Chapter VI: Government Commercial and Trading Activities

Overview of Government companies and Statutory corporations

6.1 Introduction

As on 31 March 2004, there were nine Government companies (all working companies) and two statutory corporations with no change in position from that as on 31 March 2003 under the control of the Government of NCT of Delhi. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by statutory auditors who are appointed by the Comptroller & Auditor General of India (CAG) as per 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 of the Companies Act, 1956. The audit arrangements of statutory corporations are as shown below:

Table 6.1: 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 CAG
2.	**Delhi Financial Corporation (DFC)**	Section 37(6) of the State Financial Corporations Act, 1951	Audit by chartered accountants and supplementary audit by CAG

The NCT Government had formed 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[1] Erstwhile Section 34(4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003.

6.2 Working Public Sector Undertakings (PSUs)

6.2.1 Investment in Working PSUs

As on 31 March 2004, the total investment in 11 working PSUs (nine Government companies and two statutory corporations) was Rs. 9,984.15 crore[#] (equity: Rs. 512.95 crore, share application money: Rs. 3,278.07 crore and long term loans[$]: Rs. 6,193.13 crore) as against 11 working PSUs (nine Government companies and two statutory corporations) with a total investment of Rs. 8,348.81 crore (equity: Rs. 512.95 crore, share application: money: Rs. 3,278.01 crore and long term loans: Rs. 4,557.85 crore) as on March 2003. Increase in total investment was due to increase in loans mainly in power and transport sectors. The analysis of investment in working PSUs is given in the following paragraphs.

6.2.2 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 2004 and 31 March 2003 are indicated in the pie charts as follows:

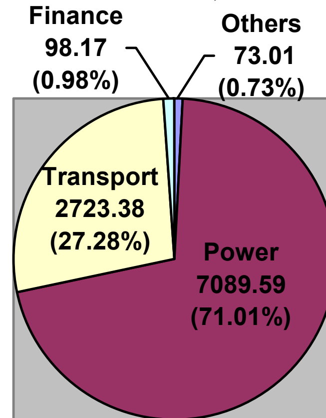
[#] Figures as per Finance Accounts 2003-04 are Rs. 8537.15 crore, the difference is under reconciliation.

[$] Long terms loans mentioned in para 6.2.1,6.3 and 6.3.1 are excluding interest accrued and due on such loans.

Sector-wise investment in working Government Companies and Statutory Corporations
As on 31 March 2004
Amount: Rupees in crore

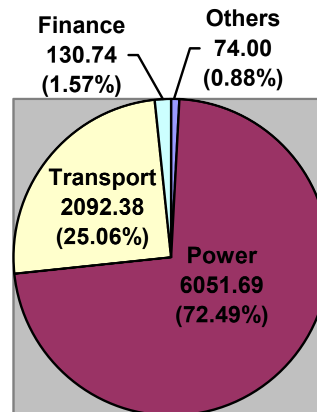
(Figures in bracket indicate percentage of investment)

Total Insvestment Rs. 9,984.15 crore



As on 31 March 2003

Total Investment Rs. 8,348.81 crore



6.3 Working Government companies

The total investment in the working Government companies at the end of March 2003 and March 2004 was as follows:

Table 6.2: Investment in working Government companies

(Rupees in crore)

Year	Number of companies	Equity	Share Application Money	Loan	Total
2002-03	9	383.07	3,265.25	2,477.37	6,125.69
2003-04	9	383.07	3,265.25	3,514.28	7,162.60

Investment in the current year has increased over the previous due to increase in loan mainly in power sector.

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in Appendix – IX**.**

As on 31 March 2004, the total investment of working Government companies comprised 50.94 *per cent* of equity capital and 49.06 *per cent* of loans as compared to 59.56 *per cent* and 40.44 *per cent* respectively as on 31 March 2003.

6.3.1 Working statutory corporations

The total investment in working statutory corporations at the end of March 2003 and March 2004 was as follows:

Table 6.3: Investment in working statutory corporations

(Rupees in crore)

Name of Corporation	2002-03		2003-04	
	Capital (including share application money)	Loan	Capital (including share application money)	Loan
Delhi Transport Corporation	117.00	1,975.38	117.00	2,606.38
Delhi Financial Corporation	25.64	105.10	25.70	72.47
Total	**142.64**	**2,080.48**	**142.70**	**2,678.85**

The summarized statement of Government investment in working statutory corporations in the form of equity and loans is detailed in Appendix – IX**.**

As on 31 March 2004, the total investment in working statutory corporations comprised 5.06 *per cent* of equity capital and 94.94 *per cent* of loans as compared to 6.42 *per cent* and 93.58 *per cent* respectively as on 31 March 2003.

