Chapter V: Government Commercial and Trading Activities

Overview of Government Companies and Statutory Corporations

5.1 Introduction

As on 31 March 2006, there were nine Government Companies (all working companies) and two Statutory Corporations under the control of the Government of NCT of Delhi with no change in position from that as on 31 March 2005. The accounts of the Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller & Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangements of Statutory Corporations are as shown below:

Table 5.1: Audit arrangements for Statutory Corporations

Sl. No.	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1.	**Delhi Transport Corporation (DTC)**	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
2.	**Delhi Financial Corporation (DFC)**	Section 37(6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and supplementary audit by the CAG

The Government of NCT had constituted the Delhi Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104(2) of the Electricity Act, 2003[1].

[1] Erstwhile Section 34(4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003

5.2 Working Public Sector Undertakings (PSUs)

5.2.1 Investment in Working PSUs

As on 31 March 2006, the total investment in 11 working PSUs (nine Government Companies and two Statutory Corporations) was Rs.10,491.33 crore[2] (equity Rs.839.18 crore, share application money Rs.12.94 crore and long term loans[3] Rs.9,639.21 crore) against a total investment of Rs 9,694.56 crore (equity: Rs.837.36 crore, share application: money Rs.12.88 crore and long term loans Rs.8,844.32 crore) as on 31 March 2005. The analysis of investment in working PSUs is given in the following paragraphs.

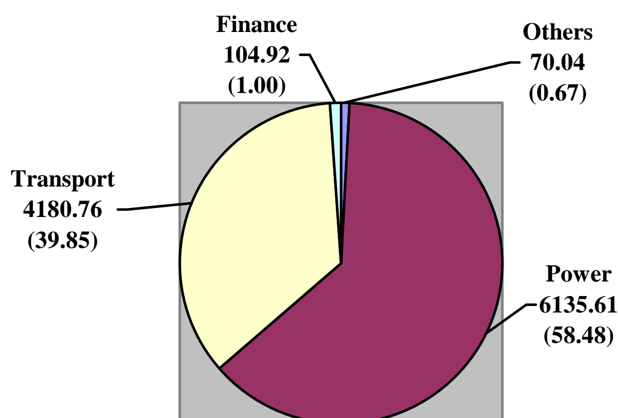
5.2.2 Sector-wise investment in working Government Companies and Statutory Corporations

The investment (equity and long terms loans) in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated in the pie charts:

Sector-wise investment in working Government Companies and Statutory Corporations
Amount: Rupees in crore
(Figures in bracket indicate percentage of investment)
As on 31 March 2006

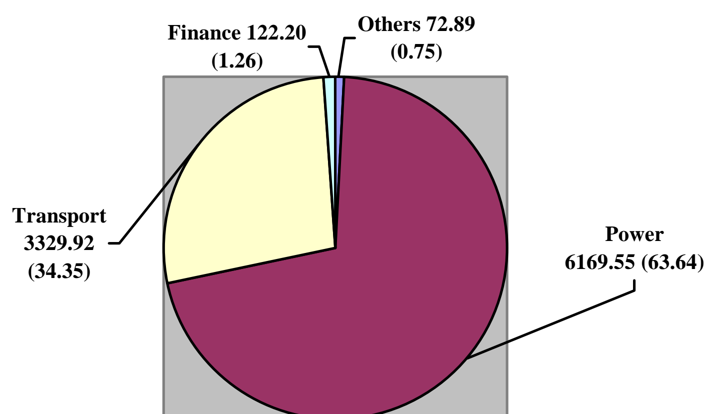
[2] State Government's investment in working PSUs was Rs.9,069.25 crore (others Rs.1,422.08 crore) Figure as per Finance Accounts 2005-06 is Rs.9,065.70 crore and difference of Rs. 3.55 crore is under reconciliation.
[3] Long terms loans mentioned in para 5.2.1, 5.3 and 5.3.1 are excluding interest accrued and due on such loans

Total Investment Rs.10,491.33 crore



As on 31 March 2005

Total Investment Rs. 9,694.56 crore



5.3 Working Government Companies

The total investment in the working Government Companies at the end of March 2005 and March 2006 was as follows:

Table 5.2: Investment in working Government Companies

(Rupees in crore)

Year	Number of companies	Equity	Share Application Money	Loan	Total
2004-05	9	707.48	-	5534.96	6242.44
2005-06	9	709.29	-	5496.36	6205.65

As on 31 March 2006, the total investment of working Government Companies comprised 11.43 *per cent* of equity capital and 88.57 *per cent* of loans as compared to 11.33 *per cent* and 88.67 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Government Companies in the form of equity and loans is given in Appendix – IX.

5.3.1 Working Statutory Corporations

The total investment in working Statutory Corporations at the end of March 2005 and March 2006 was as follows:

Table 5.3: Investment in working Statutory Corporations

(Rupees in crore)

Name of corporation	2004-05		2005-06	
	Capital (including share application money)	Loan	Capital (including share application money)	Loan
Delhi Transport Corporation	117.00	3212.93	117.00	4063.77
Delhi Financial Corporation	25.76	96.43	25.82	79.09
Total	**142.76**	**3309.36**	**142.82**	**4142.86**

As on 31 March 2006, the total investment in working Statutory Corporations comprised 3.33 *per cent* of equity capital and 96.67 *per cent* of loans as compared to 4.14 *per cent* and 95.86 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Statutory Corporations in the form of equity and loans is given in Appendix– IX.

5.3.2 Budgetary outgo, grants/ subsidies, guarantees, waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the Government of NCT in respect of the working Government Companies and working Statutory Corporations are given in Appendices IX and XI.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the Government of NCT to the working Government Companies and working Statutory Corporations for the last three years ending 31 March 2006 are given below:

Table 5.4: Budgetary outgo to Government Companies and Statutory Corporations

(Rupees in crore)

Sl. No.		2003-04				2004-05				2005-06			
		Companies		Corporations		Companies		Corporations		Companies		Corporations	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	**Equity capital outgo from budget**	-	-	-	-	-	-	-	-	1	1.81	-	-
2	**Loans given from budget**	3	2,150.69	1	631.00	4	889.97	1	606.54	4	416.34	1	981.51
3	**Grant**	3	57.14			3	4.17	-	-	-	-	-	-
4	**Subsidy towards i) Projects/ Programmes/ Schemes**			-	-	1	0..16	-	-	1	0.66	1	130.67
	(ii) Other subsidy			-	-			-	-	-	-	-	-
	(iii) Total Subsidy (i)+(ii)			-	-	1	0.16	-	-	1	0.66	1	130.67
	Total Outgo (1+2+3+4(iii))	**6***	**2,207.83**	**1***	**631.00**	**5***	**894.30**	**1***	**606.54**	**4***	**418.81**	**1***	**1112.18**

* *These are the actual numbers of companies/corporations which have received budgetary support in the form of equity, loans, grants and subsidies from the NCT Government during the respective years.*

During the year 2005-06, the Government of NCT had not given guarantees against loans obtained by any of the Government Companies or Statutory Corporations. The Government had waived interest of Rs.689.51 crore and given moratorium on loan repayment of Rs.3,452 crore to Delhi Transco Limited. There was no case of conversion of loans into equity capital either in case of Government Companies or the Statutory Corporations.

5.3.3 Finalisation of accounts by working PSUs

The accounts of the Government Companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

It would be seen from Appendix X that six[4] out of nine working Government Companies and both the Statutory Corporations finalised their accounts for the year 2005-06 within the stipulated period. During October 2005 to September 2006, five Government Companies finalised six accounts for previous years. The accounts of three Government Companies were in arrears

[4] *Serial Nos.4 ,5, 6, 7, 8 and , 9 of Appendix-X*

for the periods ranging from one to 11 years as on 30 September 2006 as detailed below:

Table 5.5: Arrears in accounts

Sl. No.	Number of working companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial Number of Appendix-X
1.	1	1995-96 to 2005-06	11	3
2.	2	2005-06	1	1 & 2

The administrative departments have to monitor and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts, there was no improvement in the position of arrears of accounts in case of Delhi SC/ST/OBC/Minorities & Handicapped Financial & Development Corporation Limited as a result of which the net worth of this PSU could not be assessed in audit.

5.4 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government Companies and Statutory Corporations) as per their latest finalised accounts are given in Appendix-X. Besides, statements showing the financial position and working results of individual working Statutory Corporations for the latest three years for which accounts have been finalised, are given in Appendices XII and XIII respectively.

According to the latest finalised accounts of the nine Government Companies and two Statutory Corporations, two Companies and one Corporation had incurred an aggregate loss of Rs.178.96 crore and Rs.879.38 crore and seven Companies and one Corporation earned an aggregate profit of Rs.179.60 crore and Rs.7.81 crore respectively.

5.4.1 Working Government Companies

Profit earning working companies and dividend

Out of six[5] Companies, which finalised their accounts for the current year, only four Companies[6] earned a profit of Rs.174.47 crore and only three

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[5] *These include three companies which finalised their previous years' account also.*
[6] *Sl. No.4, 5, 6, & 9 of Appendix X*

Companies[7] declared a dividend of Rs.14.41 crore. Three Government Companies, out of five companies, which finalised their accounts for previous years by September 2006, earned an aggregate profit of Rs.91.63 crore. Two companies[8] declared a dividend of Rs.14.22 crore.

Loss incurring working Government Companies

One Company[9] out of two loss incurring working Government Companies had accumulated losses aggregating to Rs.522.06 crore, which exceeded its paid up capital of Rs.0.05 crore.

The total financial support provided by the Government of NCT by way of loans during 2005-06 to this Company amounted to Rs.150 crore.

5.5 Working Statutory corporations

5.5.1 Profit earning Statutory Corporations and dividend

Both the Statutory Corporations had finalised their accounts for the year 2005-06. One corporation i.e. Delhi Financial Corporation earned a profit of Rs.7.81 crore but did not declare any dividend on equity shares.

5.5.2 Loss incurring Statutory Corporation

One Statutory Corporation i.e. Delhi Transport Corporation, which finalised its accounts for the year 2005-06, incurred a loss of Rs.879.38 crore. The accumulated losses as on 31 March 2006 were Rs.4,008.46 crore, which exceeded its paid up capital of Rs.117 crore.

Despite poor performance and complete erosion of its paid up capital, the Government of NCT continued to provide financial support to the Corporation in the form of further loans and subsidies. The financial support so provided by the Government of NCT by way of loans and subsidies during 2005-06 to the Corporation was Rs.981.51 crore and Rs.130.67 crore respectively.

5.6 Operational performance of working Statutory Corporations

The operational performance of the working Statutory Corporations is given in Appendix XIV.

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[7] *Sl. No.4, 5 & 6 of Appendix X*
[8] *Sl. No. 1& 6 of Appendix X*
[9] *Sl. No. 7 of Appendix X*

Some of the important observations on the operational performance of the Statutory Corporations are given below:

Delhi Transport Corporation

The average number of vehicles on road increased from 3,010 in 2004-05 to 3,138 in 2005-06.The occupancy ratio which increased from 94.45 in 2003-04 to 99.38 in 2004-05 decreased to 97.16 in 2005-06. The average number of breakdowns per lakh kilometre increased from 5.9 in 2004-05 to 6.70 in 2005-06 and the loss per kilometre increased from Rs.28.07 per kilometre in 2004-05 to Rs.31.45 per kilometre in 2005-06.

Delhi Financial Corporation

Loan disbursement which was Rs.65.92 crore in 2004-05 came down to Rs.23.65 crore in 2005-06, showing a negative growth in the business of the Corporation.

5.6.1 Return on capital employed

As per the latest finalised accounts, the capital employed[10] worked out to Rs.1,728.59 crore in nine companies and the total return[11] thereon amounted to Rs.294.78 crore as compared to total return of Rs.(-) 453.29 crore in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory Corporations as per the latest finalised accounts worked out to Rs.426.24 crore and Rs.(-)374.06 crore respectively against the total return of Rs.(-)338.17 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government Companies and Statutory Corporations are given in Appendix X**.**

5.7 Status of placement of Separate Audit Reports of Statutory corporations in the Legislature

The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory Corporations issued by the CAG in the Delhi Legislative Assembly by the Government as on 30 September 2006:

[10] *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents the mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).*

[11] *For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account*

Table 5.6: Placement of SARs in the Legislature

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1.	Delhi Transport Corporation	2003-04	2004-05	18.01.2006
2.	Delhi Financial Corporation	2004-05	2005-06	4.10.2006 -

5.8 Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

During October 2005 to September 2006, the accounts of nine Government Companies and two Statutory Corporations were selected for audit. The net impact of the important audit observations on the working results of these PSUs was as follows:

Table 5.7: Decrease/ increase in profit/loss as a result of audit by the CAG

Details	Working Government companies		Working Statutory corporations	
	Number of accounts	Rupees in lakh	Number of accounts	Rupees in lakh
(i) Decrease in profit	3	797.88	1	116.00
(ii) Increase in loss	1	2170.79	1	17338.34
(iii) Errors of classification	2	44758.00	2	489.77

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above Government Companies and Statutory Corporations are mentioned below:

5.8.1 Errors and omissions noticed in case of Government Companies
Pragati Power Corporation Limited (2005-06)

Loan of Rs.323.14 crore received from the Government of NCT of Delhi for the project was shown as 'Advance against share capital' in the accounts. This has resulted in overstatement of Share capital and understatement of Loans Fund-Unsecured-Loan from the Government of NCT of Delhi by Rs.323.14 crore.

Indraprastha Power Generation Company Limited (2004-05)

- Current liabilities on account of interest accrued as on 31 March 2005 on unsecured loans received from the Government of NCT of Delhi as well as loss for the year were understated by Rs.46.79 lakh, due to (i) calculation of interest on loan from the date of receipt of cheques instead from the date of release of cheques and (ii) calculation of interest up to the scheduled date of payment of instalments instead of actual date of payment of instalments of principal.

- Current assets were overstated by Rs.21.24 crore due to inclusion of amount recoverable from the Haryana Vidyut Prasaran Nigam Ltd. (HVPNL) towards one-third share of expenditure on operation and maintenance of a jointly set up power plant. HVPNL is paying only 80 *per cent* of the billed amount and the Company has made provisions for the amount which was more than two years old, which indicates that the unrecovered amount was doubtful of recovery. Therefore, a provision of Rs.21.24 crore should have been made also. This has also resulted in understatement of loss by the same amount.

Delhi Transco Limited (2005-06)

Profit for the year was overstated by Rs.5.69 crore on account of value of the power transmission assets transferred to the Military Engineering Services (MES). The value of these assets was neither transferred to the Company nor to any other entity at the time of unbundling of DVB. The value of the assets so received from MES should have been transferred to the Government of NCT of Delhi through DPCL.

Delhi Tourism and Transportation Development Corporation Limited (2005-06)

Fixed assets and profit for the year were overstated by Rs.52.50 lakh due to capitalisation of interest on loan of Rupees five crore received from the Government of NCT of Delhi after completion of the project.

5.8.2 Errors and omissions noticed in case of Statutory Corporations

Delhi Transport Corporation (2004-05)

- Loss has been understated due to non-provision of penal interest of Rs.171.36 crore (at the rate of 2.75 *per cent* over and above the normal rate of interest) on the overdue principal and interest.

- Loan of Rs.2.22 crore released by the Government towards the cost of six Low Floor Buses under Plan Scheme 'Restructuring and Revival of DTC' has not been accounted for in the books of account. This has resulted in understatement of Loan and Advances by Rs.2.22 crore as well as Liabilities–Interest on Govt. Loans and Loss for the year by Rs.12.72 lakh.

- Liability of Rs.1.67 crore for IVECO CNG engines purchased in January 2005 has not been provided for in the accounts. This has resulted in understatement of Current Liabilities and Current assets-Stores by Rs.1.67 crore.

- Liability of Rs.1.01 crore for summer uniforms has not been provided for in the accounts. This has resulted in understatement of loss for the year and 'Current Liabilities-Outstanding liabilities' to that extent.

- Due to switching over of fuel from diesel to CNG, stores valuing Rs.1.20 crore relating to diesel buses have not moved for more than five years. Since these are obsolete items, a suitable provision should have been made for these stores and shown in the accounts at net realisable value of Rs.31.24 lakh in accordance with the provisions contained in Accounting Standard-2. This has resulted in overstatement of Stores and Material and understatement of loss for the year by Rs.88.76 lakh.

Delhi Financial Corporation

- Amount of stale cheques of Rs.1.01 crore shown as outstanding liabilities in the accounts for 2004-05 despite following cash system of accounting resulted in overstatement of both the assets and liabilities by Rs.1.01 crore.

- Provision for Rs.1.16 crore on account of Non-Performing Assets (NPAs) against loan of Rs.7.75 crore given for purchase of CNG buses and in default for more than 21 months has not been made in the accounts for 2005-06 as per the guidelines of the Reserve Bank of India. This has resulted in understatement of Provision for NPAs and overstatement of Profit for the year by Rs1.16 crore.

