 2.29 crore.

The Company procures wheat from *mandis* for the central pool on behalf of Food Corporation of India (FCI). Government of India (GoI) fixes the Minimum Support Price (MSP), statutory charges and other incidental charges of wheat. On the basis of these rates, the Company claims reimbursement of cost of food grains and other charges from FCI upon delivery of the wheat.

GoI, while conveying (8 May 2013) the provisional rates of incidentals of wheat procured during Rabi Marketing Season 2013-14, stated that delivery of wheat shall be made immediately after its procurement unless FCI is unable to accept it. The carryover charges (comprising storage charges and interest on funds incurred by the Company) beyond 30 June 2013 were payable only if FCI refused to accept the wheat.

Audit observed (December 2014) that FCI directed Farmer Service Centre⁴⁹ (FSC) Karnal, of the Company to directly deliver 33,841 MT of wheat to their godowns by 30 June 2013. The Company could deliver only 18,518.50 MT wheat by 30 June 2013 leaving a short fall of 15,322.50 MT which was delivered between 28 November 2013 and 17 October 2014. Consequently, carryover charges of ` 2.41 crore⁵⁰ were deducted and had to be borne by the Company.

The Company stated (September 2016) that balance quantity of wheat could not be delivered in time due to transportation problems and it would have had to incur extra transportation charges for about 35-40 kms for delivering the wheat. The reply of the Company is not convincing as had the Company carried out cost benefit analysis and delivered the balance quantity of wheat at allocated locations even after incurring extra expenditure of ` 11.85 lakh⁵¹ on transportation cost for extra 35-40 kms, the denial of ` 2.29 crore (` 2.41 crore - ` 0.12 crore) on account of carryover charges could have been avoided.

The matter was referred to the Government (May 2016); their reply was awaited (October 2016).

⁴⁹ Field office of the Company.

⁵⁰ Though the short delivery of wheat was 15,322.50 MT, FCI deducted carryover charges of ` 2.41 crore for 15,052 MT only.

⁵¹ Calculated for alternate route of extra 35-40 kms for delayed quantity of 15,052 MT of wheat at approved transport rates for all State procuring agencies.

Haryana State Electronics Development Corporation Limited, Haryana Agro Industries Corporation Limited, Haryana Land Reclamation Development Corporation Limited and Haryana State Industrial and Infrastructure Development Corporation Limited

3.14 Excess payment of Employees' contribution

The Companies incurred an extra expenditure of `1.29 crore due to contribution to Employees' Provident Fund, in excess of the limits prescribed under the Employees' Provident Funds Scheme, 1952.

The Employees' Provident Funds (EPF) Scheme, 1952 provides that the contribution payable by an employer shall be 12 *per cent* of the basic wages, dearness allowance and retaining allowance payable to each employee. Para 26 (A) (2) of the Scheme provided that where the monthly pay of an employee exceeds `6,500⁵², the contribution payable by the employer shall be limited to the amounts payable on a monthly pay of `6,500. Para 29(2) of the Scheme further provides that in respect of any employee to whom the Scheme applies, the contribution payable by him may, if he so desires, be an amount exceeding 12 *per cent* of his basic wages, dearness allowance and retaining allowance subject to the condition that employer shall not be under obligation to pay contribution over and above his contribution payable under the Scheme.

The issue of excess payment of employers' contribution by two Companies⁵³ was earlier reported in the Audit Reports (Commercial) for the years 2002-03 and 2003-04 which was discussed by the Committee on Public Undertakings (COPU) in December 2006. COPU decided that the Haryana Bureau of Public Enterprises will formulate a uniform policy to be followed by all public sector enterprises. Subsequently, the State Government decided (May 2014) that where the actual monthly salary of the employees covered under EPF Act/ Scheme is more than the prescribed limit of `6,500, the State PSU should contribute as employers' share an amount equal to contribution made by the employee to EPF subject to minimum of `780 per month (*i.e.* 12 *per cent* of `6,500) and maximum of 10 *per cent* of the actual monthly salary (Basic Pay plus Grade Pay plus Dearness Allowance) of the employee.

Audit observed (May 2015, February, March and June 2016) that during June 2014 to March 2016, these companies continued to contribute their share @ 12 *per cent* despite specific instructions issued by State Government (May 2014) to limit the maximum contribution to 10 *per cent* of actual monthly salary. The Companies did not apprise their Board of Directors of the deviation from Government instructions. Thus, the Companies incurred an extra expenditure of `1.29 crore⁵⁴ due to excess contribution towards employer's share.

⁵² Increased to `15,000 w.e.f. September 2014.

⁵³ Haryana State Electronics Development Corporation Limited (HARTRON) and Haryana State Industrial and Infrastructure Development Corporation Limited (HSIIDC).

⁵⁴ HARTRON: `39.42 lakh, Haryana Agro Industries Corporation Limited: `15.45 lakh, Haryana Land Reclamation Development Corporation Limited: `15.31 lakh and HSIIDC: `58.84 lakh.

In respect of HSIIDC, Government stated (July 2016) that it was contributing employer's share at the rate of 12 *per cent* as per decision taken by its BoDs in the meeting held on 19 January 2004 and Employees' Provident Funds Act, 1952. The reply is not tenable as BoDs had decided in the said meeting to maintain *status quo* till a decision is taken by the State Bureau of Public Enterprises/ State Government. Since the matter had since been decided by the State Government in May 2014, the Company should have changed the percentage of contribution.

In respect of HARTRON, Government stated (August 2016) that it was bifurcated (1982) from HSIIDC and it adopted (December 1982) rules and regulations prevailing in HSIIDC at that time. Reply was not convincing as it should have followed the directions issued in May 2014 which were applicable to all public sector enterprises.

Replies of Government in respect of the remaining enterprises were awaited (October 2016).

Chandigarh
Dated:

(Mahua Pal)
Principal Accountant General (Audit), Haryana

Countersigned

New Delhi
Dated:

(Shashi Kant Sharma)
Comptroller and Auditor General of India