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

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the NCT Government to 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 NCT Government to working Government companies and working statutory corporations for the last three years ending 31 March 2004 are given below:

Table 6.4: Budgetary outgo to Government companies and statutory corporations

(Rupees in crore)

Sl. No.		2001-02				2002-03				2003-04			
		Companies		Corporations		Companies		Corporations		Companies		Corporations	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Equity capital outgo from budget	7	0.35	-	-	-	-	-	-	-	-	-	-
2	Loans given from budget	1	295.52	2	1,596.97	2	1,438.27	1	761.49	3	2,150.69	1	631.00
3	Grant/Subsidy towards												
	(i) Projects/ Programmes/ Schemes	-	-	-	-	1	2.31	-	-	1	0..53	-	-
	(ii) Other subsidy/grants	2	1.27	1	104.50	1	3.53	-	-	2	56.61	-	-
	(iii) Total Subsidy (i)+(ii)	2	1.27	1	104.50	2	5.84	-	-	3	57.14	-	-
	Total Outgo (1+2+3(iii))	**9***	**297.14**	**2***	**1,701.47**	**4***	**1,444.11**	**1***	**761.49**	**6***	**2,207.83**	**1***	**631.00**

During the year 2003-2004, the Government of NCT of Delhi had not given guarantees against the loans obtained by any of the Government companies or statutory corporations. During the year, no Government dues have been waived by the Government. There was no case of conversion of loans into

[*] *These are the actual number 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.*

equity capital either in the case of Government companies or statutory corporations.

6.3.3 *Finalisation of accounts by working PSUs*

The accounts of the 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 noticed from Appendix–X that only two out of nine working Government companies[*] and both the statutory corporations finalised their accounts for the year 2003-04 within the stipulated period. During the period from October 2003 to September 2004, eight Government companies finalised ten accounts for previous years.

The accounts of seven Government companies were in arrears for period ranging from one to 10 years as on 30 September 2004 as detailed below:

Table 6.5: 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 No. of Appendix-II
1.	1	**1994-95 to 2003-04**	**10**	**3**
2.	1	**2001-02 to 2003-04**	**3**	**6**
3.	1	**2002-03 to 2003-04**	**2**	**7**
4.	4	**2003-04**	**1**	**1, 2, 8 and 9**

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised half yearly by Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government, and as a result, the net worth of these PSUs could not be assessed in audit.

[*] *Serial Nos. 4 and 5 of Appendix-X*

6.4 Financial position and working results of working PSUs

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

According to the latest finalised accounts of the nine Government companies and two statutory corporations, four companies and one corporation had incurred an aggregate loss of Rs. 684.12 crore and Rs. 546.34 crore respectively while four companies and one corporation earned an aggregate profit of Rs. 7.75 crore and Rs. 5.03 crore respectively. One[1] company had not finalised even its first accounts.

6.4.1 Working Government companies

Profit earning working companies and dividend

Out of two companies which finalised their accounts for the current year only one company[2] earned a profit of Rs. 4.39 crore and proposed a dividend of Rs. 0.35 crore. Out of seven Government companies which finalised their accounts for previous years by September 2004, one company [3]earned an aggregate profit of Rs. 1.93 crore and earned profit for two or more successive years. No dividend was, however, declared by it.

Loss incurring working Government companies

One company[4]out of four loss incurring working Government companies had accumulated loss aggregating Rs. 672.41 crore which exceeded its paid up capital of Rs. 180 crore (Appendix-X).

Despite poor performance and complete erosion of its paid up capital, the NCT Government continued to provide financial support to this company in the form of loans. According to available information, the total financial support so provided by the NCT Government by way of loans during 2003-04 to this company amounted to Rs. 1,561.98 crore.

[1] *Sl. No. 6 of Appendix-X*
[2] *Sl. No. 5 of Appendix-X*
[3] *Sl. No. 1 of Appendix-X*
[4] *Sl. No. 9 of Appendix-X*

6.5 Working Statutory corporations

6.5.1 Profit earning statutory corporations and dividend

Both the statutory corporations had finalised their accounts for the year 2003-04 by September 2004. One corporation i.e. Delhi Financial Corporation earned a profit of Rs. 5.03 crore but did not declare any dividend on equity shares.

6.5.2 Loss incurring statutory corporations

One statutory corporation i.e. Delhi Transport Corporation which finalised its accounts for the year 2003-04 by September 2004 had accumulated losses aggregating to Rs. 2,420.50 crore which exceeded its paid up capital of Rs. 117 crore.

Despite poor performance and complete erosion of its paid up capital, the NCT Government continued to provide financial support to the Corporation in the form of further grant of loan. The financial support so provided by the NCT Government by way of loans during 2003-04 to the Corporation amounted to Rs. 631 crore.

6.6 Operational performance of working Statutory corporations

The operational performance of the working statutory corporations is given in Appendix-XIV.

Some of the important observations on the operational performance of the statutory corporations are given below:

Delhi Financial Corporation

Loans disbursed by the Corporation decreased from Rs. 60.30 crore in 2002-03 to Rs. 20.93 crore in 2003-04 which is indicative of decline in the business. The percentage of default to total loans outstanding increased from 5.11 *per cent* in 2001-02 to 12.87 *per cent* in 2003-04.

Delhi Transport Corporation

The average number of vehicles on road increased from 2,094 in 2001-02 to 2,905 in 2003-04. The occupancy ratio, however, decreased from 99.62 in 2001-02 to 94.45 in 2003-04. The average number of breakdown per lakh kms

increased from 1.6 in 2001-02 to five in 2003-04 and the loss per km increased from Rs. 11.33 per km in 2001-02 to Rs. 23.80 per km in 2003-04.