5.9 Internal audit/ internal control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal

control systems in the companies audited by them in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

The major recommendations/comments made by the Statutory Auditors on possible improvement in the internal audit/internal control systems in respect

of Government Companies are given below:

Name of the Company	**Recommendations/comments made by the Statutory Auditors**
Delhi State Industrial & Infrastructure Development Corporation Limited	Keeping in view the overall size of the Corporation, there was scope for more coverage and strengthening of internal audit systems.
Indraprastha Power Generation Company Limited	The internal audit should be strengthened to commensurate with the size and nature of the business of the Company.
Delhi Transco Limited	The internal control system regarding purchase and issue of stores needs to be strengthened. The periodical verification of stores should be carried out at reasonable intervals.
Delhi Tourism and Transportation Development Corporation Limited	The internal control system needs to be strengthened in view of changes in the technological (Computerisation), communication and management advancement.
Pragati Power Corporation Limited	The internal audit system needs to be strengthened to commensurate with the size and nature of the business of the Company.

Performance audit

5.10 Operational Performance of the Delhi Transport Corporation

Highlights

The Corporation continued to incur losses since its inception. The cumulative losses increased from Rs.1,082.14 crore in 2001-02 to Rs.4,008.46 crore in 2005-06 eroding its entire paid-up capital of Rs.117 crore.

(Paragraph 5.10.1)

Load factor decreased from 83 *per cent* in 2001-02 to 74 *per cent* in 2005-06. One of the reasons for the poor load factor was curtailment of scheduled kilometers due to late out-shedding of buses. The revenue loss due to such lost kilometers amounted to Rs.6.47 crore.

(Paragraph 5.10.12)

The Corporation lost an opportunity to earn additional revenue of Rs.10.84 crore due to its failure to re-deploy CNG buses having more earnings per kilometer (EPK) to city operations and replacing them with diesel buses on inter-state routes. Avoidable curtailment of lucrative routes coupled with non-operation of scheduled kilometers for want of conductors resulted in loss of revenue of Rs.1.94 crore. Administrative laxity in obtaining fitness certificates for its buses also resulted in revenue loss of Rs.9.90 crore.

(Paragraphs 5.10.13 &5.10.17)

Consumption of CNG, engine oil and coolant in excess of the prescribed norms resulted in extra expenditure of Rs.18.61 crore.

(Paragraphs 5.10. 15 & 5.10.16)

No targets were fixed for tasks/jobs in the central workshop after 1999-2000. Failure of the central workshop to ensure timely availability of engine assemblies resulted in loss of revenue of Rs.17.81 crore.

(Paragraph 5.10.21)

Poor and inefficient inventory management led to loss of 3.26 lakh bus days and consequent revenue loss of Rs.52.33 crore.

(Paragraph 5.10.23)

Delay in utilisation of plan loans as well as ad hocism and delay in investment of surplus funds resulted in loss of interest of Rs.3.60 crore.

(Paragraph 5.10.24)

Failure to adhere to mandatory statutory provisions relating to remittance of provident fund dues resulted in payment of damages of Rs.10 crore and short deposit of Rs.4.92 crore into the DTC EPF Trust.

(Paragraph 5.10.28)

Receipts from advertisements constitute the major source of non-operating income of the Corporation. Inconsistencies in acceptance of offers coupled with injudicious decision-making resulted in loss of Rs.4.21 crore.

(Paragraph 5.10.32)

Introduction

5.10.1 The Delhi Transport Corporation was established on 2 November 1971 by the Government of India under Section 3 of the Road Transport Corporations Act, 1950, to provide an efficient and economical public transport service in Delhi. The control of the Corporation was transferred to the Government of Delhi with effect from 5 August 1996 with a fleet strength of 2,636 buses and 30,779 employees. At the time of transfer, liabilities due to the Government of India amounting to Rs.2,123.21 crore such as capital and ways and means loans and interest accrued thereon was waived off in order to enable the Corporation to make a fresh start.

The issued and paid-up capital of the Corporation is wholly subscribed by the Government of Delhi. The Corporation has been incurring losses since its inception. The cumulative losses increased from Rs.1,082.14 crore in 2001-02 to Rs.4,008.46 crore in 2005-06 thereby eroding its entire paid-up capital of Rs.117 crore. There was a sharp increase in the percentage of staff cost to total revenues from 68.42 *per cent* in 2001-02 to 101.76 *per cent* in 2005-06. The staff cost exceeded revenues from 2002-03 onwards. The staff cost per km increased by 78 *per cent* during the period 2001-02 to 2005-06, whereas the increase in working cost during same period was only 38.45 *per cent*.

5.10.2 The overall management of the Corporation vests in the Board of Directors (BOD) consisting of eight official directors and 10 non-official directors including four directors having expertise in the field of transportation. All the ten posts of non-official directors are lying vacant since April 2003. The Chairman-cum-Managing Director (CMD) is the chief executive of the Corporation who is assisted by the Chief General Manager (Operations), Chief General Manager (Personnel), Chief Accounts Officer & Financial Advisor, Chief Vigilance Officer (Vigilance and Security), Regional Managers and Depot Managers in the day to day working of the Corporation.

During 2001-02 to 2005-06, the post of CMD was held by six different incumbents for periods ranging from four months to two years depriving the Corporation of the benefits of continuity and steady leadership required for the accomplishment of the organisational objectives and for accountability.

The operational performance of the Corporation featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001. The report is yet to be discussed by the Committee on Government Undertakings (October 2006).

Scope of audit

5.10.3 The present performance review conducted during February 2006 to June 2006 covers the operational performance of the Corporation during the period from 2001-02 to 2005-06. The audit exercise involved scrutiny of the records of the Head Office, the two central workshops, the offices of the six Regional Managers and of 12 out of the 34 depots. The performance review also covered the actions taken by the Management to remedy the deficiencies highlighted by Audit in the previous Audit Report for the year ending 31 March 2001.

Audit objectives

5.10.4 The audit objectives of the performance audit were to ascertain whether:

- the Corporation was able to provide an efficient, adequate and economical road transport service in Delhi;
- the fleet was optimally utilised;
- the inventories were managed economically and efficiently;
- the funds were arranged and utilised economically and earnings optimized;
- the staff norms were adhered to and staff costs minimized; and
- the internal audit system was commensurate with the size and activities of the Corporation.

Audit criteria

5.10.5 The audit criteria adopted for assessing the achievement of the audit objectives were:

- the physical and financial targets/norms fixed by the Management, norms and performance standards prescribed by the Association of State Road Transport Undertakings (ASRTU), manufacturers' specifications, norms for life of a bus, preventive maintenance schedule, fuel efficiency norms, etc.;
- the instructions of the Government of India (GOI) and Government of Delhi and other relevant rules and regulations;
- the Corporate policy for investment of funds; and
- procedures relating to review of fares and finalisation of tenders.

Audit methodology

5.10.6 The audit methodology adopted for attaining the audit objectives with reference to audit criteria were examination of:

- the agenda and minutes of the meetings of the Board of Directors;
- subject files, registers and other records maintained by the various division/units of the Corporation;
- the records relating to fleet utilisation/route scheduling with a view to identifying losses;
- details of buses held in depots/workshops and curtailment of schedules and Management Information System reports; and
- agreements/contracts entered into for purchase of buses and other stores.

Audit findings

5.10.7 The audit findings, emerging as a result of the performance audit were reported to the Government/Corporation in July 2006 and were also discussed in the meeting of the Audit Review Committee on Public Sector Enterprises held on 8 September 2006. The Principal Secretary (Transport) Government of NCT Delhi and the Chairman-cum-Managing Director of the Corporation attended the meeting. The replies of the Government and Management were subsequently received in October 2006. The views expressed by the Government and the Corporation in the meeting and as communicated subsequently have been taken into consideration while finalising the review.

Fleet management

5.10.8 An analysis of the operational performance of the Corporation during the five years ending 2005-06 revealed low vehicle productivity and declining load factor despite a relatively new fleet, lack of control over consumption of

oil and lubricants and failure to take steps necessary to remove the deficiencies and improve its performance as discussed below:

Fleet strength and age profile

5.10.9 For ensuring efficient and satisfactory public transport, maintenance of adequate fleet of buses for operation of scheduled routes is necessary. Acquisition of new buses is necessary for augmenting the existing fleet as well as for replacing the old and un-serviceable buses. ASRTU had recommended (1971) that the normal life of a bus should be eight years or five lakh kms of operation and that a minimum of 60 *per cent* of fleet strength should consist of buses with less than four years of operation. The fleet strength and age profile of the fleet of the Corporation during 2001-2006 was as follows:

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Vehicles at the beginning of the year	1932	3286	3082	3656	3470
2.	New vehicles added	1960	373	582	24	5
3.	Vehicles discarded	606	577	8	210	6
4.	Vehicles at the end of the year	3286	3082	3656	3470	3469
5.	No of the buses less than 4 years old	2639	2491	3049	2936	984
6.	No of the buses more than 4 years old but less than 8 years	246	578	595	506	2449
7.	No of the buses more than 8 years old	401	13	12	28	36

It can be seen from the table that the Corporation had only 36 overage buses i.e. 1.04 *per cent* in its fleet as on 31 March 2006.

Fleet utilisation

5.10.10 Optimum fleet utilisation is necessary for assessing the operational performance of a transport undertaking. It represents the ratio of buses available and buses on road.

In the Audit Report for the year ended March 2001, it was pointed out that the fleet utilisation in the Corporation ranged from 55 *per cent* to 96 *per cent* during the period 1996-97 to 2000-01. The current performance review revealed little improvement in the fleet utilization, which now ranged from 71.69 *per cent* to 91 *per cent* during the period 2001-02 to 2005-06. While the fleet utilisation of the Corporation was better than that of the Kolkata Transport Undertaking (63 to 68 *per cent*) and comparable with that in

Chennai (78 to 81 *per cent*), it was low as compared to the city transport undertakings in Bangalore (95-96 *per cent*) and Mumbai (90 *per cent*).

It was noticed in audit that the Corporation had reported a fleet utilisation of 90.22 *per cent* during October 2004 to March 2005 and 91 *per cent* during April 2005 to March 2006. Audit scrutiny, however, revealed that the fleet utilisation was wrongly being computed on the basis of the buses out-shed only in the morning shift without taking into account the buses out-shed in the evening shift, where the average fleet utilisation was eight to ten *per cent* less than the morning shift. Taking both shifts into account, the actual average fleet utilisation worked out to 84.91 *per cent* and 86.35 *per cent* respectively during the above period.

The Government stated (October 2006) that the standard practice was to compute fleet utilization on maximum number of buses out-shedded in a day and that computation of fleet utilisation based on average buses out-shedded in both shifts is not the general practice. The reply is not tenable as taking into account the average of morning and evening out-shedding generates a more realistic picture and the Corporation itself had computed its fleet utilisation figures based on the average of morning and evening out-shedding during September 2004 to December 2004. Moreover, Metropolitan Transport Corporation, Chennai has also been calculating fleet utilisation on the average of morning and evening shift out-sheddings.

Vehicle productivity

5.10.11 Vehicle productivity refers to the distance travelled by each bus per day. The vehicle productivity of the Corporation during the year 2000-01 was 196 kms per day when the percentage of overage fleet was 41 *per cent*. It, however, ranged from 211 kms to 230 kms per day during 2001-02 to 2005-06 which was better than that of Mumbai (194 kms per day) and Kolkata (153 kms per day), comparable with that in Bangalore (224 kms per day) but much less than that in Chennai (261 kms per day) during the corresponding period. It is pertinent to mention here that the average age of the buses of the Corporation was 3.2 years as against the average age of 7.62 years of the buses in Chennai and the percentage of overage fleet in the Corporation was just 0.81 *per cent* as against 18.03 *per cent* (March 2005) in case of Chennai. This clearly indicated that there was adequate scope for improvement in the vehicle productivity as the fleet was relatively new. Achieving vehicle productivity levels maintained by Chennai would have given the Corporation an additional revenue of Rs.121.66 crore (revenue net of variable cost) during 2001-02 to 2005-06.

The Government stated (October 2006) that vehicle productivity depends mainly on operational conditions and traffic density. That CNG buses were

introduced for the first time in India by DTC and that there are some technology problems. The reply is not tenable as CNG buses were introduced four years back which is sufficient time for technology stabilisation as well as understanding the operational intricacies involved. Further, the kilometers lost by traffic jams had declined from 45.14 lakh kms in 2001-02 to 22.33 lakh kms in 2005-06 indicating that there was decline in traffic density and hence vehicle productivity should have improved.

Load factor

Load factor decreased from 82.66 *per cent* to 74.42 *per cent* during 2001-02 to 2005-06 resulting in revenue loss of Rs. 6.47 crore.

5.10.12 The load factor represents the percentage of seating capacity offered to seating capacity actually occupied. The load factor of the Corporation decreased from 99.56 *per cent* during the year 2000-01 to 82.66 *per cent* in 2001-02 and further decreased to 74.42 *per cent* in 2005-06. The average load factor of the Corporation was 72.06 *per cent* as against 91.82 *per cent* in Kolkata, 86.34 *per cent* in Bangalore, 79.82 *per cent* in Chennai and 70.47 *per cent* in Mumbai during the period.

Audit analysis revealed that one of the reasons for the poor load factor was curtailment of scheduled kms due to late out shedding. The kms missed by the Corporation due to late out shedding increased from 14.52 lakh kms in the year 2001-02 to 24.31 lakh kms in 2005-06. The revenue loss net of variable cost on account of these lost kilometers worked out to Rs.6.47 crore during the five years period.

The Government attributed (October 2006) higher load factor during 2001-02 to operation of buses by Private Operators (PO) under kilometers scheme of DTC. It also added that there is no correlation between the load factor and the late out shedding. The reply is not tenable as late out-shedding would result in passengers being weaned away by other means of transport including private bus operators resulting in decline in load factor.

Route operation

5.10.13 Operational performance can be improved by periodic review of uneconomic routes with a view to assess their continuance, rationalisation of routes and optimum operation of buses on the higher revenue earning routes. Audit scrutiny revealed the following:

- None of the routes operated by the Corporation were recovering the total cost of operation. Number of city routes were not even recovering their variable cost resulting in cash losses on their operations. The number of such city routes increased from 45 in 2002-03 to 54 routes in 2005-06 resulting in cash losses of Rs.81 lakh on their operation. In addition, the Corporation also operated inter-state routes which also did not meet their variable costs. The cash loss incurred on such inter-state routes worked out to Rs.26.79 lakh during 2001-02 to 2005-06.

  The Government stated (October 2006) that there were only 16 routes which were not meeting their variable cost of Rs.7.28 per km in 2005-06. Most of these routes fell in rural areas or in areas where other public transport services are not willing to operate. The reply is not acceptable as the variable cost for the year 2005-06 was Rs.8.55 per kms instead of Rs.7.28 as stated by the Government and in majority of the cases only one end of the route fell in rural areas.

The Corporation lost an opportunity to earn additional revenue of Rs.10.84 crore due to its failure to re-deploy CNG buses having more EPK to city operations and replacing them with diesel buses on inter-state routes.

- The Corporation started deploying CNG buses on inter-state routes w.e.f October 2003. Audit scrutiny revealed that the earning per km (EPK) of CNG buses in city operation ranged from Rs.14.86 to Rs.16.11 as against Rs.11.09 to Rs.12.73 in respect of inter-state diesel buses during the period 2003-04 to 2005-06. The Corporation deployed 145 to 192 CNG buses on interstate routes starting from interstate terminals. Failure to re-deploy these CNG buses to city operations by replacing them with diesel buses on inter-state routes, the Corporation lost the opportunity to earn additional revenue of Rs.10.84[12] crore during the period October 2003 to March 2006.

  The Government stated (October 2006) that only such numbers of CNG buses are plied on inter-state routes as can be spared from the city service. The reply is not tenable as the Corporation has missed 502.77 lakh scheduled kms due to non-availability of buses during the period 2001-2002 to 2005-06.

Non-operation of schedule kms for want of conductors despite having surplus conductors resulted in loss of revenue of

- Scrutiny of the records relating to the schedule curtailments revealed that the Corporation could not operate 19,49,685 kms during the period 2002-03 to 2005-06 due to non-availability of conductors though the Corporation had surplus conductors ranging from 2,056 to 4,158 during the same period. Non-operation of scheduled kms for want of conductors despite having surplus in conductor's cadre resulted in loss of revenue of Rs.1.43 crore.

Curtailment in lucrative routes resulted in loss of revenue of Rs.51 lakh.

- The missed kilometers in Yamuna Vihar depot were particularly high in

[12] Difference in EPK x average kms operated per day in city x no. of buses x 365 =Rs.1,083.86 lakh

respect of two routes whose EPK were much higher than the average earnings of the depot. The missed kms on these two routes were as high as 52.86 *per cent* while the depot simultaneously operated routes where the EPK was much below the average earning of the depot. This resulted in loss of revenue of Rs.51 lakh due to difference in EPK of identified routes and average earnings of the depots. Instead of missing scheduled kms to the lucrative routes, the Management could have passed on the missed kms on the less lucrative routes so as to restrict the losses incurred.

