

Chapter-V
Other than Power Sector-
Compliance Audit Observations

Chapter V

5 Other than Power Sector - Compliance Audit Observations

Significant audit findings emerging from test check of transactions of State Government Companies and Statutory Corporation of the other than power sector are included in this Chapter.

Haryana State Industrial and Infrastructure Development Corporation Limited

5.1 Hiring of Public Relation Agency at higher rates

The Company ignored the technically qualified bidder having maximum scores for appointment as PR agency and awarded the work to another bidder in re-tendering which resulted in extra expenditure of ₹ 1.09 crore.

Haryana State Industrial and Infrastructure Development Corporation Limited (Company) decided (April 2017) to appoint a Public Relation (PR) Agency, in order to ensure its outreach to stakeholders and make them aware of policies and reforms in the State. The scope of work included creative development and deployment of PR/marketing/campaign across all media. The e-tender for hiring of PR agency, for a period of one year, was uploaded in May 2017. The PR agency was to be selected through Quality and Cost Based Selection system¹. The bid ranking was to be done on the basis of combined score obtained after giving weightage of 70 and 30 *per cent* for technical and financial scores respectively, to the qualified bids.

Four PR agencies submitted bids online which were opened (16 June 2017) and the presentations were made. Two bidders (Firm A² and Firm B³) were declared qualified for opening of their financial bids which were opened on 21 June 2017. Firm A achieved maximum score (80.4 points) in the evaluation process and quoted annual fee of ₹ 0.55 crore against the quote of ₹ 2.30 crore of Firm B with score of 71.6 points. The Company, however, instead of awarding the contract to Firm A, considering its financial bid abnormally low, decided (June 2017) to go for re-tendering on the apprehension that the firm might not be able to provide necessary services.

In the re-tendering held in July 2017 with similar selection criteria, same two bidders (Firm A and Firm B) were declared qualified for opening of their financial bids, out of eight bids received. The financial bids of these two qualified bidders were opened (20 September 2017). This time, Firm A quoted annual fee of ₹ 2.24 crore and firm B ₹ 2.83 crore. Firm B, having highest score, was awarded (22 September 2017) the work at annual fee of ₹ 2.83 crore for a

¹ Under Quality and Cost Based Selection system, a bid's technical proposal scores and financial proposal scores are weighted and then summed to produce the final results.

² M/s Vermillion Communications Private Limited, New Delhi.

³ M/s Mode Advertising & Marketing Private Limited, New Delhi.

period of one year which was later (March 2018) extended till 31 March 2019. However, the contract was terminated on 11 October 2018 citing financial crunch in the Company. The Company had made payment of ₹ 1.35 crore for the period October 2017 to March 2018 to PR agency. The agency has not submitted the bills for the period from April 2018 to September 2018 till date (January 2020).

Audit observed that the apprehension of the Company that Firm A would not be able to provide necessary services was unjustified, as the Company itself had assessed the Firm A as technically qualified in the first tender. Thereafter, the work was awarded (after re-tendering) to Firm B at higher annual fee of ₹ 2.83 crore.

Thus, the imprudent decision of the Company to award the work to Firm B at higher rates resulted in avoidable expenditure of ₹ 1.09 crore⁴.

The Management stated (May 2019) that the gap of financial bid was very large. Further, it had been clearly mentioned in the tender document that as per our estimate, the cost would be about ₹ 2.41 crore. Accordingly, bidding was cancelled and fresh tender was initiated. The reply is not tenable as in first tender, Firm A had qualified technical evaluation process and had maximum score in overall evaluation. Moreover, the Company always had the right to replace the resource staff or terminate the contract in case of deficiency in services at any stage.

The matter was referred (March 2019) to the Government; their reply was awaited (August 2020).

It is recommended that the management may consider fixing responsibility for ignoring the lowest bidder on unjustified ground.

5.2 Imprudent resource mobilisation for financing of Mass Rapid Transport System

The Company availed HUDCO loan carrying higher rate of interest despite availability of cheaper cash credit/ term loans for financing of Mass Rapid Transport System which resulted in avoidable expenditure of ₹ 11.24 crore.