6.6.1 Return on capital employed

As per the latest finalised accounts, the capital employed[1] worked out to Rs. 1,375.05 crore in nine companies and the total return[2] thereon amounted to Rs. (-)613.42 crore as compared to total return of Rs. 20.11 crore (16.70 *per cent*) 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. 521.65 crore and Rs. (-)250.06 crore respectively against the total return of Rs. (-)570.31 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**.**

6.6.2 Reforms in the power sector

Delhi Electricity Regulatory Commission

The Delhi Electricity Regulatory Commission (DERC) was formed on 3 March 1999 under Section 17 of the Electricity Regulatory Commissions Act, 1998[3], with the objective of determining electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State, etc. The Commission is a body corporate and comprises of the Chairman and two members who are appointed by the Government of NCT of Delhi. Presently, the Commission comprises of a chairman only as the posts of members are lying vacant. The audit of accounts of the Commission has been entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003. Commission had issued four tariff orders up to September 2004.

6.7 Non working Public Sector Undertakings

There was no non-working Public Sector Undertaking under the control of the NCT Government.

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[1] *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).*

[2] *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*

[3] *Since repealed with Section 82(1) of the Electricity Act,2003.*

6.8 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 State Legislature by the Government as on 30 September 2004:

Table 6.6: 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	Reasons for delay in placement in the Legislature
1.	Delhi Transport Corporation	2001-02	2002-03	10.9.2004	-
2.	Delhi Financial Corporation	2001-02	2002-03	6.4.2004	Reasons not furnished by the Department/ Corporation

6.9 Results of audit by Comptroller and Auditor General of India

During the period from October 2003 to September 2004, the audit of accounts of seven Government companies and one statutory corporation were selected for review. The net impact of the important audit observations as a result of review of the PSUs was as follows:

Table 6.7: Decrease/ Increase in Profit/Loss as a result of Audit by CAG

Details	Working Government Companies		Working Statutory Corporations	
	No. of accounts	Rupees in lakh	No. of accounts	Rupees in lakh
(i) Decrease in profit	3	488.76	1	12.71
(ii) Decrease in loss	1	1,621.40	-	-
(iii) Increase in loss	1	23.14	1	1,679.94
(iv) Errors of Classification	3	2,788.12	1	250.00

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above Government companies and statutory corporations are mentioned below:

6.9.1 Errors and omissions noticed in case of Government companies

Delhi Tourism and Transportation Development Corporation Limited (2003-04)

Liability of Rs. 1.13 crore on account of entertainment tax levied by the Government of NCT of Delhi for the years 2001-02 to 2003-04, at the rate of 25 *per cent* on entry tickets at Dilli Haat, had not been provided for. This had resulted in over statement of profit and under statement of liabilities to the same amount.

Delhi State Industrial Development Corporation Limited (2002-03)

The Company had not made provision amounting to Rs. 1.44 crore on account of penalty payable to Excise department for non-implementation of bar coding system at liquor vends of the Company. This had resulted in under statement of current liabilities and over-statement of profit for the year by Rs. 1.44 crore.

Delhi Transco Limited (2002-03)

Sundry debtors did not include Rs. 1.96 crore towards late payment surcharge and Rs. 13.69 crore towards excess rebate recoverable from private DISCOMS from July 2002 to March 2003 as per Article 5 of the Bulk Supply Agreement signed with DISCOMS. This resulted in understatement of sundry debtors and overstatement of loss for the year by Rs. 15.65 crore

6.9.2 Errors and omissions noticed in case of statutory corporations

Delhi Transport Corporation (2002-03)

Corporation had not made provision for liability amounting to Rs. 2.03 crore for 977 accident cases as on 31 March 2003 in accordance with Section 140 (2) of the Motor Vehicles Act, 1988. This resulted in under statement of outstanding liabilities and loss to the same amount.

6.9.3 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 needed 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:

Delhi Tourism & Transportation Development Corporation Limited

Though internal audit is being conducted by three firms of chartered accountants, it still needs to be strengthened with reference to timely submission of reports and compliance thereof in view of the size and nature of the business of the Company.

Delhi State Civil Supplies Corporation Limited

The internal audit system needs to be strengthened as to coverage and adequacy.

Delhi State Industrial Development Corporation Limited

Internal audit system is largely commensurate with the size and nature of business of the Company. There remains, however, a scope for greater coverage.

Delhi Transco Limited

The Company does not have an internal audit system commensurate with the size and nature of its business. There is scope for improvement by way of exercising better control on purchases and issue of stores and conducting periodical verification of stores and stocks.

6.9.4 619-B Companies

There was no company under 619-B of the Companies Act, 1956.

Review

Indraprastha Power Generation Company Limited

6.10 Review of Fuel Management in Power Stations

Highlights

There was shortfall in achievement of generation target by 1113 MU mainly due to non-utilisation of allotted quantity of coal.

(Paragraph 6.10.4)

Delhi Vidyut Board (DVB)/Indraprastha Power Generation Company (IPGCL) incurred an additional expenditure of Rs.51.08 crore on procurement of coal at higher rates for the Rajghat Power Station.

(Paragraph 6.10.5)

Low thermal efficiency at the Rajghat Power Station and the Indraprastha Power Station resulted in loss of generation valued at Rs.802.73 crore.

(Paragraph 6.10.7)

Failure to properly assess demand for power and requirement of gas resulted in an avoidable generation loss of 1688 MU.