Non-adherence of preventive maintenance schedule

5.10.14 Preventive maintenance is essential to keep the buses in good running condition and to reduce breakdown/other mechanical failures. The Corporation has prescribed the following schedule for preventive maintenance of its CNG fleet:

Sl. No.	Particulars	Schedule
1.	**Servicing**	Every 1000 kms
2.	**Engine Oil change**	
2(a)	Tata fleet	Every 9000 kms
2(b)	Leyland fleet	Every 10000 kms
3.	**Brake inspection**	
3(a)	Tata fleet	Every 18000 kms
3(b)	Leyland fleet	Every 24000 kms

Non-adherence of the preventive maintenance led to increase in number of breakdowns.

Scrutiny of the records by audit revealed that the required preventive maintenance schedules were not being adhered to. During the last five years ending 2005-06, the schedule of preventive maintenance of servicing, engine oil change and brake inspection was not observed in over 62 *per cent*, 81 *per cent* and 75 *per cent* of the cases respectively though the schedule of operations is such as it keeps eight *per cent* of the fleet in reserve. Non-observance of preventive maintenance resulted in substantial increase in number of breakdowns from 1,325 in 2001-02 to 17,393 in 2005-06 for CNG operations.

The Government stated (October 2006) that it was not possible in practice to strictly adhere to the maintenance schedules and there would always be variations. It further stated that a sample survey of five depots shows 77 *per cent* to 80 *per cent* achievement in docking. It attributed the delay to shortage of stores and spares and non-availability of vehicles on schedule date etc. and added that all efforts are being made to maintain the vehicles within the tolerable range of kms. The reply is not tenable as adherence to the preventive maintenance schedule would have without doubt minimised breakdowns and

cancellation of trips besides helping in improving the fuel efficiency and effective operational kilometers.

Excess consumption of fuel

5.10.15 Control of fuel costs by a road transport undertaking has a direct bearing on its profitability. During June 1999, CNG buses were inducted for city operations. The Corporation has fixed (August-2003) a norm of 3.20 and 3 kilometers per kilogram (KMPKG) for Tata and Leyland buses respectively. Though it took four years to fix CNG norms, the same were fixed without any documented study of the actual consumption of CNG in city conditions or with reference to the manufacturers' specifications. Audit scrutiny of the fuel consumption pattern revealed that:

Lower fuel efficiency of buses resulted in excess consumption of CNG worth Rs.17.16 crore.

- The actual consumption of CNG was more than the norms fixed by the Corporation. The average fuel efficiency decreased from 3.41 KMPKG in 2001-02 to 2.99 KMPKG in 2005-06. The lower fuel efficiency resulted in excess consumption (computed with reference to the norms) of the CNG worth Rs.17.16 crore.

- The consumption pattern was to be monitored by the planning cell of the Corporation, but bus-wise consolidated data to identify the buses with consistently high fuel consumption was not maintained. A test check of the records of 12 depots consisting of 1,104 buses revealed that 856 buses were consistently consuming more CNG than the prescribed norm. No action was taken to investigate the reasons for such consistently high consumption to take remedial action.

The Government attributed (October 2006) the excess consumption to new CNG technology, the increasing age of CNG fleet, CNG leakages, excessive load factors, traffic congestion and increase in the number of red lights during 2001-2006. The Government also intimated that the targets are being reviewed**.** The reply is not tenable as both the load factor and the missed kilometers due to traffic jams had in fact decreased from 82.66 *per cent* in 2001-02 to 74.42 *per cent* in 2005-06 and from 45.14 lakh kms to 22.33 lakh kms during the period for which the excess consumption has been pointed out by Audit. Thus no serious attempt was made by the Corporation to monitor, control and ensure the consumption of CNG as per norms.

Excess consumption of coolant and engine oil

5.10.16 Coolant and engine oil is changed as per the schedule prescribed by the vehicle manufacturers. The Corporation also evolved a procedure to check the levels of the both coolant and engine oil of buses on daily basis. In case the same were found below the minimum level, they were topped up. In July

2004, the Corporation fixed norms of 6,000 kms and 1,000 kms per litre for coolant and engine top-up respectively. Audit scrutiny revealed the following:

- The average consumption of engine oil and coolant during the three years from 2001-02 to 2003-04 was as follows:

	Norms	Average consumption	
		Telco	Leyland
Coolant	6,000 kmpl	17,242kmpl	4776 kmpl
Engine oil	1,000 kmpl	4,514 kmpl	1,026 kmpl

  It is evident that the norms fixed in July 2004 were not based on empirical data of actual consumption during the previous three years. Hence, they could not serve as a meaningful benchmark to monitor and control consumption.

Excess consumption of engine oil and coolant with reference to norms fixed resulted in extra expenditure of Rs. 1.45 crore.

- Fourteen and sixteen depots with Leyland fleet failed to achieve the norms during the period 2004-05 and 2005-06 respectively while three out of 12 depots with Telco fleet failed to achieve the norms of coolant top-up during 2004-05 and six depots during 2005-06. Similarly in case of engine oil, fifteen and eighteen depots with Leyland fleet failed to achieve the norms in 2004-05 and 2005-06 respectively and two depots with Telco fleet failed to achieve the norms in 2005-06. The excess consumption of coolant and engine oil during these two years since fixation of norms worked out to Rs.1.45 crore.

The Government stated (October 2006) that the targets were fixed in July 2004 based on actual consumption of the immediately preceding year 2003-04. It added that 10 litres of engine oil and 20 litres of water-coolant mixture was to be filled at the time of every change of faulty cylinder head of Leyland engine which resulted in excess consumption of engine oil and coolant. The Government also intimated that the targets are being reviewed. The reply is not tenable as the consumption of engine oil and coolant could be controlled by linking the change of faulty cylinder heads with engine oil and coolant change schedule. Further, there was nothing on record to show that the previous years' data was considered at the time of target fixation.

Delay in obtaining fitness certificates

Administrative laxity in obtaining fitness certificates resulted in loss of revenue of Rs. 9.90 crore.

5.10.17 The Corporation has to obtain certificates of fitness from the State Transport Authority for its buses under Section 62 of the Central Motor Vehicle Rules 1989. The certificate is valid for two years for new buses and for one year thereafter. It was noticed by audit that 190 to 651 buses sent for fitness tests during each of the five years failed to obtain fitness certificates due to reasons like mismatch of engine and chassis number with that in the registration certificate, non-installation of speed governors and poor condition

of the buses, which are prima facie controllable by proper management. The delay in obtaining the fitness certificate ranged up to four months and resulted in non-operation of these buses for 29,878 days and consequent revenue loss of Rs.9.90 crore[13] during 2001-02 to 2005-06.

While accepting the audit observation, the Government stated (October 2006) that steps have been taken to streamline the system and Depot Officers have been asked to take care in future to avoid any delay in obtaining the fitness certificates.

Non-replacement of catalytic converters

5.10.18 The Corporation inducted 1,360 Telco and 1,730 Leyland CNG buses into its fleet during 1999-2000 to 2004-05. These were fitted with catalytic converters which had an effective life of 80,000 kms. Such catalytic converters are essential to prevent release of harmful exhaust gases.

Audit scrutiny revealed that though the catalytic converters had started completing their prescribed effective life as early as September 2001, no action was taken by the Corporation to replace these converters till August 2004 when it floated a tender enquiry for purchase of 1,750 catalytic converters for Leyland buses only. It received quotations from both Leyland and M/s Minda Impco. The procurement was, however, deferred due to non-availability of funds. On the request of the Corporation in February 2005, the Government of Delhi released (August 2005) Rs.4.80 crore as plan loan for purchase of the catalytic converters and directed the Corporation to utilise the amount and refund the unspent balance, if any, by the end of March 2006. The Corporation floated an open tender as late as February 2006 i.e. seven months after release of funds. The tender was scrapped as only one offer was received. The tender was re-invited in May 2006 and is yet to be finalised. Delay in procurement of catalytic converters has resulted in 2,573 buses being operated with catalytic converters which had already outlived their effective life thus undermining the objective of reduction of vehicular pollution mandated by the Supreme Court.

2,573 CNG buses were being operated with catalytic converters whose effective life had already expired.

The Government stated (October 2006) that the chassis manufacturers had only recommended checking/inspection of catalytic converters at every 80,000 kms and it would be incorrect to infer the same as their life. Further changing of catalytic converter at every 80,000 kms would only increase the cost to the Corporation. The Government also informed (October 2006) that the procurement cases for both Tata and Leyland catalytic converters are being processed and are expected to be finalized in due course of time. The reply is not tenable as vehicle manufacturers specifications clearly stipulates

[13] (Bus days lost)X (Average revenue per bus per day)

that catalytic converters are to be replaced after 80,000 kms and it was on this criteria that the Corporation had got the catalytic converter of 500 Leyland buses changed during the warranty period and sought plan loan from the Government for the purpose.

Automatic Vehicle Tracking System (AVTS)

AVTS implemented at cost of Rs. 4.91 crore failed to demonstrate desired impact

5.10.19 The Corporation entered (January 2001) into an agreement with the Computer Maintenance Corporation Limited for implementing an Automatic Vehicle Tracking System (AVTS) based on differential Global Positioning System (GPS) to track and monitor its buses in real time so as to enable better fleet management and improve commuter satisfaction. Against stipulated date of completion by January 2002, the project was completed in September 2004 i.e. after a delay of more than two and half years at a cost of Rs.4.91 crore. Audit scrutiny of the implementation of the project revealed the following:

- The Project Review Committee (PRC) and Project Review and Steering Group (PSRG) setup to monitor the implementation of the project met only thirteen times and four times respectively till the completion of the project. Close monitoring that was essential for timely completion of such a project was clearly lacking contributing to delay in its completion.

- The traffic income in case of depots without AVTS was comparable with and in some cases more than that of depots with AVTS. Even in respect of other operational parameters like average fleet utilisation, average operational ratio, average kilometer efficiency and average traffic income per kilometer, the position of non-AVTS depots was comparable or better. It was evident that the system failed to demonstrate the desired impact in terms of better fleet utilisation and performance.

- AVTS could generate about 48 reports for effective monitoring of buses relating to the position of the buses in real time vis-à-vis in shedding and out shedding at depots, check the driver behavior (in terms of bus stop skipping, improper stopping, route deviation, speeding, unauthorised stopping, bogus trips, etc.) and on line communication with drivers. Only 14 reports were being generated daily and rest intermittently. There was no evidence of any regular follow up of the reports and systematic translation of the output in terms of corrective or remedial action including action against erring staff.

- The project was discontinued w.e.f. 30 September 2005 as the benefits being derived by the Corporation were not commensurate with the recurring expenditure of Rs.34,912 per annum per bus indicating that the project was initially undertaken without undertaking any cost benefit analysis.

The Government stated (October 2006) that the system had helped to enhance commuter satisfaction on mudrika routes where services had become more punctual and reliable. Further, the system had also facilitated action including imposition of token penalties on erring drivers which had resulted in reduction in the cases of bus-stop skipping and over-speeding. However, the system was discontinued w.e.f. 30 September 2005 due to high operational expenses arising from use of trunk radio as the means of communication. The National Informatics Centre had been requested to suggest a cheaper and more efficient technology which was awaited.

The Government's contention of improvement of services on mudrika routes was not supported by any documentary evidence/field study. The Corporation had also not formulated any documented system acting on AVTS reports and the actions stated to have been taken were ad hoc and there was no change in the number of errant drivers as of October 2004 and October 2006. Lack of seriousness and foresight in implementation of the project intended to improve fleet utilisation defeated its very purpose and the entire expenditure of Rs.4.91 crore proved unfruitful.

High rate of accidents

5.10.20 The position of accidents involving buses of the Corporation during 2001-02 to 2005-06 was as follows:

Year	**Fault of the Corporation**		**Fault of others**		**Total [Number of accidents per lakh kms]**
	Number	**Percentage**	**Number**	**Percentage**	
2001-02	240	75.5	78	24.5	318 [0.20]
2002-03	219	76.6	67	23.4	286 [0.15]
2003-04	235	72.1	91	27.9	326 [0.14]
2004-05	299	72.9	111	27.1	410 [0.16]
2005-06	354	92.2	30	7.8	384 [0.15]

While the number of accidents in terms of per lakh kilometers had improved over the five years period and compared favourably with that of other major city transport undertakings, the percentage of accidents attributable to the fault of the bus drivers increased from 75 *per cent* to 92 *per cent*.

The Government stated (October 2006) that it had out-sourced drivers w.e.f. June 2003 resulting in overall increase in accidents. There was evidently a need to impart regular training to the drivers both those out-sourced as well as

their own before they are permitted to drive buses and to initiate deterrent disciplinary action against the erring drivers.

Performance of Central Workshop

5.10.21 The Central Workshop is responsible for major repairs, re-conditioning and overhauling of various assemblies to keep the fleet running. Audit scrutiny revealed the following:

- Annual targets for production of assemblies were fixed till 1999-2000. No targets were fixed thereafter. A comparison of actual production during the period 2001-02 to 2005-06 with reference to the production targets of 1999-2000 revealed huge shortfalls ranging from 47 *per cent* to 98 *per cent* as below:

Major assemblies	Targets for the year 1999-2000	Actual production				
		2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Engines	2710	745	744	620	1283	1366
Gearbox	4207	1810	1829	1427	1630	2209
Front Axle	313	15	8	7	9	20
Rear Axle	1777	627	616	675	618	882

- The Corporation has to maintain a reserve for its major assemblies in order to avoid disruption of services on account of lack of assemblies. The workshop, however, failed to maintain the requisite reserves as detailed below:

Sl. No.	Name of major assemblies	Reserve required as per norms	Available reserve in percentage during 2001-02 to 2005-06	
Leyland		**Percentage of fleet**		
			Diesel	**CNG**
1.	Engine	5	Nil to 54.4	Nil to 2.1
2.	Gear box	6	3.1. to 127.7	Nil to 2.9
3.	Front axle	3	1.3 to 19.4	
4.	Rear axle	4	0.4 to 26.9	
Telco				
1.	Engine	5	Nil to 51.2	Nil to 0.1
2.	Gear box	9	4.6 to 15.9	
3.	Front axle	3	0.4 to 32.7	
4.	Rear axle	4	0.7 to 26.9	

- The Corporation did not have any reserve for its CNG engines and gear boxes as of March 2006 despite receipt of plan loan of Rs.7.50 crore from the Government of Delhi in March 2005 for purchase of engines. Further, the reserves maintained for front axle and rear axle were also found to be inadequate during the years 2002-03 to 2005-06.

- The Central Workshop failed to ensure timely supply of requisite engines and assemblies to the depots due to non-availability of spares and non-

Failure to ensure timely availability of engines and assemblies resulted in loss of revenue of Rs.17.81 crore.

maintenance of reserve of assemblies. Resultantly, a large number of buses were held up in depots for want of major assemblies resulting in loss of 1,12,324 bus days during the years 2001-02 to 2005-06. The revenue lost on this account worked out to Rs.17.81 crore (revenue net of variable cost).

The Corporation had fixed the target life of re-conditioned engines as 80,000 kms. Similarly, the target life of re-conditioned gearbox of Telco and Leyland buses was fixed as 35,000 kms and 40,000 kms respectively. An engine was considered to have failed prematurely if the failure was within 50,000 kms of its operation. Similarly, a gearbox is considered to have failed prematurely if it failed within 35,000 kms and 40,000 kms for Telco and Leyland buses respectively. During the period 1996-97 to 2000-01 covered during the previous performance review, 24 *per cent* of the re-conditioned engines failed prematurely. A review of the records pertaining to re-conditioned engines and gearboxes for the last five years ending 31 March 2006 revealed that 1,445 out of 4,643 re-conditioned engines i.e. 31 *per cent* failed prematurely. Similarly, 3,920 out of 8,905 re-conditioned gearboxes i.e. 44 *per cent* failed prematurely. The high rate of premature failures was indicative of the poor quality of work done by the workshop which could have improved with stricter quality control.

The Government stated (October 2006) that the production targets of the assemblies were not fixed as the new buses were under warranty. The reply is not tenable as the buses started completing warranty in the year 2003 itself and targets should have been fixed prior to expiry of warranty. While accepting the position of non-availability of reserve of assemblies, Government stated that the efforts are being made to procure a reserve of assemblies so that vehicles may not be held up in the depots on this account. It attributed the pre-mature failure of reconditioned assemblies to lack of lubrication, coolant and mishandling by the drivers. The reply is not acceptable as there was excess consumption of coolant and engine oil (Para 5.10.16) and mishandling by drivers was controllable.