Haryana State Industrial and Infrastructure Development Corporation Limited (Company) entered (June 2016) into a joint venture agreement with Delhi Mumbai Industrial Corridor Project Implementation Trust Fund for the development of Mass Rapid Transport System between Gurugram to Manesar and Bawal. The Detailed Project Report put the approximate cost of the project at ₹ 17,328 crore to be funded through loans raised from multilateral agencies, the Japan International Co-operation Agency, World Bank – IBRD and domestic market. Government of Haryana was to contribute ₹ 1,313 crore in cash and land valuing ₹ 1,368 crore as equity towards the project.

⁴ ₹ 1.35 crore (total payment) – ₹ 0.26 crore (Proportionate payment). The calculation has been made on the basis that if contract had been awarded to Firm A for ₹ 0.55 crore then proportionate payment released could have been ₹ 0.26 crore (₹ 1.35 crore/ ₹ 2.83 crore X ₹ 0.55 crore) up to March 2018.

The Company approached (April 2016) Housing and Urban Development Corporation Limited (HUDCO) for term loan of ₹ 1,313 crore for land acquisition and allied uses. However, before sanctioning the loan, the Company had acquired (August 2016 and January 2017) 452 acre⁵ land for Mass Rapid Transport System in Gurugram, Manesar and Rewari (for Bawal) at a cost of ₹ 1,220.31⁶ crore and transferred (September 2016 to July 2017) this amount from other available sources to District Revenue Officer-Cum-Land Acquisition Collectors (DRO-cum-LACs) for making payments to land owners. In the meantime, HUDCO sanctioned (December 2016) loan of ₹ 876 crore bearing interest at the rate of 10.15 *per cent per annum* subject to Company providing State Government guarantee⁷ and budgetary provision in the State Government budget for repayment of dues, and released (17 March 2017) first instalment of loan of ₹ 250 crore upon receipt (9 March 2017) of the State Government guarantee.

Thereafter, HUDCO repeatedly (during March 2017 to December 2017) insisted the Company to provide budgetary provision in the State Budget and stated that non-compliance thereof shall be treated as an event of default. The Company however, decided (February 2018) to repay the HUDCO loan as budgetary provision could not be arranged and even interest charged by HUDCO was considered higher as compared to other loans. The Company repaid the loan on 28 February 2018 along with pre-payment charges of ₹ 5.04 crore.

Audit observed that before drawal (March 2017) of HUDCO loan, the Company had already made (up to January 2017) payment of ₹ 657.85⁸ crore to concerned DRO-cum-LACs and an amount of ₹ 562.46 crore (₹ 1,220.31 crore - ₹ 657.85 crore) only was payable in March 2017. The Company was having sufficient amount of un-availed loans/cash credit limits which ranged between ₹ 916.81 crore and ₹ 3,337.75 crore during February 2017 to February 2018 (excluding HUDCO loan) at cheaper rates of interest ranging between 8.10 and 9.65 *per cent per annum* for making balance payment of ₹ 562.46 crore. The State Government while granting guarantee to the loan in December 2016 had also desired that as the rate of interest of HUDCO loan was higher, the Company should raise minimum amount of loan as per actual requirement. Thus the Company could have avoided the drawal of HUDCO loan.

Thus, imprudent resource mobilisation by the Company for financing of Mass Rapid Transport System resulted in avoidable expenditure of ₹ 11.24 crore in the shape of differential interest (₹ 1.20 crore)⁹, prepayment charges (₹ 5.04 crore) and guarantee fee payable to State Government (₹ five crore¹⁰).

⁵ 110.5 acres in Gurugram, 147.5 acres in Manesar and 194 acres in Rewari.

⁶ Gurugram- ₹ 80.00 crore in January 2017 and ₹ 234.44 crore in July 2017, Manesar- ₹ 477.85 crore during September 2016 to January 2017 and ₹ 187.50 crore during May 2017 to July 2017 and Rewari- ₹ 100.00 crore in January 2017 and ₹ 140.52 crore in March 2017.

⁷ At two *per cent* of amount of loan drawn.