(Paragraph 6.10.8)

A quantity of 3.04 lakh MT of coal valued at Rs.55.51 crore was consumed in excess of norms in both the thermal power plants during the six years from 1998-99 to 2003-04.

(Paragraph 6.10.9)

Indraprastha Thermal Power Station had consumed excess secondary fuel oil during the six years up to 2003-04. The excess consumption was valued at Rs.18.55 crore.

(Paragraph 6.10.10)

DVB/IPGCL could not recover claims of Rs.24.37 crore for missing wagons due to failure to produce the Railway receipts and colliery bills.

(Paragraph 6.10.13)

6.10.1 Introduction

Indraprastha Power Generation Company Limited (IPGCL) was incorporated on 4 July 2001. Consequent upon the unbundling of the Delhi Vidyut Board (DVB) w.e.f. 1 July 2002, the power generating stations of the erstwhile DVB viz. Rajghat Thermal Power Station (RTPS), Indraprastha Thermal Power Station (ITPS) and the Gas Turbine Power Station (GTPS) were placed under IPGCL. The total installed capacity of the three power stations as on 31 March 2004 was 664.5 MW.

The overall position of the power demand in the NCT of Delhi, the NCT's own generation, the power purchased from out side and the shortfall is as below:

Sl. No.	Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1.	Maximum Demand (MW)	2,584	2,648	2,840	3,000	3,267	3,306
2.	NCT's own generation (MW)	233	305	316	314	407*	760*
3.	Purchased from outside (MW)	2,249	2,254	2,324	2,544	2,663	2,510
4.	Shortfall (MW)	102	89	200	142	197	36
5	Percentage of own generation to maximum demand	9.02	11.52	11.13	10.47	12.46	22.98

*(Note: * includes power generated by Pragati Power Corporation Limited which started operation in 2002-03).*

As evident from the above, the percentage of own generation to maximum demand varied from 9.02 to 22.98 *per cent* during the last six years ending 31 March 2004.

RTPS and ITPS are coal based plants while GTPS is a gas based plant. IPGCL procures coal from Coal India Limited (CIL), oil from Indian Oil Corporation (IOC) and Bharat Petroleum Corporation Limited (BPCL) and gas from Gas Authority of India Limited (GAIL). Coal and oil constitute almost 65.1 *per cent* whereas gas constitutes 34.9 *per cent* of the total fuel cost.

6.10.2 Organisational set up

IPGCL has fuel sections at each Power House headed by a General Manager who reports to the Director (Technical) at the Headquarters. The General Manager of each Power House is assisted by a Dy.General Manager (Operations) and Manager (Operations). The General Manager is responsible for the day to day operation of the Plant along with all its activities including procurement, storage and consumption of fuel items.

6.10.3 Scope of audit

An audit review was conducted of the fuel management operations of the three Power Stations (ITPS, RTPS and GTPS) which were under the erstwhile DVB from 1 April 1998 to 30 June 2002 and thereafter under IPGCL from 1 July 2002 to 31 March 2004. The review focused primarily on the procurement of fuel and efficiency of its consumption with reference to the expected output.

The Audit Report of the Comptroller & Auditor General of India relating to the Government of NCT of Delhi for the year ended March 2002 had highlighted excess consumption of coal, Light Sulphur High Stock (LSHS) fuel and turbine oil in the Rajghat Thermal Power Station. The Report is yet to be discussed by the Committee on Government Undertakings. The action taken on the audit observations and the present position has, however, been taken into account in the present review.

The audit findings as a result of review of fuel management in power stations of the Company were reported to the State Government and the Company in May 2004 with specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view points of the Government and the Management were taken into account. The meeting of ARCPSE was held on 11 August 2004 with the Special Secretary (Power) representing the State Government and the Management of the

Company. The views expressed by the State Government and the Management of the Company have been taken into consideration during finalisation of the review.

6.10.4 Procurement of coal

Linkage of coal (RTPS and ITPS)

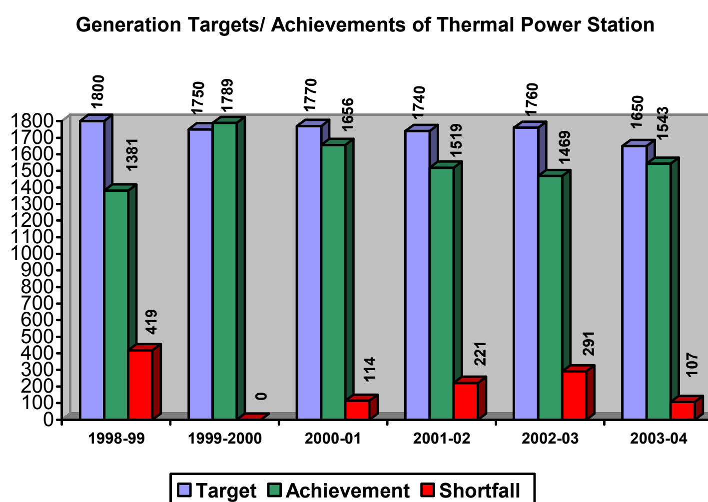
Shortfall in generation targets ranged between 107 to 419 MU.

The allocation of non-coking washed/de-shaled coal used for generation is made by the Standing Linkage Committee (SLC) comprising of representatives from Coal India Limited and the Union Ministries of Coal, Railways and Power. The quantum of coal allocated is based on the requirement of coal as per generation targets fixed by the Central Electricity Authority (CEA).