Undue delay in procurement of trucks for stores and recovery duty

5.10.22 The Corporation decided (January 2002) to procure trucks for stores and recovery duty so that buses deployed for this purpose could be optimally utilised on line duty to earn revenue. It was also decided to purchase Telco and Leyland trucks for Tata and Leyland depots to facilitate maintenance. Offers were invited from both the manufacturers (August 2002) on DGS&D rate contract. The quotation received (September 2002) from Telco was as per their DGS&D rate contract and was lower than that offered (September 2002) by Leyland. The Corporation thereafter issued a counter offer to Leyland in

the same month for purchase of 36 trucks at the rate of Rs.8,18,411 per truck i.e. the price offered by Telco, which was accepted by Leyland. The Corporation, however, again issued (November 2002) another counter offer incorporating a clause for bank guarantee equivalent to five *per cent* of the basic value of the order to safeguard against possible reduction in the contract rates on its finalisation by DGS&D. Leyland expressed its inability (December 2002) to accept this additional condition. The Corporation, thereafter, decided in April 2003 to invite quotations *de novo* from Telco, Leyland, Eicher, Volvo and Swaraj Mazda but only Telco, Leyland and Eicher responded with rates of Eicher being lowest. No order was placed on Eicher on the ground that it was not on DGS&D rate contract and also because it would lead to increase in inventory holding costs. In the meantime, DGS&D rate contract was finalised in respect of Leyland trucks and the Corporation placed orders with the firm in May 2004 for purchase of 29 trucks at a cost of Rs.8,98,930 per truck.

It was observed in audit that though it was decided in January 2002 to limit the purchase options to Telco and Leyland trucks in order to restrict increase in inventory costs, and it was important from operational and revenue considerations to expeditiously purchase the trucks to enable early release of the buses for line operations for generating revenue rather than use them for stores and recovery purposes, it would have been prudent for the Corporation to accept the offer of October 2002 of Leyland instead of asking the firm for bank guarantee to safeguard against possible reduction in rate contract on its finalization by DGS&D. The fact is that the Corporation had generally never insisted on DGS&D rates in the past. Non-acceptance of Leyland's offer of October 2002 resulted in avoidable additional expenditure of Rs.23.35 lakh in procurement of trucks. Delay in release of buses for line duty prevented the Corporation in generating a revenue of Rs.5.81 crore during October 2002 and May 2004.

The Government stated (October 2006) that the counter offer was given to Leyland to bring its rates at par with the rates of Telco. On receipt of a negative response from Leyland, the Technical Committee, constituted to ascertain the technical suitability of trucks, took time. Meanwhile the DGS&D rate contract rates increased. The reply is not tenable as Leyland had in response to the first counter offer agreed to reduce its prices equivalent to Telco prices and it was the imposition of new conditions thereafter that was declined by the firm. The Corporation gave no cognizance to the fact that the timely purchase of trucks for stores/ recovery vans duty would enable release of the buses for line operations to generate revenue.

Inventory management

5.10.23 The main objective of inventory management is to maintain stock level at the minimum level consistent with the need to ensure timely availability of necessary parts and components so that fleet operations are not dislocated. Audit scrutiny of the inventory management system in the Corporation revealed the following:

- In spite of being pointed out in the earlier Audit Report, the Corporation has not fixed any norms for maximum, minimum and re-order levels of inventory.

  The Government stated (October 2006) that purchase of all items were generally made for annual requirement of 12 month plus six month buffer on past consumption trend.

- The Corporation has not fixed any benchmark life in case of functionally and safety critical items as envisaged in the purchase policy of the Corporation approved in January 2002.

- As per the purchase policy of the Corporation, the depots can resort to local purchase of spares if the same are not available in the Central Store. There was, however, no system in place to check the availability of the item in any of the other depots before issue of non-availability certificate by the central stores.

- The value of local purchases increased from Rs.73 lakh in 2002-03 to Rs.2.83 crore in 2005-06 which was indicative of poor inventory management and it deprived the Corporation of discounts and quality assurance available on bulk purchases.

- The value of non-moving items increased from Rs.32 lakh in 2001-02 to Rs.1.14 crore in 2005-06. Further, the percentage of non-moving inventory to the total inventory also increased from 5.37 *per cent* to 15.70 *per cent* during the same period.

  The Government stated (October 2006) that the non-moving inventory increased due to phasing out of diesel buses as directed by the Supreme Court. It added that efforts are being made to dispose off these items as per the rules. The reply is not tenable as the said items comprised items that were lying in the stores since 1977.

Over 3.26 lakh bus days lost due to non-availability of spares resulting in loss of revenue of Rs. 52.33 crore.

- There were delays ranging up to 10 months in placement of orders for procurement of spares and tyres from the date of indent by the Material Control Section (MCS). No orders were placed on the basis of projections

made by the Mechanical Engineering (ME) wing of the Corporation. Consequently, a large number of buses were held up in depot workshops due to non-availability of spares including tyres. A total of 3,26,570 bus days were lost during 2001-02 to 2005-06 due to non-availability of spares including 54,490 bus days lost due to non-availability of tyres alone resulting in loss of revenue of Rs.52.33 crore (revenue net of variable cost).

The Government while accepting the delays stated (October 2006) that the delay in procurement was as a result of non-availability of funds and frequent queries raised at different levels/different departments leading to delayed approval of proposals which even added to the avoidable local purchase and ordering of reduced quantities.

Thus, poor inventory management resulted in poor services and fleet utilisation and further accentuated the losses being suffered by the Corporation.

Financial management

5.10.24 The capital expenditure of the Corporation is financed by the Government of NCT Delhi in the shape of equity capital while procurement of buses and development of related infrastructural facilities is financed by 'Plan' loans. 'Ways and Means' loans are released by the Government for meeting the working capital requirements of the Corporation due to non-generation of sufficient internal resources by the Corporation. The total outstanding balance of the 'Plan' loans and 'Ways and Means' loans steadily increased from Rs.1,213.89 crore in 2001-02 to Rs.4,063.77 crore as on 31 March 2006. The Corporation could not repay even a single installment of its loan liabilities during the last five years up to March 2006.

Given the resource constraints, prudent financial management dictates that surplus funds should be systematically deployed in an efficient manner so as to maximise interest earnings and avoid idle funds. Audit scrutiny revealed deficiencies in utilisation of the 'Plan' loans as well ad hocism and delay in investments resulted in loss of interest of Rs.3.60 crore as discussed in the succeeding paragraphs.

Delay in utilisation of Plan loans

5.10.25 The Corporation received three interest bearing Plan loans amounting to Rs.41.27 crore during 2004-05 for procurement of CNG engines (Rs.7.50 crore), low floor buses (Rs.31.08 crore) and installation of CNG plant and machinery (Rs.2.69 crore). Of this, Rs.3.05 crore was utilised by the

Non-utilisation of plan loans resulted in avoidable expenditure of Rs. 2.49 crore on account of interest.

Corporation and Rs.38.22 crore remained unutilised at the close of the year. Similarly, the Corporation obtained another interest bearing Plan loan of Rs.4.80 crore during 2005-06 for purchase of catalytic converters which remained unutilised as on 31 March 2006. Availing of interest bearing Plan loans without ensuring their utilisation was not prudent, as the Corporation paid interest of Rs.2.49 crore to the Government after adjusting interest received on unspent balance without any utilisation. The interest paid on the loan for the unutilised period would remain a permanent loss to the Corporation as no benefit accrued or asset was created.

The Government attributed (October 2006) the delay to following of procedures i.e estimation, evaluation, sanction of competent authority and poor tender response. It added that the procurement of CNG engines was deferred due to the directives of Environmental Pollution Control Authority (EPCA) to enter into annual maintenance contracts with the vehicle manufacturers. The reply of the Government is not tenable as the Corporation had to pay interest without full utilisation and without generation of revenue. In fact the Corporation would continue paying interest till loan is repaid. As regard, the deferring of procurement of engines due to the directives of EPCA, the contention is an after thought as the loan was received in March 2005 whereas the directive from EPCA was received only in August 2006. The Corporation further informed that it has refunded the unutilised loan amount of Rs.30.88 crore for low floor buses in October 2006 with the approval of its BOD. Balance loans of Rs.12.14 crore are still lying unutilised (November 2006).

Investment of unutilised plan funds

5.10.26 The Corporation invested the unutilised plan funds of Rs.308.57 crore in fixed deposits during the period from 2001-02 to 2005-06. A scrutiny by audit of the investments made by the Corporation revealed the following:

- The Department of Public Enterprises, Government of India, issued guidelines (December 1994) stipulating inter alia that decisions as to investments should be taken by the BOD. However, decisions involving investment of short term surplus funds up to one year maturity may be delegated to group of directors which include the CMD and the Director (Finance). It was also stipulated that there should be a proper commercial appreciation before any investment decision is taken, that term deposits may be made with any scheduled commercial bank with a ‘net worth’ of Rs.100 crore i.e. paid up capital plus free reserves and fulfilling the capital adequacy norms prescribed by the Reserve Bank of India.

  Contrary to these guidelines, investment decisions in the Corporation were being taken by the CMD on the basis of recommendations made by an

Investment Committee headed by its Additional Chief Accounts officer and four other officers along with a representative of the Finance department of the Government NCT Delhi. There was nothing on record to indicate the considerations which prevailed while taking investment decisions. There was no system of obtaining the rates of interest from all the eligible banks at the time of taking investment decisions. Quotations were called from a limited number of banks selected entirely on ad hoc basis which afforded no assurance that the rate of interest offered was the highest available at that point of time.

The Government stated (October 2006) that the system for calling quotations from the banks has since been streamlined and now the rates are being called for from all the nationalized banks and the investment committee has been reconstituted by the BOD.

- The Corporation invited quotations from seven banks on 1 March 2001 for investment of Rs.112 crore in term deposits. Taking the highest offers received, the CMD approved investment of Rs.90 crore in the State Bank of Saurashtra at interest rates ranging from 5.75 *per cent* to 10.75 *per cent* for different tenures (the balance amount was invested with Central Bank of India) on 2 March 2001. The Corporation thereafter sent (2 March 2001) a letter to the Bank intimating investment of Rs.90 crore under its 'Anukul deposit' scheme for a period of less than one year with the stipulation that no penal interest will be charged in case of pre-mature encashment though investment in this scheme was not brought out in the proposal while obtaining approval of the CMD. The Corporation withdrew the whole amount on various occasions during the period from 21 April to 6 November 2001. The State Bank of Saurashtra credited less interest of Rs.74 lakh on the deposits as compared to the quotations accepted by the CMD. On the matter being taken up, the Bank stated (17 June 2002) that the interest was rightly credited as per the 'Anukul deposit scheme'. In March 2003, the matter was referred to its Vigilance Department but no action had been taken as of July 2006.

  The Government stated (October 2006) that the case is pending with the Vigilance Department.

Delay in investment of funds resulted in interest loss of Rs. 37 lakh

- The Corporation called (13 April 2005) quotations for interest rates from 11 banks selected entirely on ad hoc basis to invest unutilised plan funds of Rs.57 crore available at that time. However, no investment decision could be taken by the competent authority though the investment committee recommended investment in particular banks in its meetings held on 26 April 2005, 20 May 2005 and 15 July 2005. A decision was finally taken on 4 August 2005 and the amount of Rs.57 crore was

invested in Corporation Bank which had offered the highest rate of 6.75 *per cent* per annum for a period of one year and one day. Delay of over four months resulted in loss of interest amounting to Rs.37 lakh.

The Government stated (October 2006) that the initial offer in April 2005 was at 6.5 *per cent* per annum from a branch office obtained through a limited enquiry. Subsequently on calling for quotations from all the nationalized banks, the highest rate received was 6.75 *per cent*. The investment has been made at the rate of 6.75 *per cent* for a period of one year. DTC accordingly earned an extra interest of Rs.15 lakhs over a period of one year on the said investment. The reply underlines the audit observations of ad-hocism prevalent in the Corporation for the investment of unutilised plan funds.

Failure to meet statutory obligations

5.10.27 The DTC Employees Provident Fund (DTC EPF) Rules stipulate that the Corporation shall contribute an equal amount subscribed by the employees each month and that such contribution shall be paid to the Board of Trustees of the DTC EPF Trust by the 15th of the following month along with the subscriptions of the employees. Further, Section 14B of the Employees Provident Fund and Miscellaneous Provisions (EPFMP) Act 1952 provides that an employer would be liable to pay damages for belated payment of contribution of both the employees and the employer of an amount not exceeding the arrears of contributions.

Delay in remitting statutory dues resulted in payment of damages of Rs.10 crore.

Audit scrutiny revealed that the Corporation failed to regularly deposit the provident fund dues in time during each of the months during the five years covered by the audit. In September 2004, the Regional Provident Fund Commissioner (RPFC) imposed damages of Rs.18.95 crore on the Corporation for its failure to remit the provident fund dues of Rs.20.49 crore for the period from July 1994 to May 1995. RPFC also initiated action in October 2004 to recover the amount by way of attachment of the bank account of the Corporation with Syndicate Bank. In compliance to the attachment order, the Syndicate Bank attached Rs.75 lakh lying in the account of the Corporation and remitted it to the RPFC. The Corporation filed an application (3 December 2004) before the EPF Appellate Tribunal New Delhi which reduced the damages from Rs.18.95 crore to Rs.10 crore in April 2005. As the Corporation failed to comply with the orders of the appellate tribunal, an attachment order for attaching the business of the Corporation was passed (9 September 2005) by the Recovery Officer of the EPF Organisation. On passing of the order *ibid* by the Recovery Officer, the Corporation paid Rs.40 lakh per day for 23 days from 14 September 2005 onwards till whole of the damages were paid by 5 October 2005.

5.10.28 Section 7Q of the Employees Provident Fund and Miscellaneous Provisions (EPFMP) Act 1952 stipulates that the employer shall be liable to pay simple interest at the rate of 12 *per cent* per annum or at such higher rate as may be specified in the scheme on any amount due from him from the date on which such amount becomes due till the date of its actual payment. It was noticed by audit that the Corporation paid Rs.13.96 crore as interest on account of delayed payments during the period from 2001-02 to 2005-06 at rates ranging from 8.5 *per cent* to 9.5 *per cent* as against 12 *per cent* stipulated in the Act. The amount short credited into the DTC EPF Trust during the five years period worked out to Rs.4.92 crore.

It was incumbent upon the Management to ensure that the statutory obligations of the Corporation were fulfilled in full compliance with the mandatory provisions of the Act. Failure to do so resulted in payment of avoidable damages of Rs.10 crore resulting in increase in losses of the Corporation as well as short deposit of Rs.4.92 crore into the DTC EPF Trust.

The Government stated (October 2006) that due to non-availability of funds, the Corporation could not discharge its statutory liabilities timely. Further, while confirming short deposit of interest into DTC EPF Trust, the Government stated that payment of interest on delayed remittance was made at the rate ranging from 8.5 *per cent* to 9.5 *per cent* as per rate declared by the Central Provident Fund Organization for payment of interest to PF members on their deposits. The reply is not tenable as it is the duty of the Corporation to fully discharge all statutory liabilities before incurring any other type of expenditure.

Fare structure

5.10.29 Prudent and responsible financial management includes ensuring reasonable fares which covers its operational costs while keeping in view the social obligations and affordability to the travelling public. Section 19(n) of the Road Transport Corporations Act, 1950 read with Section 22 envisages that the Corporation may determine the fare structure for carriage of passengers with the prior approval of the Government keeping in view the business principles. A commercial organisation cannot be expected or be required to run at a loss and it is not established for the purpose of subsidising the transportation of passengers or goods. Audit scrutiny of the efforts of the management to periodically review the fare structure revealed the following:

- The BOD of the Corporation recommended revision of fares in May 2001. In April 2002, the Delhi Government set up a committee comprising of Commissioner (Transport), Principal Secretary (Finance), Chairman DTC and Principal Secretary to the Chief Minister of Delhi to come up with the economics of operation post increase in CNG prices. While

Fares not revised despite 80 per cent increase in variable costs.

recommending the revision of fares, the Committee suggested that the periodicity of revision should ordinarily be every three years. However, increase in fuel costs in the interim period should be neutralised at the rate of 0.33 *per cent* (percentage of fuel cost to total operational cost) and the rates increased to that limited extent. Based on the recommendations of the committee, the Government approved revision of general fares and notification was issued in May 2002. In August 2005, a proposal for revision of fares was again put up to the BOD. Though the Board desired that a proposal for automatic fare revision based on cost index of all input costs should be put up, no action was taken. Meanwhile, the variable cost of city operations increased from Rs.4.48 per km in 2001-02 to Rs.8.05 per km in 2005-06.

The Government stated (October 2006) that fares can be revised only on the direction of the Government of Delhi. It however failed to address the audit observation about the failure of the Corporation to take up the matter with the Government for revision of fares even after a lapse of more than four years. Further the reply was elusive on why fare could not be revised when DTC was suffering recurring losses on this account.

Non-revision of special hire charges deprived the Corporation of additional revenue of Rs. 20.25 crore.

- The Corporation provides buses on special hire rate to schools and for special occasions such as marriage parties etc. The last fare revision for such special hire was effected in October 1999. The BOD had recommended increase in the special hire charges from Rs.25 per km to Rs.30 per km in May 2001. Before recommending the fare revision, the Committee referred to in the preceding paragraph heard the representatives of various transport operators including DTC. The proposal submitted by DTC to the Committee was silent about revision of special hire charges. The Committee on the basis of the proposals recommended revision of general fares without any mention about special hire charges. Consequently, the special hire charges were not revised by the Government. Thus, failure of DTC to include proposal for revision of the special hire charges both as operator and a member of the committee resulted in its non-inclusion in the final fare revision. The Corporation did not take up the matter with the Government even thereafter despite tremendous increase in its working cost per km from Rs.26.23 in 2001-02 to Rs.29.57 in 2005-06. Had the revision in the special hire charges been effected, the Corporation would have earned additional revenue of Rs.20.25 crore[14] during the period from June 2002 to March 2006.