⁸ Gurugram - ₹ 80.00 crore, Manesar - ₹ 477.85 crore and Rewari - ₹ 100.00 crore.

⁹ Calculated proportionately at 0.50 *per cent* (10.15 *per cent* - 9.65 *per cent*) on total amount of interest actually paid from 17 March 2017 to 28 February 2018: ₹ 24.26 crore * 0.50 / 10.15 = ₹ 1.20 crore.

¹⁰ Yet to be paid.

The Government/Company stated (June 2019) that un-availed loans/credit limits were kept as safeguard to meet the huge enhanced compensation liability as per orders dated 19 November 2017 of the High Court of Punjab and Haryana. Further, it has been stated that the transactions of interest/pre-payment charges and bank guarantee took place between Government bodies only and there was no private party involved in whole process.

The reply is not acceptable as the Company had committed and drawn the HUDCO loan much before the High Court orders, and thus, this could not have been the reason for availing the loan.

It is recommended that being a commercial organisation, the Company should act with prudence to safeguard its financial interests.

5.3 Loss due to allotment of non-encumbrance free site

The Company failed to provide encumbrance free site to the allottee within prescribed time frame which resulted in deferment of payment schedule leading to loss of interest of ₹ 45.96 crore.

Haryana State Industrial and Infrastructure Development Corporation Limited (Company) decided (November 2016) to monetise its land holdings and identified a land parcel (17.18 acres) at Udyog Vihar, Gurugram for sale on free hold basis. After revising the terms of payments and exclusion of certain area, the Company invited (December 2017) bids for e-auction of 11.76 acres of land (including an office building which was on lease to two tenants). As per Clause 2.3 of bid documents, the site was clear and free from all encumbrances. The plot was allotted to the successful bidder (Allottee) at an offer of ₹ 1,496 crore for the plot and a Regular Letter of Allotment (RLA) was issued (9 March 2018) on deposit of ₹ 149.60 crore (10 per cent of bid value). For taking possession of the plot, the allottee was required to deposit another ₹ 224.40 crore (to make 25 per cent of bid value) within 30 days (by 8 April 2018) of issue of RLA, ₹ 374 crore within 60 days and balance ₹ 748 crore within 90 days of issuance of RLA.

The Company though offered (December 2017) the site as free from all encumbrances, but the building having two tenants and mobile tower on the land, were not vacant. Notices to vacate the premises were issued to the tenants on 1 September 2017 only, though the Company decided to sell this land in November 2016 itself.

Since the building on the land was not vacant, the Company initially extended the due date for deposit of first instalment from 8 April 2018 to 30 April 2018. The allottee apprehending non-removal of encumbrances moved (26 April 2018) the High Court of Punjab and Haryana for extension in payment time and deposited (1 May 2018) ₹ 224.40 crore (after adjusting ₹ 149.60 crore deposited earlier) with the High Court. The High Court ordered (31 May 2018) the Company to remove all the encumbrances and issue the revised RLA. Accordingly, the Company issued the revised RLA on 3 July 2018 with revised payment schedule. The Company received the payment in shape of first instalment amount of ₹ 224.40 crore on 30 July 2018 and second instalment of ₹ 383.23 crore on 1 January 2019. The allottee again requested (January 2019)

the Company to provide the encumbrance free site as it was still not clear and there were still some issues relating to allotting of parking slot, underground water tank, sewerage lines, demarcation points which were not as per zoning plan. The Company, however, served (March 2019) a notice to the allottee for balance payment upon which the allottee again moved (April 2019) the High Court. The High Court directed (May 2019) the Company for revision of schedule of RLA commencing from 26 March 2019. Allottee therefore, deposited the balance payment of ₹ 723.81 crore after deducting TDS of ₹ 14.96 crore on 19 June 2019 in lump sum against the balance 50 per cent payment on taking the possession of the land.

Audit observed that the revision of schedule of RLA resulted in deferment of payment schedule of allottee by 113 to 354 days. Had the Company received payments as per original RLA, it could have saved interest of ₹ 45.96¹¹ crore paid on its borrowings as the Company has obtained various loans for its operations. Company should have initiated process for vacation of land well in advance so that clear and encumbrance free site could have been provided to the Allottee as per bid document to avoid any loss.