The position of coal linkages fixed, coal received, generation targets prescribed and actual generation achieved during the period from 1998-99 to 2003-04 was as below:

Sl. No.	Particulars		1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
1.	Coal Linkage Fixed (MT)	RTPS	6,45,000	7,65,000	8,40,000	7,20,000	8,40,000	7,80,000	45,90,000
		ITPS	9,45,000	7,95,000	8,55,000	7,35,000	6,75,000	8,65,000	48,70,000
			15,90,000	15,60,000	16,95,000	14,55,000	15,15,000	16,45,000	94,60,000
2.	Quantity of Coal Received (MT)	RTPS	4,63,233	7,20,530	6,36,237	5,78,879	6,77,887	6,42,982	37,19,748
		ITPS	6,00,468	6,19,916	7,25,630	6,44,284	4,74,110	6,38,312	37,02,720
			10,63,701	13,40,446	13,61,867	12,23,163	11,51,997	12,81,294	74,22,468
3.	Generation targets {Million Units (MUs)}	RTPS	700	750	850	840	900	850	4,890
		ITPS	1,100	1,000	920	900	860	800	5,580
			1,800	1,750	1,770	1,740	1,760	1,650	10,470
4.	Actual generation achieved (MUs)	RTPS	617	942	791	706	848	774	4,678
		ITPS	764	847	865	813	621	769	4,679
			1,381	1,789	1,656	1,519	1,469	1,543	9,357
5.	Shortfall in generation targets (MUs)	RTPS	83	(-)192	59	134	52	76	212
		ITPS	336	153	55	87	239	31	901
			419	(-)39	114	221	291	107	1,113

It would be seen from the above that the total linkage of coal during the six years fixed by the SLC was 94,60,000 MT. Against this, only 74,22,468 MT of coal was received, resulting in short receipt of 20,37,532 MT (22 *per cent*) of coal which consequently resulted in shortfall in achievement of the prescribed generation targets by 1,113 MU valued at Rs. 326.11 crore (at the average rate of Rs. 2.93 per unit). The shortfall in generation targets ranged between 107 to 419 MU during these six years as depicted below:



Management stated in September 2004 that shortfall in achieving generation target was on account of operational constraints like frequent outages of generating units necessitating their overhaul and not because of the receipt of coal. The units had sufficient coal to continue operation.

It was evident from the reply of the Management that coal linkages fixed and targets of generation of power were not realistic. The factors such as outages should have been taken into account based on past performance of the machines at the time of fixation of generation targets and assessing the requirement of coal. Given the extent of the shortfall, it was evident that there was a need for a more realistic assessment of coal requirements and generation targets while at the same time improving levels of efficiency in utilisation of the allotted coal.

Extra expenditure of Rs.51.08 crore incurred on purchase of coal by RTPS.

6.10.5 Extra expenditure on purchase of coal

DVB/IPGCL was purchasing coal from the Central Coal Fields Ltd. (CCL) and the Northern Coal Fields Ltd. (NCL) depending upon the availability of coal wagons for movement. The cost of procurement of coal from CCL was

higher than that from NCL. In June 1998, the Union Ministry of Environment and Forests stipulated that beneficiated[1] coal with an ash content not exceeding 34 *per cent* on an annual average basis could be used in power houses. ITPS started procuring such beneficiated coal from NCL from July 1999. RTPS, however, continued to procure beneficiated coal from CCL at a higher rate till March 2002. It was only from 2002-03 that Rajghat Power House started procuring coal from NCL by which time it had already incurred an extra expenditure of Rs. 51.08 crore on the procurement of coal (19,35,646 MT) from CCL during the period from 1999-2000 to 2001-02 due to payment at higher rates.

Management stated in September 2004 that the Company has no control over either the source or price of coal procured. It added that the matter had been taken up with the NCL and at the SLC meeting, which had not agreed to their request due to non availability of coal from Bina. The reply is not convincing as RTPS took up the matter in April 2001 one and a half years after ITPS started getting coal from NCL by which time NCL had already entered into commitments with other thermal power stations. RTPS should have taken up the matter earlier at an appropriate level through the SLC to get coal for both the plants from one source in view of the financial implications involved.

6.10.6 Quality of coal

As per an agreement reached between the erstwhile Delhi Electric Supply Undertaking (DESU) and CIL in March 1985, coal had been classified in grades A to E depending on their gross calorific value (GCV) and useful heat value (UHV). The stipulated heat value was between 3,360 to 6,200 K cal[2] /kg with ash content and moisture content not to exceed 40 *per cent* and 8 *per cent* respectively. In June 1998, as part of measures to reduce air pollution, the stipulated ash content was reduced to 34 *per cent* by the Union Ministry of Environment & Forest with effect from July 2002.

Audit scrutiny revealed that neither steps had been taken to revise the arrangements to bring it in line with the new specifications of grade or characteristics of coal in terms of GCV and UHV nor was there any arrangement for joint sampling of the coal received at the power station end. Hence, the quality of coal received and its conformity with the revised standards was not verifiable.