While the Management stated (October 2006) that the Government did not accept the recommendation of DTC to enhance the special hire charges from Rs.25 to Rs.30, the Government informed (October 2006) that the

[14] *4,05,04,359 kms operated at special hire rates x Rs.5*

matter of special hire was not raised by the Corporation before the committee appointed for fare revision. Evidently the failure of the Corporation to place the matter for revision of special hire charges before the committee resulted in revenue loss of Rs. 20.25 crore.

Payment of toll tax

5.10.30 It is incumbent upon the Management to ensure due economy in expenditure and avail of all opportunities to limit costs. The National Highways Authority of India (NHAI) recovers toll tax on the following stretches of road used by the buses of the Corporation:

Sl. No.	Road section	Toll tax for one-way trip of buses (Rs.)	Dates of notification
1.	Delhi-Agra	125	May 2002
2.	Gurgaon- Kotputli	160	April 2003
3.	Kotputli – Jaipur	150	April 2003
4.	Delhi-Jalandhar	160	March 2003
5.	Gaziabad- Hapur	55	March 2003

Failure to avail of monthly passes of toll tax resulted in avoidable expenditure of Rs. 63 lakh.

The user of the road has the option to obtain a monthly pass on payment of charges equal to thirty times the single rate if the vehicle has to cross the section continuously for the entire month. Scrutiny of the records by Audit revealed that the Corporation has not taken the benefit of discounts by obtaining monthly passes though it has been plying its buses regularly on these sections. Failure on the part of the Corporation to obtain monthly passes resulted in avoidable extra expenditure of Rs.63 lakh from the dates of notification till March 2006.

The Government stated (October 2006) that toll tax paid is already included in the passenger tickets. As such, this amount is paid by the travelling passengers and there is no loss to the Corporation. The reply is not acceptable as the benefit if availed of by the Corporation could have led to additional earnings over and above the amount recovered from the passengers.

Overpayment in fabrication of bus bodies

5.10.31 The Corporation has been procuring bus chassis from both Telco and Leyland and getting the bus bodies fabricated from various body builders. The Corporation procured 3,090 CNG bus chassis in two lots during the years 1999-2002 (2,120 chassis) and 2002-03 (970 chassis). Before placing orders for fabrication of bus bodies on the first lot of 2,120 chassis, the Corporation got the costing of fabrication of bus body done only for Leyland chassis and thereafter placed orders during 2001-02 for fabrication of bus bodies at rate of Rs.3,57,812 per bus on both Leyland and Telco chassis. However for second

lot of 970 chassis, separate costing was done for fabrication on Leyland and Telco chassis and orders placed at rate of Rs.3,10,138 for Telco chassis and Rs.3,19,552 for Leyland bus chassis. Audit scrutiny revealed that the bus chassis of Leyland and Telco had different specifications viz. the wheelbase of the Leyland chassis was bigger than that of Telco and bonnet**,** front cowl and show etc were supplied by Telco alongwith their chassis. Consequently more material and labour are required for fabrication of bus body on Leyland chassis than for Telco chassis. Failure of the Corporation to prepare separate costing for Telco and Leyland chassis while awarding the work of bus body fabrication on the first occasion, resulted in an avoidable expenditure of Rs.41.84 lakh on fabrication of bus bodies on 875 Telco bus chassis.

Award of contract for bus body building of TATA buses at higher rates resulted in avoidable expenditure of Rs. 41.84 lakh.

The Government stated (October 2006) that marginal/minor differences in the specifications of Tata and Leyland bus bodies do not affect the overall costing. It added that no undue favour was given to any Tata bus body builders as an amount of. Rs.85.75 lakh had been deducted from the bills of bus body fabricators for retention of original front structure, cowl and show, runner and wiper motor with spindle and linkages by the fabricators. The reply is not tenable as the recovery made by the Corporation as stated in its reply does not relate to recoveries on account of variation in the length of bus chassis and bonnet work.

Non-operating income

5.10.32 Receipts from advertisements constitute the major source of non-operating income of the Corporation. The total revenue on advertisements increased from Rs.13.56 crore in 2001-02 to Rs.15.24 crore in 2002-03 and thereafter declined steadily to Rs.13.70 crore in 2005-06. A test check by audit of the records and procedures relating to advertisements revealed inconsistencies in approach, injudicious decision-making and failure to protect the interests of the Corporation, which resulted in avoidable loss of Rs.4.21 crore as detailed in the succeeding paragraphs.

5.10.33 In January 2001, tenders were called for advertisements on Bus Queue Shelters (BQSs) and Time Keeping Booths (TKBs) in 21 zones and contracts entered for advertisements with the highest acceptable bidders in 12 zones. Nine zones were subsequently re-tendered in February/March 2001 due to non-receipt of security deposit in case of six zones and no tender response in three zones. Contracts relating to six of these zones were awarded to Rose Advertising Private Limited and Shalimar Advertisers.

After award of the contracts for these six zones, both firms disputed (March 2001) the number of BQSs/TKBs allotted to them and demanded a joint inspection to assess the actual number of the BQSs/TKBs and allotment of missing BQS/TKBs. Joint inspection was carried out in March/April 2001

only for Rohini II zone which identified 10 missing BQSs and one TKB. However, no further action was taken thereafter. Subsequently in May-July 2001, both firms gave notice for surrendering of zones on the plea that the Corporation had failed to act on their request. Thereafter, the Corporation re-tendered the said six zones several times between July and October 2001 and finally awarded (September 2001 to November 2001) four zones again to Rose Advertisement and two to another advertiser. Audit scrutiny of the records revealed the following:

- The Financial Advisor of the Corporation had reiterated in August 2001 that a minimum reserve price must be decided before opening of the tender. However, no reserve price was fixed and hence, the assessments made as to the acceptability of the offers were subjective and it could not be considered whether the optimum and realistic rates had been received.

  The Government stated (October 2006) that reserve price was not mentioned in the tender document to generate more competition. The reply is not tenable as the audit point raised was fixing of a reserve price before opening of the tender and not its mention in the tender documents which in any event is normally not done.

- The terms and conditions of the tender stipulated that the tenderer would have to pay for the number of increased or newly constructed BQSs/TKBs. Similarly, in case of reduction in the number of BQSs/TKBs on account of demolition/removal or any other reason whatsoever, the tenderer would be entitled to get the benefit proportionately. The Corporation's failure to adhere to the provision and to respond to the requests made by the firm regarding survey of number of BQSs/TKBs, resulted in the firms withdrawing from the contracts thereby forcing the Corporation to re-tender the zones and acceptance of much lower rates from one of the above firms.

  The Government merely stated (October 2006) that the firms were asked to furnish the list of the missing/damaged BQSs/TKBs and also to come forward for settlement of the matter by meeting the CGM/CMD of the Corporation. The firms instead preferred to surrender the zones by giving three months notice. The reply is not tenable as the Corporation failed to conduct joint survey of the missing/damaged BQSs/TKBs or to take appropriate decisions to settle the issues raised by the firms. Further, the offer to have meeting with CGM/CMD was made only after receipt of notice of surrender of zones.

- The reduction in the license fee received in the subsequent offers when compared with the initial offers accepted in March/April 2001 was disproportionate to the number of BQSs/TKBs reduced. The reduction in

the license fee for the six zones amounted to Rs.3.34 crore though the reduction in the number of BQSs/TKBs was only 20.

The Government stated (October 2006) that circumstances of re-tendering were beyond control. Had the Corporation examined these issues before surrendering of zones which resulted in re-tendering, loss of revenue could have been avoided.

- There were inconsistencies in approach in the finalization of the tenders. Offers were often rejected on the ground that Earnest Money (EM) was not deposited by the tenderers. But in subsequent tenders the offer of the same firm was accepted at a lower monthly license fee though the EM had still not been deposited. Rose Advertising's offer of Rs.22,08,001 per annum in August 2001 was rejected on the ground of non-receipt of EM deposit. However, a subsequent lower offer of Rs.17,55,000 per annum of the same firm in another tender was accepted two months later in October 2001 though EM was not deposited.

  The Government stated (October 2006) that EM deposit of Rs.25 lakh paid by Rose Advertising in an earlier tender in which the firm was not successful was adjusted against the tender floated on 25 October 2001. The reply is not tenable as in August 2001, the firm's request for adjustment of EM deposit against the security deposit amounting to Rupees one crore payable to the firm by the Corporation was not accepted.

- In Najafgarh (R)-I zone, offer of a firm (Advert Communications) for Rs.8,52,000 per annum received in September 2001 was rejected on the ground of lack of EM deposit while second highest offer (Rs.7,45,512) of Rose Advertising was accepted at Rs.7,75,000 per annum after negotiations, stipulating 10 *per cent* increase in the second and third years. Such negotiations with the second highest tenderer was contrary to the CVC guidelines of November 1998 and August 2001 which banned post tender negotiations except with the highest tenderer. Audit observed that while the negotiation committee had decided to award the zone to Rose Advertising at a negotiated license fee of Rs.7,75,000 per annum, it was actually awarded to it at the earlier quoted license fee of Rs.7,45,512 per annum. The reasons for contravening decision of the negotiation committee was not available on record.

  The Government stated (October 2006) that it was able to increase the rate after negotiation. However no reply was given why negotiations with the second highest party were carried out in contravention of CVC guidelines and why the contract was awarded at the lower amount.

- In Rohini-I zone, the highest offer of Shalimar Advertisers of Rs.18,12,524 per annum received in September 2001 was rejected on the ground of lack of EM deposit while the lower offer of Rose Advertising of Rs.15,70,000 per annum was accepted even though the firm did not agree to increase the rate during negotiation held in violation of CVC guidelines. If the offer of the highest tenderer was not to be accepted due to lack of EMD though the Corporation had accepted similar offers without EMD on other occasions, then the zone should have been re-tendered.

- Despite surrendering the above zones, Rose Advertisers continued to bid for the same zones but at much lower prices than its earlier bid prices. Though the Corporation re-tendered on various grounds, it failed to get offers, which matched the original offers of the same firm, which was accepted in March/April 2001. The Corporation may have achieved more favorable results had it taken concerted action to ensure wider participation coupled with steps to debar those firms from further participation who repeatedly did not fulfill the terms and conditions of the offer or withdrew on frivolous grounds. This could have obviated the possibility of cartel tactics by the advertising firms to the detriment of the Corporation.

The total loss suffered by the Corporation due to such injudicious decision-making and non-adherence to established rules and procedures amounted to Rs.3.34 crore as detailed below:

Sl. No.	Zone	Old monthly rate (Rs.)	New monthly rate (Rs.)	Difference between old and new rate (Rs.)	Number of months retained w.r.t. old contract	Avoidable loss (Rs. in lakh)	Difference in number of BQSs/ TKBs
1.	**City-II**	4, 62,500	1,46,250	3,16,250	29	91.71	Nil
2.	**Narela(R)-I**	37,963	20,000	17,963	29	5.21	6
3.	**Najafgarh (R)-I**	80,000	62,126	17,874	30	5.36	5
4.	**Rohini-I**	2,33,750	1,30834	1,02,916	28	28.82	4
5.	**South-I**	6,53,250	4,25,000	2,28250	29	66.19	Nil
6.	**Rohini-II**	710709	361125	349584	28	97.88	5
	Total					**295.17***	

*Revenue implication considering 10% increase in license fee every year brings the loss to Rs.3.34 crore

The Government stated (October 2006) that the advertisement firms had created conditions for re-tendering and due to slump in the market and thin response, the Corporation could not get the expected rates. The reply is not tenable as failure on the part of Corporation to take timely action on the request of the firms only resulted in re-tendering and the consequent loss suffered by the Corporation.

5.10.34 Audit scrutiny further revealed that the Corporation invited tenders in September 2004 for awarding contracts to display advertisements on BQS/TKBs of 17 zones including Rohini-I zone. A reserve price of Rs.34.06 lakh per annum was fixed. The offers were opened on 21 October 2004 and it was found that Shivaai Industries Private Limited had quoted the highest rate of Rs.1.21 crore per annum. The contract was accordingly awarded to the firm on 1 November 2004. However, on 8 November 2004, the firm intimated that the amount of Rs.1.21 crore had been inadvertently quoted by them and the correct amount was Rs.71 lakh per annum which was 105.51 *per cent* higher than reserve price of Rs.34.06 lakh. Since the first highest party had backed out from its offer, the Corporation invited the second highest party, Pisces Communication Private Limited who had offered Rs.53.50 lakh per annum for negotiations and asked them to match the price bid of Rs.71 lakh, which the firm declined to do. Instead of accepting the price offered by the second highest firm, the Corporation decided to call for fresh tenders in January 2005. After repeated re-tendering, the Corporation ultimately accepted the offer of International Avenue of Rs. 44.63 lakh per annum on 20 December 2005.

It was noticed during audit that there was no apparent justification for rejection of the offer of Pisces Communications, which was well above the reserve price (by 57 *per cent*) even though they had declined to match the offer of the highest bidder. Had the Corporation accepted the offer of Pisces Communications in November 2004, it would have earned revenue of Rs.1.77 crore up to November 2007 whereas it would now earn only Rs.90 lakh. Thus, unjustified rejection of the offer of Pisces Communication resulted in a loss of Rs.87 lakh to the Corporation.

The Government stated (October 2006) that the negotiations with Pisces were unfruitful as it did not accept the offer of the Corporation. It added that the firm had also not made any commitment on maintenance charges of Rs.300/- per month per BQS and 10 *per cent* increase in license fee every year. The reply is not acceptable as the initial offer of the Pisces was well above the reserve price. The contention that Pisces had not given any commitment about maintenance charges is not acceptable as Pisces had accepted all the terms and condition of tender document which includes maintenance clause and ten *per cent* increase in license fee.

Manpower management

5.10.35 Staff costs constituted 62.9 *per cent* of the total working expenditure of the Corporation as on 31 March 2006. The staff per bus in the Corporation was 8.15 as against 4.78, 6.95 and 6.68 in Bangalore Metropolitan Transport Corporation, Calcutta State Transport Corporation and Metropolitan Transport Corporation, Chennai respectively. The Corporation has excess manpower as

compared to its own norms in all the cadres except that of drivers and traffic supervisors. The excess staff against the norms ranged from 4.06 *per cent* to 53.96 *per cent* of the staff during the last five years ending March 2006. The Corporation incurred an expenditure of Rs.215.11 crore on pay and allowances of the excess staff during this period. Despite the excess staff and huge man-power costs thereof, no action was taken to either reduce or rationalise its staff strength or explore ways to utilise them optimally as discussed below:

- The Government of Delhi repeatedly suggested during January 2001 to March 2004 that the Corporation should reduce the retirement age of its employees from 60 years to 58 years. The matter was considered by the BOD in February 2001 but decision was deferred. In September 2001, the BOD rejected the proposal. In March 2004, the Government requested the Corporation vis-a-vis BOD for reconsideration. The Corporation informed the Government in April 2004 that on account of Lok Sabha elections no action could be taken. No action was taken there after also. The reduction in retirement age would have entailed retirement of 3,288 officials during 2001 to 2006 and consequent reduction in manpower costs by Rs.75.94 crore.

Irregular deployment of drivers outside the Corporation.

- The Corporation deployed nineteen drivers with different departments of the Government of Delhi as well as the Government of India. Twelve out of these 19 drivers belonged to depots while the rest were attached to the administrative units. Such deployment was neither covered under any rule nor did it serve any purpose of the Corporation. The expenditure incurred by the Corporation on such drivers was Rs.95 lakh during the five years period. Keeping in view the acute shortage of bus drivers in the Corporation and since all the drivers were qualified to operate buses, they could have been better utilised in operating line services which could have earned revenue of Rs.1.37 crore[15] during the five years period.

  The Government stated (October 2006) that two drivers had recently been deployed on deputation and efforts are being made by the Corporation for the repatriation of the other drivers.

- In order to overcome the shortage of drivers, the Corporation decided in (June 2003) to outsource the services of drivers through human resource agencies by payment of Rs.1.50 per km and Rupee 1 per km for city and inter-state operations respectively. Scrutiny in audit revealed that the productivity of the Corporation's own drivers was considerably lower than that of the outsourced drivers. The average kms operated per duty by the Corporation's own drivers during June 2003 to March 2006 was 115.53

[15] *(No of drivers/2.5 i.e. sanctioned strength of drivers per bus)X(No. of days)X (Average Kms covered per day)X(Contribution per Km)*

Productivity of its own drivers was substantially lower than outsourced drivers.

kms against 157.87 kms covered by the outsourced drivers though both the drivers were operating the same fleet under similar operating conditions. The percentage of OK duty[16] performed by the Corporation's own drivers was 64 *per cent* as against 77 *per cent* in case of the outsourced drivers. The Corporation however failed to take any action to enhance the productivity of its own drivers. Had the Corporation taken steps to enhance the productivity of its own drivers to at least that of the outsourced drivers, it could have generated additional revenue of Rs.111.06 crore during June 2003 to March 2006.