The Government stated (November 2019) that the allottee has been raising different issues at different times and did not approach the Company for taking over possession of land pre-supposing that the land was not free from encumbrances. The reply is not acceptable as the Company could not provide the encumbrance free land to the allottee till March 2019 upon which the High Court directed the Company for revision of schedule of the RLA commencing from 26 March 2019.

It is recommended that the Company should keep its saleable area free from all encumbrances before they are put to auction/allotment in order to avoid litigation and loss of interest in deferment of payment schedules.

Haryana State Roads and Bridges Development Corporation Limited

5.4 Non-compliance of provisions of Income Tax Act

The Company did not deposit advance Income Tax and delayed filing of Income Tax return resulting in avoidable payment of interest of ₹ 9.09 crore.

As per Section 208 of the Income Tax Act, 1961 (Act), Advance Tax is payable during the financial year if estimated tax liability of assessee during that year is rupees ten thousand or more. Section 234A of the Act provides that if the return of income for any assessment year is furnished after due date¹², simple interest at the rate of one per cent per month is chargeable on the amount of tax on the assessed less Advance Tax deducted/collected at source.

¹¹ Calculated at the rate of 7.90 per cent on delayed realisation of: ₹ 224.40 crore for 113 days (from 8 April 2018 to 30 July 2018), ₹ 374 crore for 238 days (from 8 May 2018 to 1 January 2019), ₹ 187 crore for 354 days (from 1 July 2018 to 19 June 2019) and ₹ 187 crore for 170 days (from 1 January 2019 to 19 June 2019).

¹² 30 September of the relevant assessment year.

Further, Section 234B of the Act provides for levy of simple interest where the advance tax paid by the taxpayer is less than 90 per cent of the assessed tax at the rate of one per cent for every month from the first day of April. Also, section 234C of the Act provides that if an assessee fails to pay advance tax or the advance tax paid is less than 15 per cent, 45 per cent, 75 per cent and 100 per cent of the tax due till 15 June, 15 September, 15 December and 15 March (of the financial year) respectively, the assessee shall be liable to pay simple interest at the rate of one per cent per month on the amount of the shortfall.

Scrutiny of records revealed that during financial years 2014-15 to 2016-17, the Company did not deposit advance income tax and delayed filing the income tax returns also, as detailed in table 5.1 below:

Table 5.1: Interest paid by the Company under section 234 A/B/C

Financial Year	Due date of filing ITR (extended dates)/ Revised Return	Actual date of filing ITR	Taxable Income	Tax Paid ¹³	Interest paid under section 234 A/B/C
2014-15	31.10.2015	30.09.16	87.03	29.58	14.38
2015-16	<u>17.10.2016</u> 31.03.2018	<u>17.10.16 (Original)</u> 30.03.18 (Revised)	52.99	18.34	04.80
2016-17	<u>07.11.2017</u> 31.03.2019	<u>31.10.17(Original)</u> 30.03.19 (Revised)	23.89	8.27	0.98
Total					20.16

Note: The assessment by the Income Tax Department for the Financial Year 2014-15 has not been done.

As a result of non-payment of Advance Tax and delay in filing Income Tax returns, the Company had to pay interest of ₹ 20.16 crore during December 2017 to March 2018. Audit observed that the delay in remitting statutory dues was despite the fact that the Company had sufficient funds. The Company was keeping its surplus funds in fixed/term deposits and considering that by not depositing advance tax it could have earned interest¹⁴ of ₹ 11.07 crore on the amount of advance tax not remitted.

The Company incurred undue burden of ₹ 9.09 crore on its resources due to non-depositing of due Advance Tax and delay in filing its income tax return.

The Company accepted (March 2019) the audit observation.

The matter was referred to the Government and the Company in June 2019; their replies had not been received (May 2020).

It is recommended that the Company may fix responsibility for these lapses and institutionalise a mechanism for avoidance of similar instances.