Management stated in September 2004 that quality of coal received was always in conformity with standard E grade coal having useful heat value

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[1] *Beneficiated coal: better part of raw coal extracted from mines/coal lumps containing ash contents less than 34 per cent.*
[2] *Kilo calorie*

above 3,360 kcal/kg but not exceeding 4,200 kcal/kg. The reply is not convincing as UHV as per lab reports ranged from 2,165 to 3,800 kcal/kg during these years. The Company had neither lodged any claims on CIL nor sought any deduction from their bills though the coal supplied did not conform to the stipulated heat value.

6.10.7 Thermal efficiency

There was generation loss of Rs. 802.73 crore due to lower thermal efficiency.

The thermal efficiency guaranteed by the manufacturer of the plant was 33.18 *per cent* in case of RTPS and 32.08 *per cent* in case of ITPS. Audit scrutiny revealed that the actual thermal efficiency achieved by RTPS and ITPS varied between 23.43 to 26.71 *per cent* and 22.20 to 26.76 *per cent* respectively during the period from 1998-99 to 2003-04 as detailed in Appendix-XV. The shortfall in generation and consequent loss due to lower thermal efficiency achieved during these years worked out to 2,773 MU valued at Rs. 802.73 crore.

The low thermal efficiency was attributable to:

- non-achievement of the rated parameters of steam in the boiler due to variation in coal quality,
- HP heaters being frequently out of circuit,
- gas leakage from boilers,
- steam leakage from turbine,
- low vacuum,
- low Plant Load Factor, and
- poor performance of coal mills coupled with lower equipment performance due to ageing.

Management stated in September 2004 that it was not appropriate to compare the heat value achieved with the designed capacity as there was inevitably a lot of difference between the two. The main reason for low thermal efficiency was the old age of I.P station (viz. more than 35 years) and inadequate maintenance. It was added that DERC had allowed them a heat rate of 3,200 kcals for RTPS and 3,235 kcals for I.P. Station and that steps have been initiated to improve the thermal efficiency.

The fact remains that the thermal efficiency achieved at ITPS in 2003-04 (24.68 *per cent*) was the lowest in the last five years. While thermal efficiency improved at RTPS in 2003-04, it was still less than that achieved in 2000-01 and 2001-02 though this plant has not outlived its life. Further, while allowing the higher heat value, DERC had clearly stated that this was only

since the Company had requested for some "breathing space" and that they would get the heat rate assessed by CEA.

6.10.8 Procurement of natural gas - avoidable generation loss of 1688 MU

Audit scrutiny of the procurement of natural gas revealed generation losses due to insufficient quantity of gas as discussed below.

Generation loss of 1688 MU could have been avoided had the requirement of gas been properly and timely assessed.

The Gas Turbine Power Station with six gas turbines was designed, manufactured, erected and commissioned on turn-key basis by M/s Alstom France in 1986. These turbines were initially operated on High Speed Diesel (HSD). In view of the high cost of HSD, it was subsequently decided in February 1989 to convert the gas turbines into duel fuel system viz. to enable use of both natural gas (which was far more economical) and HSD. The daily requirement of gas for operating all the six turbines was 1.44 million metric standard cubic meters (mmscm)[1] per day. Towards this end, the Union Ministry of Petroleum & Natural Gas allocated in 1988 one mmscm per day of natural gas to the then DESU. DESU, however, signed a contract in July 1989 with GAIL for supply of only 0.6 mmscm per day. Subsequently, the Ministry re-allocated the balance 0.4 mmscm of gas to industrial units around Delhi. In March 2000, the Ministry increased the allocation of gas to 0.84 mmscm in favour of DVB (now under IPGCL) to meet the requirement. This was, however, adequate to operate only three to four of the turbines and the remaining turbines remained idle. Since the gas supply was not sufficient to operate all the turbines, GTPS had to suffer a generation loss of 2,431 MU during 1998-1999 to 2003-04. This generation loss could have been reduced to 1,688 MU had the 1.00 mmscm gas per day initially allocated by the Ministry been fully availed of by the Board.

Management stated in September 2004 that demand of one mmscm was based on the assumption that the gas station would require 0.6 mmscm gas per day for operating it only during peak hours and two units of Rajghat Power House would be converted to operate on gas and would require 0.4 mmscm of gas per day. The Rajghat Power units were not converted into gas. Therefore DESU had entered into an agreement for supply of 0.6 mmscm of gas per day. Due to steep increase in demand for power, the gas station had to be operated on base load and thereafter a request was made for allocation of additional gas.

The reply of the Management is not tenable as these stations were converted for base load operation in February 1990 viz. within seven months of the contract with GAIL. It was evident that the power demand and consequently

[1] *MMSCM:Million Metric Standard Cubic Meters*

the gas requirement should have been known to the company at that stage itself. Had the contract been signed for the full allocated quantum of one mmscm, a generation loss of 1,688 MU could have been avoided.

6.10.9 Consumption of fuel

Excess consumption of coal: loss of Rs. 55.51 crore

The Audit Report of the Comptroller & Auditor General of India for the year-ended March 2002 had highlighted (para 7.13.8) excess consumption of coal in the RTPS for the period from 1996-97 to 2001-02. A further review of the position revealed that there had been no improvement in the consumption of coal since then.

Excess consumption of coal resulted in additional expenditure of Rs. 55.51 crore.