The Government stated (October 2006) that the Corporation's drivers were performing single duty after banning of overtime from August 2004 and most of the outsourced drivers were performing extra duty resulting in extra kilometers. It further informed that various steps such as increased checking, conducting refresher courses and counselling are being taken to increase the productivity of the Corporation's own drivers. The reply is not tenable as audit had compared the average kms operated by the outsourced drivers vis-à-vis the Corporation's own drivers in single duty.

- The Corporation took more than two years to implement decisions of 36 labour court cases and reinstate the concerned employees. This resulted in payment of back wages amounting to Rs.36.60 lakh without any service being rendered by the employees during the period.

  The Government stated (October 2006) that the orders of re-instatement are issued immediately after receipt of the approval of the competent authority. The reply is not tenable as the delay in reinstatement pointed out by audit was after the approval of the competent authority.

Internal audit

Internal audit system was not commensurate with the size and nature of business of the Corporation

5.10.36 The Corporation's internal audit wing is headed by Senior Manager (Finance). A review of the internal audit reports for the last five years revealed that the wing mainly confined itself to establishment matters. Though audit of operations and stores was under taken during 2003, it covered only depots and key units like the central workshops, material stores, publicity and scheduling (traffic) wing, etc. were not audited. Further, no training was imparted to the staff to hone audit skills nor was any supervision of the fieldwork by the supervisory level officers undertaken.

As on 31 March 2006, there were 1,735 outstanding audit observations (excluding 1,702 observations, which were pending due to court cases)

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[16] *OK duty refers to a duty where schedule kms are fully operated*

including 84 observations, which were pending for periods ranging from four to fourteen years.

In order to widen the area of internal audit and improve its efficiency, the BOD approved a proposal in March 2004 to engage professional chartered accountants for internal audit work. However, the Corporation is yet to engage the chartered accountants even after a lapse of more than two years (October 2006). Thus, internal audit system was not commensurate with the size and nature of business of the Corporation.

The Government stated (October 2006) that 24 out of 84 long standing observations had now been settled and appointment of professional chartered accountants for internal audit is being done for two years accounts and transactions in various departments.

Conclusion

The Corporation continued to incur losses since its inception despite having a relatively new fleet on account of low fleet utilization, poor vehicle productivity and declining load factor. Lack of control and monitoring resulted in excess consumption of CNG, coolant and engine oil. Non-adherence to preventive maintenance schedules resulted in increase in the number of breakdowns while administrative laxity resulted in delay in obtaining of fitness certificates and consequent revenue loss. Failure to rationalize routes and ensure operation of buses on higher revenue earning routes resulted in loss of revenue. There was deficient management in the central workshops with no target being fixed for production of assemblies. Lack of timely supply of engines, assemblies, poor inventory management with high percentage of non-moving items and delay in placement of orders for essential spares like tyres resulted in revenue loss. The financial management in the Corporation was marked by delay in utilization of interest bearing plan loans, ad hocism in investment of unutilised funds and failure to meet statutory obligations on account of provident fund dues. There were inconsistencies in acceptance of tenders relating to advertisements and failure to act in the best interests of the Corporation resulted in loss of revenue. Though staff costs constituted 62.9 *per cent* of the total working expenditure of the Corporation, productivity was poor. The internal audit was inadequate as its coverage was not commensurate with the size and nature of business of the Corporation.

Recommendations

Based on the audit findings, the following recommendations are made:

- *The Corporation needs to take steps to improve fleet utilisation, vehicle productivity and load factor to earn more revenue.*

- *Systems for monitoring consumption and preventing leakages and possible pilferages of fuel, lubricants and coolants need to be strengthened. Depot managers should be held accountable for such losses*

- *Targets need to be fixed and monitored for various job work in the central workshop.*

- *Inventory management need to be strengthened and streamlined and the need as well as extent of local purchases should be curtailed.*

- *The Corporation should first get approval of plan loans in principle from the Delhi government and draw the loan only after all formalities of tendering, purchase etc. have been completed so as to avoid unnecessary payment of interest. Procedures for investment of unutilised funds need to be systematised and streamlined as envisaged in the guidelines of the Department of Public Enterprises. Investments should be made on the basis of competitive rates of interest systematically called for from all the eligible banks. Finance managers must be held accountable for failure to remit statutory dues and for regular review and monitoring of all expenditure to identify and curtail wastages and over-payments.*

- *Guidelines should be framed for acceptance of offers for advertisements to bring consistency and uniformity in the approach as well as obviate the possibility of cartel tactics by advertisers to the detriment of the Corporation.*

The Government stated (October 2006) that all the recommendations were under examination for implementation.

Acknowledgment

Audit acknowledges the cooperation and assistance extended by the staff and the Management of the Corporation and officers of the Government of NCT Delhi at various stages of conducting the performance review.

Paragraphs

5.11 Corporate Governance in Government Companies

5.11.1 Introduction

Corporate governance denotes a system by which companies are directed and controlled in the best interest of the stakeholders ensuring transparency in operations and better and timely financial reporting. It involves a set of relationships, rules and institutional mechanisms between the management of the companies, its board of directors, its stakeholders, auditors and other shareholders through which the objectives of the company are set and the means of attaining these objectives as well as monitoring performance are determined. Key aspects of good corporate governance include accountability of managers and BODs to the shareholders and corporate responsibility towards shareholders.

To promote good corporate governance in Indian companies, the Companies Act 1956 was amended in December 2000 by providing, inter-alia, for a Directors Responsibility Statement (Section 217) to be attached to the Directors' Report to the shareholders. According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting records, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. Further, Section 292-A of the Act provides for formation of Audit Committees by companies having a paid up capital of Rupees five crore and above. The Act provides that the statutory auditors, internal auditors, if any, and the Director in charge of finance should attend and participate in the meetings of the Audit Committee.

The Audit Report (Civil and Commercial) Volume I of the Comptroller & Auditor General of India on the Government of NCT of Delhi for the year ended March 2005 had highlighted (para 5.12) certain deficiencies in corporate governance in the public sector undertakings under the administrative control of the Government of Delhi viz. lack of regular attendance on the part of some of the Directors in Board meetings, inadequate number of meetings of the Audit Committees and the failure of the Audit Committee of some companies to review the adequacy of internal control systems and issues relating to fraud and fraud risks.

A further review of the effectiveness of corporate governance practices in these PSUs during the year 2005-06 revealed certain continuing shortcomings as discussed in the succeeding paragraphs.

5.11.2 Board of Directors

Composition of the Board

There was no independent director on the Board of Delhi Tourism and Transportation Development Corporation Limited (DTTDC), Delhi State Civil Supplies Corporation Limited (DSCSC) and Delhi State Industrial & Infrastructure Development Corporation Limited (DSIIDC). DSIIDC stated (October 2006) that except for the Managing Director, all the other directors are independent directors. The reply is not tenable as Government nominees on the Board of PSUs are not to be considered as independent directors in view of the clarification given by SEBI.

Attendance of Directors in the meetings of the Board

Attendance of some of the Directors in the Board meetings was not regular in Delhi SC/ST/OBC/Minorities and Handicapped Financial & Development Corporation Limited (DSCFDC), DSIIDC and DSCSC.

In DSCFDC, the first meeting of the BOD during of the year (2005-06) held on 30 June 2005 was not attended by the three official Directors and the second held on 27 September 2005 was not attended by any of the four official Directors. DSCFDC stated (October 2006) that instructions had been issued for necessary compliance.

In DSIIDC, one of the Directors did not attend three meetings out of five held during the year. DSIIDC informed (October 2006) that the Director did not attend the three meetings due to her preoccupation with other important matters.

Development Commissioner, Government of NCT of Delhi, who was on the Board of DSCSC did not attend any of the five meetings held during the year. DSCSC stated (July 2006) that Finance department had since requested the Development Commissioner to attend the meetings of the Board of Directors.

5.11.3 Audit Committee

Meetings

As per the terms of reference of the Audit Committees in DSCFDC, DSIIDC and DSCSC, the Committees were required to meet three, four and four times respectively during the year. Audit scrutiny revealed the following:

- The Audit Committee of DSCFDC met only once during the year;
- Though three meetings were held in DSIIDC, no business was transacted in one meeting; and
- The Audit Committee of DSCSC held only three meetings during the year.

DSCSC stated (July 2006) that the Corporation has convened three Audit Committee Meetings, while DSCFDC informed (October 2006) that the audit observation has been noted for compliance in future. DSIIDC assured (October 2006) that henceforth the Corporation will try to hold Audit Committee meetings with the participation of Government nominees in frequent intervals. It was further assured that the Committee will also discuss the internal control procedures and will adapt systems for strengthening and improving the same.

Discussions in the meetings

- The Audit Committee of DSCFDC did not review the adequacy of internal control systems, budget and actual expenditure. Even though the Committee desired that the reconciliation of all bank accounts, which were pending for more than ten years, should be completed up to 31 March 2005, no action had been taken by the Management as of October 2006. The Audit Committee in its meeting held in May 2006 noted with concern the non-preparation of bank reconciliation statements as directed in the meeting held in September 2005 and desired that the bank reconciliation statements may be finalized within two months.
- Issues relating to fraud and fraud risks were not discussed in the Audit Committee meeting of DSCFDC.
- The Audit Committee in DSCFDC could not enforce the preparation of up to date annual accounts which are pending for the years 1995-96 to 2005-06. The last accounts for the year 1994-95 were submitted in June 2005. Thus, the Company lacked total transparency in the absence of up to date and reconciled accounts which increases the chances of fraud and fraud related risks.

The Management of DSCFDC stated (October 2006) that the observation had been noted for compliance in future.

5.11.4 Financial and risk management policies

Review of financial and risk management policies were neither a part of the mandate of the Audit Committee nor was it undertaken by the Audit Committees of DSCFDC and DSIIDC.

DSCFDC noted (October 2006) the observation for compliance in future while the Management of DSIIDC stated (October 2006) that the financial and risk management policies were often discussed in the meeting of the Board of Directors of the Company and hence it was not separately reviewed or discussed in the Audit committee meetings held during the period under review. However, in the meeting of the Board of Directors held on 28 June 2006, the terms of reference of the audit committee spelt out by the Board has included the reviewing of Company's financial and risk management policies as one of its terms of reference.

To sum up

There remained huge scope for improvement in corporate governance practices in the PSUs. The attendance of some of the Directors in the Board meetings was not regular. In some companies, the Audit Committee did not hold the required number of meetings while others did not review the issues relating to fraud and fraud risks. One company (DSCFDC) could not enforce the preparation of up to date annual accounts pending for the last eleven years which has exposed the Company to fraud and fraud related risks.

The Government stated (July 2006) that the Finance department has taken the initiative to monitor the performance of the Public sector undertakings and instructions have been issued regarding the need to improve corporate governance practices. A meeting of the Company Secretaries and Financial Advisers of the PSUs was held in which improvement of corporate governance and other relevant issues like regular meeting of the internal audit committee were discussed and action is being taken to ensure timely completion of annual accounts.

Delhi Transco Limited

5.12 Information Technology audit of Payroll and GPF applications

Lack of adequate validation checks coupled with deficiencies in system design in payroll and GPF applications undermined the utility and reliability of the systems in place. Many of the deficiencies existing in the old payroll application continued even in the new payroll system installed in April 2006. While an IT Steering Committee had been constituted, it failed to meet regularly and provide the necessary guidance and direction.

Delhi Transco Ltd (DTL) came into existence w.e.f. 1 July 2002 after unbundling of the erstwhile Delhi Vidyut Board (DVB). It inherited computerized systems relating to maintenance of Payroll and General Provident Funds (GPF) from the DVB. While the old GPF application system continued to be used, the Company decided in April 2004 to replace the old payroll system with a new web based payroll system which would enable quick, accurate and timely processing of employee personnel information including salary details and maintenance of centralized data. Accordingly, the Company entered into an agreement with C-DAC Noida on 21 April 2005 to develop the new application at a cost of Rs.3.75 lakh. The application was to be developed within a period of five months viz. by September 2005. DTL procured in December 2005 hardware and software at a cost of Rs.7.40 lakh to implement the new payroll system. The new payroll system was brought into use from April 2006. An IT audit of the new payroll and existing GPF application software revealed the following:

5.12.1 IT Policy

DTL framed an IT policy in October 2002 to enhance internal efficiency of the organization in terms of comprehensive and systematic collation, storage, regular updation, accurate processing and quick retrieval of information. An IT Steering Committee was constituted in August 2003 to oversee and monitor the implementation of IT policy and ensure efficient use of IT resources to get the maximum value for money spent. The Steering Committee, however, failed to meet at regular intervals and in fact held only two meetings in October 2004 and February 2005. No progress report was submitted to the Management on regular basis and priorities for action or review of the deficiencies have not been set.

On it being pointed out in audit in July 2006, the Management stated (September 2006) that need based meetings were held. The reply is not

acceptable as regular meetings were required for close monitoring and guidance which could have helped in reducing the deficiencies in software development and implementation there of as discussed in the subsequent paragraphs.

5.12.2 Physical and logical access controls and security of data

Both physical and logical access controls are essential to safeguard the integrity of the data and prevent unauthorized access and manipulation of stored information, theft or damage. Audit analysis revealed that both physical and logical access controls were lacking. Access to the computer rooms was not regulated and was open to all. There was no documented policy of password or of recording the identity of the person who had accessed the data.

It is also necessary that there should be a documented Business Continuity Plan to provide for safe storage and recovery of data in case of any eventuality. Backups were being taken on monthly basis and kept in CDs in ordinary almirahs. The Company has not prescribed any procedure for ensuring physical security of the hardware as well as the data so as to guard against unauthorized access and manipulation of data.

The Management stated (September 2006) that general security measures were being followed and authentication for user right assignments would be put in place once networking and inter-office links were in place. The reply is not tenable as the issue pointed out in audit pertained to the absence of access controls in servers located in the computer centre in DTL and was not connected with inter-linking with computers in other offices of the Company.

Payroll Application Software

5.12.3 Lack of validation checks while importing data

To operationalise the new payroll system, the Management imported data from the existing old system to the new one. Audit analysis of the data imported revealed that due care and attention was not paid to validation checks and ensuring matching of fields between the old system and the new system so as to prevent inaccuracies and missing data while importing data into the new system. Many of the validation checks like Date of Birth, Date of Joining, Date of Retirement, Minimum Provident Fund contribution limit (GPF 6 *per cent*, CPF/EPF 12 *per cent*), Date of Promotion, Scale, Basic Pay, and Designation etc. were in fact disabled which resulted in import of incorrect data. Test check of data imported into the new system revealed that:

- In 53 records, the difference between the date of birth and date of retirement ranged from 38 to 76 years;

- In two records, the date of joining was before 18 years of age; and
- Date of birth was left blank in 60 out of 2,287 records.

Such inaccuracies would result in generation of incorrect and incomplete results and undermine the efficiency and reliability of the system.

The Management stated (September 2006) that the errors were now being rectified.

The following further deficiencies were also noticed by Audit:

- Absence of provision for occasional payments through variable fields in the old system resulted in entry of arrears of conveyance allowance in the column for regular allowance and a one time payment being repeated in subsequent months as a fixed allowance. This resulted in excess payment of Rs.1.56 lakh in 167 cases. While this deficiency was corrected in the new system by providing for both fixed and variable fields for such arrears, the amount paid in excess was yet to be recovered.

  The Management stated (September 2006) that the issue was under scrutiny.

- In the new pay roll application, the information regarding the persons who had accessed and modified the date of birth in 1,940 out of 2,287 records and information regarding the persons who had processed the salary in 3,16,217 out of 3,43,837 records (92 *per cent*) was not available in the system. Lack of such information increased the vulnerability of the system and prevented possible audit trails.

  The Management attributed (September 2006) the absence of information of the user to lack of such a field in the old payroll system from which the data had been imported. The fact remained that user details is an essential security and safety requirement and the user-id field should have been filled in after import of the data so as to establish a clear audit trail and guard against possible unauthorized manipulation of data.

5.12.4 System design and documentation

The scope of work annexed to the agreement for development of the new application system included making of provision for maintenance of all master data relating to employee salaries required for payroll processing, provision for variable data input, maintenance of leave accounts, provision for all statutory recoveries and both long-term and short-term recoveries and maintenance of accounts of employees' co-operative credit and thrift societies. The system was also to enable auto-calculation of overtime and

holiday pay based on supplied inputs like number of hours/days and auto-interest calculation on advances at the prescribed rates with yearly tax deduction calculations. The IT audit revealed the following deficiencies:

- The new payroll system did not provide for maintenance of leave account as envisaged in the scope of work. Further, over time pay is granted with the approval of the competent authority and holiday pay is granted subject to the condition that no compensatory leave is sanctioned. Test check of related data for the three months from January 2006 to March 2006 revealed that while the new system provided for auto-calculation of OTA and holiday pay based on supplied inputs like number of hours/days, it did not incorporate validation checks to ensure authorization/approval of the competent authority for OTA or consonance with the rules relating to grant of holiday pay. Such lack of validation checks prevailing in the old system remained unrectified in the new system also.