¹³ Tax paid include TDS adjusted of ₹ 0.55 crore (Assessment Year 2015-16), ₹ 0.11 crore (Assessment Year 2016-17) and ₹ 0.12 crore (Assessment Year 2017-18).

¹⁴ Considering prevailing FDRs rates of 7.10 to 9 per cent per annum during this period.

5.5 Imprudent financial management

The Company did not invest surplus funds at the maximum available rates of interest and lost the opportunity to earn interest of ₹ 40.41 lakh.

The Haryana State Roads and Bridges Development Corporation Limited (Company) is engaged in construction of buildings, roads, up-gradation of State highways on deposit work basis for which it receives construction cost and service charges in advance from departments of the State Government. For such durations, the payments for works executed are not made, advance funds received remain surplus with the Company and are invested in fixed deposits with commercial banks.

For investment of surplus funds by its public enterprises, State Government issued (November 2013) guidelines specifying that investment should be made in those banks which quote highest rate of interest and a list of empanelled banks. The State Government included (18 June 2015) Haryana State Co-operative Apex Bank Limited (HARCO Bank) in the list of empanelled banks and decided that 10 to 15 *per cent* of surplus funds be placed with HARCO Bank, provided that the rate of interest offered by it meets the benchmark deposit rates offered to such PSUs/ Organisations.

The Company should have invested its surplus funds as per guidelines of the State Government to obtain maximum returns. A scrutiny of company's records for the period 2015-18 revealed that in three cases depicted in table 5.2, the Company did not invest the surplus funds in the HARCO bank which offered highest rate of interest in comparison to other banks in which funds were invested. As a result the Company lost the opportunity of earning interest of ₹ 40.41 lakh.

Table 5.2: Statement showing loss of interest income due to investment in FDRs of lower rate of interest

Sl. No.	Date of investment	Amount invested (₹ in crore)	Highest RoI (per cent)	Bank offering the highest RoI	Rate at which funds invested (per cent)	Bank with which funds invested	Period	Loss of interest (₹ in lakh)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)= {3*(4-6)/100} x 8
(i)	30.12.2015	46.00	8.05	HARCO	7.60	ICICI Bank	1 year	20.70
(ii)	01.01.2016	20.92	8.05	HARCO	7.60	ICICI Bank	1 year	9.41
(iii)	24.05.2016	29.43	8.00	HARCO	7.65	YES Bank	1 year	10.30
Total		96.35						40.41

Audit observed in its analysis of the decision making process that the Company did not invest in HARCO bank arguing that the investment in HARCO bank had already exceeded 10 to 15 *per cent* limit set by Government of Haryana. However, the State Government directions of June 2015 were to encourage State Government agencies to invest their surplus funds with HARCO bank without stipulation of any maximum limit.

The Company stated (July 2019) that since investment in HARCO bank had already exceeded 10 to 15 *per cent* limit set by the Government of Haryana, as such investments were made in other banks offering next higher rates.

The reply is not acceptable as the State Government guidelines of November 2013 clearly specified that investment should be made in those banks which quote highest rate of interest. Thus, due to imprudent financial management, the Company lost the opportunity of earning interest of ₹ 40.41 lakh.

The matter was referred to the Government in March 2019; their reply was awaited (August 2020)

It is recommended that the Company may fix the responsibility for the lapse and ensure investments of its surplus funds strictly as per State Government guidelines.

Haryana Agro Industries Corporation Limited and Haryana State Warehousing Corporation

5.6 Avoidable payment of interest on short term loans

HAIC and HSWC delayed claiming interest charges on custom milled rice from FCI during KMS 2017-18 and had to bear avoidable interest charges of ₹ 1.06 crore.