The consumption of coal depends upon its calorific value. As per the norms fixed in the project report for RTPS and ITPS, 0.752 kg. and 0.800 kg. of coal is required for production of one unit respectively. Audit scrutiny however revealed that consumption of coal ranged between 0.775 kg. and 0.831 kg. in case of RTPS and 0.800 and 0.897 kg. in case of ITPS for generation of one unit of power. This resulted in excess consumption of coal to the tune of 3.04 lakh MT during the period of six years under review as detailed in Appendix-XVI. Apart from the low calorific value, excess consumption was also attributable to transit losses, windage losses and shortages in coal consumption which should have been controlled by the Management. The value of this excess consumption of coal worked out in audit amounted to Rs. 55.51 crore.

Management stated in September 2004 that excess consumption of coal was mainly due to high ash (moulder/stones/shales) and moisture content in the coal, low vacuum problem, lower Plant Load Factor (PLF) achieved in these years and deterioration in the efficiency of boiler and turbines with ageing of plants. It was added that DERC had recognised the fact that heat rate of an old plant cannot be the same as in the case of new plants and has considered 0.813 kg. and 0.780 kg. of coal for generation of one unit of power for ITPS and RTPS respectively. Further, transit and windage losses of 2.5 *per cent* was acceptable normal loss. Efforts were, however, being made to reduce coal consumption.

The reply is not convincing as there was an increasing trend in the consumption of coal during the last one to two years which was indicative of the inadequacy of steps taken so far to control excess consumption.

6.10.10 Consumption of oil - excess consumption of LDO amounting to Rs. 18.55 crore

DVB/IPGCL incurred an additional expenditure of Rs.18.55 crore due to excess consumption of secondary oil.

Audit scrutiny of the consumption of oil required to start up the boilers and to stabilize the flame at low load revealed variations in consumption per unit. ITPS requires Light Diesel Oil (LDO) to ignite the boilers and for flame stabilisation. The average rate of consumption of LDO for this purpose ranged from 10.03 ML/per unit to 23.81 ML/per unit during 1998-99 to 2003-04. As DVB/IPGCL had not fixed any norms relating to use of LDO per unit, the minimum consumption i.e. 10.03 ML/per unit during 2000-01 has been taken as the standard. Based on this norm, there was excess consumption amounting to Rs. 18.55 crore as detailed below:

Year	Unit generated (in thousand)	LDO consumption (in KL)	LDO consumption (ML/unit)	Excess consumption (in KL)	Value of excess consumption (Rs. in crore)
1998-99	7,64,472	18,203.340	23.81	10,535.686	10.74
1999-2000	8,47,127	13,920.870	16.43	5,424.186	6.69
2000-01	8,64,755	8,676.130	10.03	--	--
2001-02	8,12,832	8,680.230	10.67	527.525	0.76
2002-03	6,21,259	6,408.950	10.31	177.722	0.26
2003-04	7,69,128	7,775.070	10.11	60.717	0.10
Total					**18.55**

Audit scrutiny revealed that the excess consumption of LDO was due to problems in the functioning of the coal mills in the plant and frequent tripping of the machines.

Management stated in August 2004 that the oil consumption increased due to increased frequency of trippings due to several reasons like bad weather, rainy season, grid condition, machinery break downs, etc. It was added that during changeover of the coal mills, oil support for consumption becomes essential to maintain stability of the flame. Due to actions taken by the Company, the consumption of LDO has been brought down from 2000-01 onwards.

It was observed in audit that since there were five coal mills for each unit including one stand by, the availability of at least four mills at any given time should have been ensured by proper maintenance. Further, excessive tripping could have been controlled with better maintenance.

6.10.11 Failure to settle dispute relating to surcharge resulted in unresolved liability of Rs. 183.64 crore claimed by the Railways

Unresolved liability of Rs. 183.64 crore claimed by Railways.

A meeting was held in December 1996 with the Northern Railways to work out the modalities of the 'Advance Payment Scheme' (APS) of the Railways where an advance payment of Rs. 12.25 crore (equivalent to one months' average freight) was to be made by the DVB to avail exemption/relief from payment of 15 *per cent* surcharge on freight to the Railways. Thereafter, further payments of freight were to be made every 10 days on the basis of Railway receipts. DVB however, was bound to maintain a balance of Rs. 12.25 crore with the Railways at the end of each month. Failure to maintain the deposit of Rs. 12.25 crore would attract 15 *per cent* surcharge on freight. In pursuance of the scheme, DVB deposited Rs. 12.25 crore in December 1996 with the Railways as advance payment. In 1999, Railways imposed a surcharge of 15 *per cent* on the freight bills with retrospective effect from December 1996 on the ground that DVB had failed to maintain the minimum balance of Rs. 12.25 crore at the end of each month. According to the Railways, an amount of Rs. 139.66 crore had accrued up to October 2000. Subsequently, the Railways agreed that if DVB made a down payment of Rs. 25.19 crore towards freight, the balance of Rs. 114.47 crore would be forgone by the Railways. DVB however, failed to either resolve the issue or take advantage of this one time settlement offer. The surcharge on freight levied by the Railways had accumulated to Rs. 183.64 crore as on 31 January 2004.