  The Management stated (September 2006) that Leave module was being taken care of manually. This was indicative of the fact that user requirements as incorporated in the scope of work that was part of the agreement had not been ensured while designing and implementing the system.

- There was no provision for auto calculation of interest on long term and short-term advances in the system as envisaged in the scope of work.

- There was also no provision for maintenance of accounts of credit and thrift societies though it has a provision to make deduction of recoveries to be effected on behalf of the societies from the salaries of the employees.

- The referential integrity concept that facilitates data accuracy and data consistency was absent in system design.

  The Management stated (September 2006) that referential key concept is complicated and decreases the performance level. The reply is not tenable as certain referential constraints are essential to maintain data consistency.

- The system documentation has not been updated in the new system as it had details of lesser number of tables (35) than those available in the database (57) as on 24 April 2006.

  The Management stated (September 2006) that change control procedure was in the implementation stage.

5.12.5 GPF Application Software

Provident Fund accounts of all 32,901 employees of DTL as well as in the private DISCOMs, Indraprastha Power Generation Company Limited, Pragati Power Company Limited and Delhi Power Company Limited are maintained by the Pension Trust established in July 2002. The computer centre at DTL, however, processes and compiles the data of monthly subscription, loan recovery, loans and withdrawals and transfer/adjustments on behalf of the Pension Trust from the data received from the respective companies. The compiled accounts are, thereafter, sent to the Pension Trust.

A test check of General Provident Fund (GPF) data for the year 2004-05 revealed the following deficiencies:

- Incorrect data in the date of birth field;
- Basic pay field was left blank in respect of 29,254 out of 32,901 records;
- There was no provision in the system to record the installment data regarding recovery of advance; and
- Various rules of GPF such as stoppage of GPF subscription three months prior to the date of retirement, restriction of subscription within the permissible limit and validation of the loan recovery were not incorporated in the system.

Such deficiencies undermine the accuracy and reliability of the system and necessitated continuation of manual checking.

The Management stated (September 2006) that action is being taken to incorporate necessary validation checks as suggested by audit.

To sum-up

The Company had failed to exercise due care and incorporate the requisite validation checks to ensure the correctness and reliability of the data being imported into the new system from the old. Consequently, the data in the new system continued to suffer from various deficiencies. Physical and logical access controls necessary to prevent unauthorized access and manipulation of stored data were weak and there was no prescribed business continuity plan. Lack of reliability and consequently confidence in the data and outputs of the new payroll application necessitated continuation of manual check thereby defeating the purpose of computerization. Further some of the utilities envisaged in the scope of work attached to the agreement were not implemented though full payment had been released to the firm in July 2006.

The deficiencies in software development and implementation of software was clearly indicative of the need for closer monitoring and guidance which could have been provided by the steering committee had it met regularly.

The matter was referred to the Government in July 2006; their reply is awaited (November 2006).

5.13 Loss due to unnecessary availing of loan

Acceptance of a loan for execution of rural electrification projects though it was not involved in such schemes resulted in an avoidable payment of interest of Rs.16.21 lakh.

The Department of Urban Development, Government of Delhi, released (March 2003) an interest bearing Plan loan of Rs.77.25 lakh to the Company for rural electrification projects under the plan scheme "Pradhan Mantri Gramin Yojana (PMGY)" without any request from the Company. The loan was to be repaid in 15 equal annual installments along with interest at the rate of 13 *per cent* per annum. After delay of 19 months the Company decided (October 2004) to refund the loan in the absence of a PMGY scheme. The loan was refunded (November 2004) to the Government alongwith interest of Rs.16.21 lakh paid in February 2005.

Audit analysis revealed that the loan was ab initio unnecessary and uncalled for as the Company had not requested for the loan and it was not involved in any rural electrification scheme. However, the Company unnecessarily retained the loan for more than 19 months and paid interest without any benefit.

The Management stated (August 2006) that the loan was refunded as rural electrification was not within the scope of the Company. It added that though they had paid interest at the rate of 13 *per cent* per annum, they may have earned either 16 *per cent* or 24 *per cent*. The reply is not acceptable as the Company earned no interest. Further the Company's own surplus funds were lying idle in its current accounts during the period from March 2003 to November 2004 without earning any interest. Even otherwise accepting of funds meant specifically for rural electrification was improper as rural electrification was not within the scope of the Company.

The matter was reported to the Government in May 2006; their reply is awaited (November 2006).

Indraprastha Power Generation Company Limited

5.14 Avoidable expenditure on advertisements

Non-adherence to the instructions relating to advertisements resulted in avoidable expenditure of Rs.1.12 crore.

Sound business practices require that major items of expenditure should be strictly monitored with reference to pre-determined guidelines or norms and kept to the minimum so as to achieve the intended objective. One of the significant heads of expenditure of the Indraprastha Power Generation Company Limited (IPGCL) was on advertisements. The Company issues its own advertisements as well as on behalf of Pragati Power Corporation Limited.

The Government had issued (September 1978) instructions to all the departments to economise the expenditure on advertisements. The Company also issued (December 2004) a set of rules for regulating advertisements in order to economize expenditure under this head. These rules stipulated inter alia bunching of advertisements, economy in layout so as to ensure use of minimum space, limiting of font size between 6 to 8 and elimination of non essential text.

A test check of advertisements issued between January 2004 and December 2005 revealed that the Management failed to ensure adherence to these instructions which resulted in wastage of space and avoidable extra expenditure. The font size used in the advertisements exceeded the stipulated maximum font size which resulted in using of additional space. The matter was often arranged serial wise instead of as running matter and more space was often left between the rows and columns than required. There was no attempt to synchronize or bunch issue of Notice Inviting Tenders (NITs) as envisaged in the instructions cited above and NITs were issued individually against each indent instead of consolidating them into one to minimise the expenditure. This resulted in an extra expenditure of Rs.1.12 crore for the period from January 2004 to December 2005.

The Management stated (January 2006) that they did not have a policy regarding publication of advertisements and they were now streamlining their procedures as per Delhi Government orders and that the defects brought to light by Audit would be acted upon. The reply is not tenable as the orders of the Government of Delhi were issued as far back as September 1978 while the Company had itself issued guidelines in 2004.

The Government stated (August 2006) that Pragati Power Corporation Limited was set up in 2002-03 and the notices relating to award, maintenance and other contracts increased during 2004-05 which resulted in extra expenditure on account of extra NITs published. The reply is not convincing as the extra expenditure was mainly due to releasing item-wise NIT at a much larger font size etc., instead of consolidated NIT for different items as stipulated in the extant guidelines/instructions.

Delhi Power Company Limited

5.15 Avoidable loss of interest

Undue delay in transferring Rs.42.45 crore lying in 54 non-operative bank accounts and placing them in liquid term deposits resulted in loss of interest of Rs.2.71 crore.

Efficient fund Management involves timely action to identify idle or surplus resources and invest or deploy them in a manner most beneficial to the company. Consequent upon unbundling of the Delhi Vidyut Board (DVB) w.e.f. 1 July 2002, the Delhi Power Company Limited (DPCL) was created as the holding company and it took over 54 current accounts of the erstwhile DVB held in different banks which became non-operative with effect from the same date.

Audit scrutiny of the records of the Company revealed that a balance of Rs.42.45 crore was lying in these non-operative current accounts as on 1 July 2002. However, no action was initiated to either consolidate the balances or utilize them fruitfully till May 2003 when the Company initiated the process of transfer of the balances to its operative current account. The process of transfer and consolidation is yet to be completed as of June 2006 even after a lapse of about four years. In fact, action to transfer the last remaining balance of Rs.62.14 lakh was initiated only in June 2006 after the matter was raised in audit. Had these funds been promptly transferred to the operative current account and simultaneously placed in the Corporate Liquid Term Deposit Receipt (CLTDR)[17] which is linked to their operative current account in July 2002 itself, the Company would have earned an interest of Rs.2.71 crore at the prevalent interest rate of 6.25 *per cent* to 8 *per cent* per annum (compounded quarterly) as depicted below:

(Rupees in crore)

Sl. No.	Balance as on 1 July 2002	Date of transfer of balance to operative current account	Delay (Number of days)	Rate of Interest (%)	Loss of Interest
1.	0.71	16 August 2005	1142	8.00	0.20
2.	24.74	1 May 2003	304	6.25	1.31
3.	16.03	31 May 2003	334	6.25	0.94
4.	0.25	1 June 2003	335	6.25	0.01
5.	0.01	1 July 2003	365	6.25	--
6.	0.09	13 October 2004	804	7.50	0.02
7.	0.62	Yet to be transferred	1442 upto 12.6.06	8.00	0.23
Total	**42.45**				**2.71**

[17] *CLTDR is a short term deposit at fixed rate of interest linked with the current account with a facility of transfer of funds to current account as and when required.*

The Management attributed (September 2006) the delay in transfer of the balances to shortage of staff, delay in reconciliation of figures and the need to maintain the old accounts in operative mode till the cheques issued by the erstwhile DVB prior to unbundling were cleared.

The reply is not tenable as the same Management was looking after the affairs of the Government Companies incorporated as a result of unbundling of the erstwhile DVB and they should have been aware of the fund position. The pending liability on account of the cheques issued but not presented during the last six months prior to 1 July 2002 i.e. the validity period of presenting the cheques for payment could have been compiled and retained in the old accounts and the balance transferred to its current account for gainful utilisation.

Thus, poor financial Management as reflected in undue delay in transfer of the funds to the operative current account and failure to place them under CLTDR resulted in loss of interest of Rs.2.71 crore.

The matter was reported to the Government in June 2006; their reply is awaited (November 2006).

Implementation of Bar Coding systems in Government Companies

5.16 Poor planning and unfruitful expenditure

Lack of seriousness on the part of the Managements of DSCSC and DTTDC in implementing the Government's direction for introduction of bar coding systems in sale of liquor to facilitate proper inventory control and eliminate unscrupulous sales resulted in both failure of the system and unfruitful expenditure of Rs.59.22 lakh.

In July 2000, the Government of Delhi (Excise Department) decided to implement bar coding systems for sale of liquor in order to facilitate proper inventory control and monitoring of stocks as well as to eliminate unscrupulous sales. In February 2001, it decided that all new L-2[18] vends should be equipped with bar code systems. In April 2001, the Government decided to provide subsidy to partially defray the high cost of installation of such systems at vends opened after April 2001. In February 2002, the Government decided that bar code systems should be installed in all L-2 vends functioning in Delhi by 30 April 2002. It also decided to restrict the

[18] *A liquor shop licenced to sell IMFL, Wine, Beer, Liquor, Vodka, Gin. Foreign Liquor etc. on retail basis.*

subsidy to 20 *per cent* of the cost of installation of systems installed thereafter.

Three Government Companies viz. the Delhi State Civil Supplies Corporation Limited (DSCSC), the Delhi Tourism and Transportation Development Corporation Limited (DTTDC) and the Delhi State Industrial & Infrastructure Development Corporation Limited (DSIIDC) operate L-2 vends for retail sale of Indian Made Foreign Liquor (IMFL) in Delhi. A review on the implementation of the bar coding systems in DSIIDC indicating poor planning and ineffective implementation resulting in unfruitful expenditure of Rs.29.77 lakh was reported (Para no.6.21) in the Audit Report of the Comptroller & Auditor General of India relating to the Government of NCT of Delhi for the year ended March 2004. Audit scrutiny of the implementation of the system in the remaining two Companies revealed similar poor conceptualization and planning resulting in unfruitful expenditure and non-achievement of the intended objectives as detailed in the succeeding paragraphs.

In pursuance of the Government's directions, DSCSC decided in August 2000 and DTTDC in June 2001 to take up the installation of bar coding systems in 10 vends each to begin with. Both these companies spent Rs.59.22 lakh on implementation of the systems during 2000-01 to 2001-02.

None of the computer systems purchased by DSCSC were, however, utilised for the intended purpose and sales continued to be made under the old manual system. Failure to operationalise the system was attributed by the Management to the poor financial position of the Corporation and non-functioning of the bar code system due to frequent power failures, dust and lack of trained staff.

In DTTDC, the system was initially made functional from December 2001 to October 2002 with the help of hired manpower from the agency to whom the installation work was awarded at a total cost of Rs.0.70 lakh. Thereafter, the system became non-operational which was attributed by the Management to the staff not being computer literate, rodents and pests, heavy rush during peak hours, inadequate infrastructure and incomplete bar coding of supply chain at the manufacturers' and liquor excise godowns end. The bar coding system was withdrawn in December 2002 by the Company.

Both the Companies, however, claimed subsidy from the Government and DSCSC received a subsidy of Rs.10 lakh in April 2004 and DTTDC Rs.3.70 lakh in March 2002.

Out of 30 computers purchased by DSCSC, six were presently being used at the headquarters of the Company and two at godowns while others remained unused and were kept in stock along with the peripherals such as printers,

scanners and UPSs. In DTTDC, 12 out of 32 computers were disposed off along with some peripherals at a meager value of Rs.4,100 while the remaining computers and peripherals are being used in various sections of the Company.

It is evident that the Management of the two Companies had failed to properly conceptualize, plan and install the bar coding systems. Reasons given for failure by the Management are not acceptable as the same were not foreseen before this project was undertaken or noticed when the newly installed system was being run by the service provider. No remedial steps were taken if these shortcomings were noticed earlier. Poor planning was also reflected in the failure of the Management to train its staff in the operation of the systems so as to enable their efficient functioning.

Thus, unprofessional approach coupled with gross callousness in implementation of the system defeated its objective of better monitoring of inventory and elimination of unscrupulous sales and resulted in unfruitful expenditure of Rs.59.22 lakh.

The Government reiterated (September/October 2006) the stand of the Management. The reply is not tenable as these reasons could have been foreseen before the systems were installed or when being operated by the service provider.

Delhi Tourism and Transportation Development Corporation Limited

5.17 Avoidable expenditure

Failure to ensure adherence to stipulated rules relating to execution of works coupled with failure to levy compensation for delays attributable to contractors despite clear enabling provisions in the contracts resulted in both delays in completion of projects as well as avoidable expenditure of Rs.5.79 crore by way of cost escalation.

The Company was entrusted with the work of construction of flyovers and pedestrian facilities by the Government of Delhi in May 1989. Such infrastructure works are executed by the Company through its Engineering division which is headed by a Chief Engineer. The infrastructure projects are financed from the retail margin of Rupees five per bottle available on the sale proceeds of country liquor collected by the Government Corporations/agencies viz. the Company, Delhi State Industrial &

Infrastructure Development Corporation Limited, Delhi State Civil Supplies Corporation Limited and Delhi Consumer Cooperative Wholesale Stores which are deposited in the Transport Infrastructure Utilization Fund.

The Engineering division has adopted rules and procedures as prescribed in the Central Public Works Department manual. Audit scrutiny of records revealed instances of non-adherence to codal provisions in execution of various works and non-enforcement of contractual terms which resulted in avoidable expenditure of Rs.5.79 crore as detailed in the succeeding paragraphs.

5.17.1 Construction of Raja Garden Flyover

The CPWD Manual[19] stipulates that tender notices should not be issued unless all tender documents including complete set of architectural and structural drawings as well as site free from encroachment and hindrance are available. The department is also responsible for supplying these documents, drawings and stipulated materials to the contractors according to the schedule agreed upon in the contracts as well as for ensuring adequate coordination with various agencies involved for unhindered and timely execution of the works.

The civil work for construction of the Raja Garden flyover was awarded (28 April 1997) to UP State Bridge Corporation Limited (UPSBC) at a negotiated amount of Rs.34.57 crore with dates of commencement and completion 7 May 1997 and 6 November 1999 respectively. The civil work was completed on 30 November 2001 at a cost of Rs.37.67 crore after a delay of two years. The delay in completion of work was regularized (June 2002) by the Superintending Engineer of the Company by grant of extension of time to UPSBC up to 31 October 2001 on grounds of non-availability of land and delay in shifting of water supply, electricity and telephone lines along with levy of a token compensation of Rupee one lakh for the delay beyond 31 October 2001 up to November 2001. The cost escalation on account of the delays worked out to Rs.1.53 crore under clause 10CC of the agreement. UPSBC however disputed the cost escalation calculated, hence the matter was referred to an arbitrator in June 2005. In December 2005, the arbitrator allowed an additional payment of Rs.75 lakhs (over and above Rs.1.53 crore already worked out) to UPSBC on account of extra expenditure due to prolongation of work, which was paid by the Company in February 2006.

A scrutiny of the hindrance register indicated that there were 635 days of hindrance in the execution of the civil work. Out of this, 179 days delay were attributable to the Company. The drawings were given on 7 July 1997 whereas the work was scheduled to commence from 7 May 1997. There were

[19] *Para 15.2.1.3 of CPWD Manual Vol.II*

delays ranging from 58 to 119 days in issue of cement, steel and in approval of the trial mixture and delays ranging from 121 to 261 days in procurement of bearings. The balance 456 days of hindrances was attributable to the delay in shifting of electricity and telephone lines and of a police post on the site, non-availability of site due to traffic diversion and issue of revised drawings. Though the Company had approached the erstwhile Delhi Vidyut Board, MTNL and police authorities for shifting of the lines/post in March 1997, the hindrances were actually removed only in September 1998. Thus, belated action on the part of the Management and lack of timely coordination and persuasion with the concerned authorities for removal of the hindrances resulted in the extra expenditure of Rs.2.28 crore.