The State Government procures paddy on behalf of Food Corporation of India (FCI) for central pool through its procuring agencies including Haryana Agro Industries Corporation Limited (HAIC) and Haryana State Warehousing Corporation (HSWC). HAIC and HSWC procure paddy from the farmers by availing Short Term Loans (STLs) from commercial banks. The paddy is moved directly from *mandis* to the millers' premises for milling and the resultant rice, *i.e.*, Custom Milled Rice (CMR) is delivered to FCI. For each Kharif Marketing Season (KMS), Government of India (GoI) intimates provisional rates of CMR, which includes Mandi labour charges, driage charges, interest, *etc.* which are to be claimed by the Company at the time of delivery of CMR to FCI. Since HAIC and HSWC have to pay interest on STLs for undertaking their procurement activities, it is in their financial interest to claim the reimbursements as soon as they fall due so as to minimise the new borrowings for debt service and interest liability.

i) HAIC procured 5.69 lakh MT paddy by availing STLs (₹ 1,150 crore) bearing interest rate of 7.90 *per cent per annum* during 2017-18. Audit observed that test checked three¹⁵ Farmer Service Centres (FSCs) (out of eight), had not claimed interest admissible along with sales bills at the time of delivery of CMR for KMS 2017-18 to FCI. These FSCs claimed interest charges from FCI through consolidated supplementary bills with delays ranging from 29 to 405 days and received the payment. The FSC-wise delay¹⁶ in submission of claims

¹⁵ Kurukshetra, Karnal and Fatehabad.

¹⁶ The delay has been calculated from the date of submitting sales bill of MSP and other incidentals charges for CMR delivered to FCI to date of submitting supplementary bill for reimbursement of interest charges.

for interest charges and consequent interest burden on HAIC is shown in table 5.3 below:

Table 5.3: FSC-wise delay in submission of claim for interest charges

Name of FSC	Delay range (in days)	Amount of claim for interest charges (₹ in lakh)	Interest burden ¹⁷ (₹ in lakh)
Kurukshetra	49 to 357	455.76	23.89
Karnal	65 to 405	219.24	14.57
Fatehabad	29 to 168	550.87	9.01
Total		1,225.87	47.47

There was nothing on record to justify the delays in raising the claims of interest from FCI along with original sales bills of CMR during KMS 2017-18 leading to avoidable burden of interest of ₹ 47.47 lakh.

ii) Similarly, HSWC procured 6.65 lakh MT paddy by availing STLs (₹ 914 crore) bearing interest rate of 7.80 per cent per annum during 2017-18. Audit observed that test checked four¹⁸ District Manager (DM) offices of HSWC had not claimed interest admissible along with sales bills at the time of delivery of CMR for KMS 2017-18 to FCI. These FSCs claimed interest charges from FCI through consolidated supplementary bills with delays ranging from 7 to 317 days and received the payment. The DM office-wise delay¹⁹ in submission of claims for interest charges and interest thereon is shown in the table 5.4 below:

Table 5.4: DM office-wise delay in submission of claim for interest charges

Name of FSC	Delay range (in days)	Amount of claim for interest charges (₹ in lakh)	Interest burden ²⁰ (₹ in lakh)
Panipat	156 to 307	361.92	16.52
Fatehabad	7 to 198	261.17	5.95
Kaithal	72 to 268	369.37	15.82
Ambala	70 to 317	629.78	20.31
Total		1,622.24	58.60

There was nothing on record to justify the delays in raising the claims. Thus, during KMS 2017-18 non-claiming of interest from FCI along with original sales bills of CMR led to avoidable burden of interest of ₹ 58.60 lakh to HSWC.

As such, HAIC and HSWC suffered avoidable interest liability of ₹ 1.06 crore due to non-claiming of interest from FCI alongwith original sales bills.

The matter was referred (April 2019) to the Government and the agencies; their replies were awaited (May 2020).

It is recommended that both the agencies may undertake checks in their other centres to investigate cases where claims for interest have been raised with delay on FCI and institutionalise a mechanism to avoid such recurrence.

¹⁷ Calculated at the simple average interest rate of 7.90 per cent per annum on short term loans availed by the Company during KMS 2017-18.

¹⁸ Ambala, Fatehabad, Kaithal and Panipat.

¹⁹ The delay has been calculated from the date of submitting sales bill of MSP and other incidentals charges for CMR delivered to FCI to date of submitting supplementary bill for reimbursement of interest charges.

²⁰ Calculated at the simple average interest rate of 7.80 per cent per annum on short term loans availed by the Corporation during KMS 2017-18.