The CPWD Manual[20] also stipulates that material deviation should not be made without the sanction of the competent authority. While excess upto 10 *per cent* may be authorized by the works executing authorities, a revised administrative approval has to be obtained in case the limit of 10 *per cent* is exceeded. It was observed in audit that the division incurred a total expenditure of Rs.58.90 crore on the flyover (including civil work) whereas the administrative approval and expenditure sanctioned by the Board of Directors was for Rs.52.89 crore. The Management has yet to obtain the revised administrative approval despite lapse of over four years since completion of the work.

The Management stated (September 2006) that payment for shifting of the hindrances was released to the respective agencies in March 1997 itself. However, during execution, services were encountered with the problems which were not even known to the concerned department and some hindrances could not be removed in time due to factors beyond the control of the Company.

The reply is not tenable as it was incumbent upon the Management to ascertain all hindrances through a proper site survey before calling for the tenders and awarding the work as well as to ensure timely action and requisite co-ordination with the other agencies to remove the hindrances so that work progresses smoothly. No reasons were given for delay of over four years in seeking revised administrative approval. This reflects the lackadaisical approach of the Management which resulted in extra expenditure of Rs.2.28 crore.

5.17.2 Construction of Peera Garhi Flyover

In June 1998, the Company asked UPSBC to submit an offer along with detailed structural design and design estimates for award of work of

[20] *Paras 2.16.1 and 2.16.2*

construction of a flyover at Peera Garhi intersection on outer Ring Road. UPSBC submitted the offer on 18 November 1998. In anticipation of the acceptance of the offer and in order to expedite the work, UPSBC cast the first test pile on 11 September 1998 without waiting for the formal acceptance of their offer. The offer was accepted by the Board of Directors on 24 March 1999 at a negotiated cost of Rs.15.36 crore and letter awarding the work issued on 29 April 1999. The dates of start and completion of the work was 11 September 1998 and 10 March 2000 respectively. The work was completed on 30 June 2002 after a delay of two years and three months at a cost of Rs.17.59 crore including cost escalation of Rs.85.48 lakh beyond the stipulated date of completion under clause 10CC of the agreement. Extension of time was granted up to 28 February 2002 without levy of compensation while nominal compensation of Rs.2.24 lakh was levied for the balance period up to 30 June 2002.

Audit scrutiny revealed that the reasons recorded in the hindrance register for delay in completion of work included (i) delay in acceptance of offer (230 days), (ii) slow progress due to shifting of electrical and telephone lines (334 days), (iii) delay in supply of tiles etc. for foot paths (125 days), (iv) delay due to non availability of stone and sand (17 days), (v) delay due to inauguration of flyover (56 days) and (vi) delay due to dismantling of building and shifting of its malba (58 days). All these hindrances were clearly within the control of the Management.

While admitting that there was delay in acceptance of the offer, the Management stated (September 2006) that various activities like finalisation of general arrangement drawings, soil investigations, structural design and drawing and shifting of services were taken up during this period. Further there was shortage of sand due to ban on mining activities in and around Delhi which adversely affected the progress of the work. It added that there were also other agencies involved in the removal of hindrances.

The reply is not tenable as the delay of over seven months in conveying acceptance of offer of UPSBC negated the advance action taken by the contractor in commencing the work in anticipation of the approval as the work was subsequently stopped till the formal approval was received. Further, out of 820 days, delay of only 17 days was attributable on account of shortage of sand. In respect of removal of hindrances, it was the Management’s responsibility to ensure adequate coordination with various agencies for unhindered and timely execution of work.

Thus, the failure of the Management to adhere to the codal provisions resulted not only in additional payment of Rs.85.48 lakh on account of cost escalation but also in delay of over two years in the execution of the project.

5.17.3 Construction of underpass and subway at Madhuban Chowk

The work of construction of an underpass and subway at Madhuban Chowk was awarded (October 2002) to Afcons Infrastructure Ltd. (contractor) at a cost of Rs.23.87 crore with stipulated dates of start and completion as 16 October 2002 and 15 October 2003 respectively. Clause 2 of the terms of the contract stipulated that the Contractor shall pay compensation at stipulated rates in case it failed, to maintain the required progress and complete the work as per the scheduled date of completion. Further clause 10CC of the terms of the contract stipulated payment of escalation. The work was completed on 12 April 2004 after a delay of 180 days. Audit scrutiny of the records revealed that:

- CPWD vide memorandum dated 28 April 2000 had amended the general conditions of contract whereby no cost escalation under clause 10CC was payable for a work for which the stipulated period of completion was 18 months or less. This amendment was applicable for all notices inviting tender issued on or after 1 June 2000. However, this amendment was not taken cognizance of and clause 10CC providing for payment of escalation was incorporated in the agreement though the stipulated period of execution of the work was only 12 months. An amount of Rs.1.61 crore was paid as cost escalation.

- the delay was partly attributable to the slow progress of work executed by the contractor which was in turn due to frequent breakdown of machinery hired by him for the work as well as improper planning and deployment of inadequate staff. This necessitated revision of the construction programmes which again could not be adhered to. In spite of the delays being clearly attributable to the Contractor, the Management regularised the delay by grant of extension of time up to the actual date of completion instead of invoking Clause 2 of the agreement to levy compensation (amount not ascertainable) for the delays.

The Management stated (September 2006) that the Advisory Committee decided to include Clause 10 CC in the tendered documents considering the magnitude of the work, likely time taken in the award of work and difficulties during execution. It added that clause 2 of the agreement was not invoked as the competent authority decided to grant extension of time till the actual date of completion.

The reply is not tenable as insertion of clause 10 CC in the agreement violated the amendment brought about in the CPWD manual in April 2000 which was applicable to all works where the stipulated date of completion was 18 months

or less. The contention that there was no ground for invoking clause 2 of the agreement is also not correct as the delays were also due to factors like frequent breakdown of machinery, improper planning, deployment of inadequate staff etc, which were attributable to the Contractor. Failure of the Management to adopt the amendment of April 2000 as well as failure to levy compensation for delays attributable to the contractor amounted to grant of undue benefit to the contractor at the cost of the Company.

5.17.4 Construction of Tourist Complex at Said-ul-Ajaib

The design consultancy relating to construction and development of tourist complex of "Garden of Five Senses" at Said-Ul-Ajaib was entrusted to a consultant in December 1995 with the stipulation that all the drawings were to be provided within 150 days i.e. by the first week of June 1996. The agreement envisaged levy of compensation upto a limit of five *per cent* of the value of the consultancy agreement in case of delay on the part of the consultant in finalising the drawings. The Company obtained the approval of the Board of Directors on 23 April 1997 for the construction of the tourist complex at an estimated cost of Rs.4.03 crore to be completed in four years in three phases from April 1997 to March 2001. However, work could not be started on the project till October 1999 as the consultant failed to provide the drawings. The work was finally completed in February 2003 at a cost of Rs.9.41 crore. It was noticed in audit that the Company did not levy compensation (Rs.0.64 lakh) for delay in providing drawings in terms of the contract with the consultant. The delay in providing drawings by the consultant resulted in cost over turn of Rs.1.05 crore.

The Management stated (May 2006) that the architect was preoccupied with the Tikri Kalan Project in July 1997 which was of national importance, hence certain drawings in respect of the "Garden of Five Senses" could not be submitted in time resulting in delay. Further, there was no cost overrun because additional items of work were necessary. The Management admitted in September 2006 that there was some delay in finalization of the drawings, which was attributable to the "uniqueness" of the project.

The reply of the Management is not tenable as the consultancy work relating to the "Garden of Five Senses" was awarded in December 1995 and all the drawings were to be provided by the first week of June 1996 i.e. well before the award of work relating to the Tikri Kalan project in July 1997. In so far as the cost escalation was concerned, cost overrun of Rs.1.05 crore was due to delay in providing drawings by the consultant Thus, laxity on the part of the Management in securing the interests of the Company in ensuring adherence to time schedules as well as enforcing terms of the contract resulted in a cost overrun of Rs.1.05 crore.

The matter was referred to the Government in May 2006; their reply is awaited (November 2006).

5.18 Loss due to unnecessarily availing of loan

Deficient assessment of fund requirement and poor financial management resulted in avoidable payment of interest of Rs.38.37 lakh.

The Company approached (December 2002) the Government for funds required for its upcoming project of "Garden of Five Senses" in the outskirts of Delhi. The cost of the project was estimated at Rs.10.43 crore. After signing of Memorandum of Understanding (MOU) with the Government in March 2004, loan of Rupees five crore was released (March 2004) by the Government at an interest rate of 10.5 *per cent* per annum which was repayable in 15 annual instalments after a moratorium period of five years.

It was noticed in audit that the loan was not required as the Company had cash surpluses ranging from Rs.62 crore to Rs.83 crore in fixed deposits with banks earning interest at an average rate of 5.25 *per cent* per annum during the years 2001-02 to 2003-04. In fact, the project was already completed and opened for public in February 2003 before it signed the MOU with the Government.

The Company refunded back (September 2005) the entire loan of Rs.5 crore to the Government after parking the loan funds in fixed deposits with banks for 17 months on the plea that it was a cash rich company and was not in need of the loan. Interest of Rs.75.80 lakh on the loan is yet to be paid for which a provision has already been made in its accounts for the years 2004-05 and 2005-06.

Even after considering the interest of Rs.37.43 lakh earned by the Company (Rs.25.30 lakh at an average rate of 5.06 *per cent* for 2004-05 and Rs.12.13 lakh at an average rate of 5.50 *per cent* from April 2005 to 8 September 2005) on loan of Rupees five crore, the Company suffered a loss of Rs.38.37 lakh by way of interest on the loan unnecessarily availed of.

The Management stated (September 2006) that the loan money had been accepted though it was at a little higher rate compared to the prevailing fixed deposit rates keeping in view their future requirement of funds and to avoid funds flow crunch. The reply of the Management is not acceptable as the resources of the Company were sufficient to meet the costs of the project and there was no need for the loan as stated above.

Thus, deficient assessment of fund requirements and poor financial management resulted in the Corporation availing of a loan that it did not need and thereby incurring an avoidable loss of Rs.38.37 lakh on interest payment.

The matter was reported to the Government in May 2006; their reply is awaited (November 2006).

Delhi Financial Corporation

5.19 Inadequate pre-disbursement inspection

Lack of adequate pre-sanction scrutiny and acceptance of collateral security based on false or misleading documents resulted in non-recovery of Rs.1.45 crore.

Financial assistance is provided by the Corporation to beneficiaries on the receipt of applications accompanied by a project report indicating the financial projections of the venture for which assistance is sought. The Loan division scrutinises the proposal with particular reference to the credentials of the promoters, the marketability of the product and the overall viability of the project. Before disbursement of the loan, documents relating to prime security, collateral security and guarantee etc. are required to be properly scrutinised and completed so as to secure the recovery of the loan. A test check of the records of the Corporation revealed lack of adequate pre-sanction scrutiny of proposals for sanction of loans resulting in non-recovery of Rs.1.45 crore (including interest and penal interest of Rs.82.83 lakh and Rs.38.68 lakh respectively as on 1 November 2006) as discussed in the succeeding paragraphs.

5.19.1 A firm was disbursed a loan of Rs.17.66 lakh during March to September 1997 for setting up of a copper wire manufacturing unit. The loan was to be repaid in 20 instalments of Rs.1.17 lakh each by August 2002. As the borrower defaulted in repayment of loan from the very beginning, the Corporation invoked the provisions of Section 29 of the State Financial Corporations Act, 1951 in February 1998 and took possession of the machinery and collateral security in March 1998. During the course of disposal of the collateral security, it was found that the loanee had already mortgaged the property with two other financial institutions i.e. Indian Overseas Bank and State Bank of Patiala before mortgaging the same with the Corporation. Evidently, the Corporation failed to verify the documents relating to the collateral security and credit worthiness of the borrower from the bank and consequently failed to detect that the documents relating to

mortgaging of the collateral security to the Corporation were false. This resulted in non-recovery/loss of Rs.1.30 crore (including interest and penal interest of Rs.78.41 lakh and 33.77 lakh respectively).

5.19.2 In another case, the Corporation disbursed a loan of Rs.9.31 lakh during February to August 1997 which was to be repaid during August 1997 to May 2003. The borrower defaulted in repayment of the loan from the very beginning. In response to a notice issued under Section 29 of State Financial Corporations Act, 1951, in October 1999, the loanee deposited four cheques of Rs.4.04 lakh in November 1999. While two cheques (Rs.two lakh) were encashed by the Corporation, the remaining two cheques (dated 20 December 1999 and 25 January 2000) of Rs.2.04 lakh were not presented for realisation. Subsequently, the borrower sold the prime security with the permission of the Corporation and deposited (July 2002) Rupees two lakh with the Corporation. As the loanee continued to be in default even thereafter, the Corporation decided in December 2005 to take possession of the collateral security but found that the owner of the property had in fact already disposed off the same in July 1990 i.e. much before it was mortgaged to the Corporation. It indicates that the Corporation had failed to ensure adequate pre-sanction scrutiny of the documents and allowed drawl of loan by the borrower on the basis of apparently false documents resulting in non-recovery of Rs.15.63 lakh (including interest and penal interest of Rs.4.42 lakh and Rs.4.91 lakh respectively).

Thus, lack of adequate pre-sanction scrutiny and acceptance of collateral security based on false or misleading documents resulted in non-recovery of Rs.1.45 crore.

While admitting that the Corporation has been the victim of a fraud, the Management stated (July 2006) that steps are being taken to verify the original title of the documents submitted to the Corporation and the authenticity of the search report furnished by the panel advocate. An FIR is also being filed against the proprietor of the house in the first case and the Vigilance Department had been asked (July 2006) to ascertain whether due diligence was exercised by the employees concerned and to fix responsibility.

The matter was reported to the Government in June 2006; and their reply is awaited (November 2006).

5.20 Inadequate pre-sanction appraisal

Failure to safeguard the prime security of machinery after taking possession of it coupled with lack of adequate pre-sanction scrutiny to ensure unencumbered title of collateral security and poor monitoring of the activities of the loanee resulted in non recovery of Rs.61.63 lakh.

The Corporation disburses loans to entrepreneurs against collateral security of immoveable property. It is incumbent upon the Management to verify the adequacy of the security and its title free from encumbrances so as to secure the financial interests of the Corporation.

A loan of Rs.9.46 lakh (term loan of Rs.5.36 lakh and working capital loan of Rs.4.10 lakh) was disbursed to a firm from February to September 1997 for manufacture of injection moulded plastic products in a rented premises. The loan was secured against the prime security of the machinery of the firm, collateral security of a residential house and third party guarantors. The loan was to be re-paid upto November 2002. The borrower, however, defaulted in repayment from the very beginning and the entire loan of Rs.9.46 lakh along with interest thereon of Rs.52.17 lakh (including penal interest of Rs.15.04 lakh) was yet to be recovered as of November 2006.

Audit scrutiny of the records relating to the appraisal, disbursement and recovery of the loan revealed the following:

- The Corporation noticed in December 1997 that the borrower had shifted the entire machinery from the declared premises to another location. It recalled the entire loan in the same month and took over (June 1999) the possession of the machinery at the location where it had been shifted but thereafter took no steps to either remove it to its own premises or otherwise ensure its safe-keeping. The Corporation had found in April 2002 that the seals of the room where machinery was kept were broken and the entire mortgaged machinery was removed illegally by the landlord to another room in the same premises.

- Though a complaint was filed with the police in November 2002, no action was taken to register an FIR.

- The Corporation could not take physical possession of the collateral security of the residential house as there were seven tenants or occupants. This fact was overlooked while accepting the property as collateral security.

- While the collateral security had been valued at Rs.7.54 lakh at the time of appraisal (September 1996), it was valued at only Rupees six lakh in September 2005. Evidently, the valuation accepted at the time of disbursement of the loan was faulty.

- The Corporation initiated recovery proceedings under section 32 (G) of State Financial Corporation Act, 1951. The Collector could recover only Rs.0.77 lakh from the borrower and guarantor since January 1999 and advised (November 2005) the Corporation that it was difficult to recover the huge outstanding amount from them. This shows that the adequacy of the guarantors had not been ensured at the time of pre-sanction appraisal.

Thus, failure of the Management to safeguard its interests by securing the prime security of machinery even after taking possession of it coupled with lack of adequate pre-sanction scrutiny to ensure the unencumbered title of the collateral security and poor monitoring of the activities of the loanee resulted in non recovery of Rs.61.63 lakh.

While confirming the facts, the Management stated (August 2006) that in the event of payment not being received, steps would be initiated for sale of the mortgaged assets. The reply is not convincing as the mortgaged assets were yet to be recovered from the landlord who had illegally removed them prior to April 2002. Further, the value of the assets would not be sufficient to recover the entire loan amount outstanding including interest in default.

The matter was reported to the Government in July 2006; and their reply is awaited (November 2006).