Haryana Agro Industries Corporation Limited

5.7 Misappropriation of Custom Milled Rice

Paddy was allocated to a miller who was not approved by District Milling Committee of Fatehabad for Kharif Marketing Season (KMS) 2017-18 who misappropriated custom milled rice valuing ₹ 1.28 crore.

The Directorate, Food, Civil Supplies and Consumer Affairs Department (Directorate) allots *mandis* to procuring agencies²¹ for its paddy procurement operations. Thereafter, the respective District Milling Committee²² approves the list of millers and makes allotment of millers to procuring agencies for every *mandi* and allocates the estimated quantity of paddy to be milled to each miller. The procured paddy is moved directly from *mandis* to the millers' premises for milling and the Custom Milled Rice (CMR) is delivered to FCI.

The Directorate allocated (19 September 2017) Hasanga *mandi*, District Fatehabad to Haryana State Warehousing Corporation and subsequently (27 October 2017) to Haryana Agro Industries Corporation (HAIC). District Office, Fatehabad of HAIC entered (6 November 2017) into agreement with M/s Hari Brothers Rice Mill, Fatehabad (miller) who was not included in the list of millers approved by District Milling Committee for any *mandi*. The agreement was for milling 2,699.175 MT paddy worth ₹ 4.87 crore. Against this the miller was required to deliver 1,808.45 MT CMR to FCI by 4 October 2018²³.

As per the agreement, the miller submitted guarantee of ₹ 50 lakh in the form of post-dated cheque drawn in favour of HAIC. HAIC was required to conduct physical verification of the premises of the miller on a fortnightly basis as per the milling policy for the KMS 2017.

The agreement was executed despite the fact that the miller was not included in the list of millers approved for any district. The miller delivered 1,318.76 MT CMR to FCI and failed to deliver balance 489.69 MT CMR valuing ₹ 1.42 crore. Audit observed that HAIC did not conduct physical verification of the stock on fortnightly basis as required, and during physical verification conducted in September 2018, the millers' premises were found locked and there was no paddy available.

The company did not present the post-dated cheque of ₹ 50 lakh (dated 1 May 2018) obtained as financial safeguard from the miller, for payment within its validity period of three months. By allowing this undue benefit to the miller, the company lost the opportunity to partially recover the loss, which is indicative of failure of internal financial controls of the organisation. Further, no FIR was registered against the miller against the act of misappropriation (December 2019).

²¹ Food, Civil Supplies and Consumer Affairs Department- GoH, Haryana State Warehousing Corporation, Haryana Agro Industries Corporation Limited and Haryana State Co-operative Supply and Marketing Federation Limited.

²² Consisting of District Managers of all procuring agencies under Chairmanship of Deputy Commissioner for every district.

²³ The due date of 31 March 2018 was extended up to 30 June 2018, then 31 July 2018 and then 4 October 2018.

The Company stated (April 2019 and January 2020) that the name of the M/s Hari Brothers Rice Mill, Fatehabad was included in the orders issued (7 November 2017) by Deputy Commissioner, Fatehabad for carrying out physical verification of paddy stock allocated to various millers. Further, an FIR is being lodged by HAIC against the miller and guarantors and arbitration proceedings are also going on.

The reply is not tenable as the Directorate confirmed the fact that name of the miller was not included in the list of millers who were allotted *mandis* during KMS 2017-18. As such, HAIC allotting paddy to an unapproved miller, non-conducting of physical verification and its failure to timely cash the security resulted in misappropriation of CMR valuing ₹ 1.28 crore²⁴.

The matter was referred (May 2019) to the Government and the Company; their replies were awaited (August 2020).

It is recommended that the Company should conduct physical verifications of stock on a regular basis and fix responsibility of the officials who allotted the paddy to an unapproved miller.



(FAISAL IMAM)

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Chandigarh

Dated: 20 November 2020

Countersigned



(GIRISH CHANDRA MURMU)

Comptroller and Auditor General of India

New Delhi

Dated: 8 December 2020

²⁴ After adjusting amount of ₹ 10.50 lakh towards encashment of FDR submitted by the miller and ₹ 3.27 lakh payable by HAIC on account of milling charges.