Management stated in September 2004 that DVB had always maintained a revolving fund of Rs. 12.25 crore with the Railways since December 1996. Further, it had been making full payment of freight since 1996 both current as well as against the then outstanding amount of Rs. 59 crore, there by bringing down the outstanding to Rs. 25.19 crore. DVB was also attempting to adjust its claims of missing wagons to the extent of approximately Rs. 33 crore, out of which Rs. 9.21 crore had been accepted by the Railways (1997-98). As on June 2002, an amount of Rs. 1.98 crore was in fact recoverable from the Railways. It was added that outstanding dues of DESU and DVB were to be taken over by the Central and State Governments respectively.

It was observed in audit that the minimum balance had been maintained by DVB by setting off the amounts due from the Railways on account of traction charges. This practice has not been accepted by the Railways who had informed that the traction bills were adjusted against old outstanding dues viz. those prior to 1996. Further, records relating to discussions between erstwhile DVB with Central and Delhi Government made available to audit regarding taking over of outstanding dues of Central PSU's pertained only to the matter

of energy/power purchase dues and not to the question of liabilities towards the Railways.

6.10.12 Coal handling plant

Expenditure of Rs. 48.40 lakh was incurred due to improper shunting and tripling operations.

The coal handling plant of the thermal stations receives and unloads the coal departmentally in the yard from the coal racks with the help of wagon tippler and shunters. From the wagon tippler house/hoppers, the coal is fed through conveyors into the crusher house where the coal is converted into small pieces of coal of 20 mm size and below. Thereafter the coal is sent to boiler bunkers or for stock piling in the coal yards.

A review of the records revealed that there were frequent derailment of wagons in the yards at the time of shunting and tripling operations. The derailments were attributed to operational constraints, heavy rain, odd hours, lack of visibility, mechanical defects in the rail line, the wagons or the trolleys and the chassis not being properly bolted during tippling or return. The Northern Railways had charged DVB/IPGCL Rs. 48.40 lakh for the cost of damages caused by such derailment during the period 1998-99 to 2003-04. No remedial action had, however, been taken by the Company to minimise such losses or to take effective action against persons responsible for negligence.

Management stated in August 2004 that the number of cases of derailment have come down during the last two years due to action taken to strengthen the mechanical system and due to training imparted to the staff by the Railways.

6.10.13 Settlement of claims

Loss of Rs.24.37 crore due to failure to produce Railway Receipts

Failure to maintain proper records and co-ordination resulted in loss of Rs. 24.37 crore.

The quantities of coal required for running the plants is carried by Rail wagons from the collieries to the power house. A close monitoring of the movement of wagons from loading to unloading point is essential to ensure the timely receipt of the entire dispatched quantities at the power station. As per the arrangement with the Railways, claims relating to missing wagons are to be settled on production of Railway Receipts (RR's) and colliery bills.

It was observed during audit that cases of missing wagons had increased from 688 wagons on 31 March 1999 (1998-99) to 1,335 wagons as on 31 March 2004 (2003-2004). The increase in the number of missing wagons was attributable primarily to diversion of rakes/wagons by the Railways to other power houses either at their own instance or on the instructions of the CEA after loading/ despatch from the colliery. Lack of coordination with the

agencies at the loading point coupled with failure to ensure proper management of records (Railway receipts, colliery bills, etc.) required to lodge claims resulted in delay in settlement of the claims amounting to Rs. 34.12 crore as on 31 March 2004. Out of the above amount, claims worth Rs. 24.37 crore prior to 1996-97 were not accepted by the Railways due to non-production of RRs/ colliery bills by DVB/ IPGCL.

Management stated in September 2004 that cases of missing wagons were being pursued with the Railways.

6.10.14 Loss of Rs. 1.66 crore due to overloading of wagons

The Railways have fixed the carrying capacity of its wagons as 58 MTs plus two MTs. Normal freight is charged for this quantity. The Railways charge penal freight if the weight of the wagon exceeds this specified limit. Scrutiny of the freight bills register of coal during the period 1998-99 to 2003-04 revealed that the Company had paid an additional amount of Rs. 1.66 crore due to overloading of wagons.

It was observed in audit that clause 5.6 of the agreement between the coal companies and DVB/IPGCL stipulated that any failure in proper dispatch of coal in full rake loads resulting in payment of higher freight charges will be to the account of the coal company. Despite this clear provision, no action was taken by the Company to enforce these terms of the contract and have the coal companies bear this additional cost. It was also observed that the Company had appointed coal agents for supervising the loading operation at the colliery end. The coal agents were specifically required to supervise the loading and weighing of the wagons and to keep the Company informed of any shortfalls or discrepancies failing which no supervision charges were to be paid for the wagons. No deduction of supervision charges was, however, made though the wagons had not been loaded properly and the coal agents had clearly failed to discharge their responsibilities under the terms of the contract.

Management stated in September 2004 that an agreement was under consideration to the effect that the cost of over loading would be shared on 50:50 basis between the coal companies and Indraprastha Power Generation Company Limited.

6.10.15 Internal control

Internal control was inadequate.

The procurement of coal, oil and gas is dealt with by the Fuel Section in each power house. The Store Billing Section of the Finance Division is responsible for scrutinizing, processing and passing of the bills of coal, railway freight, oil and lubricants received from collieries, the Railways and the oil companies

respectively. Audit scrutiny of the functioning of these divisions revealed the following deficiencies:

(i) purchase orders of coal did not specify the permissible size, moisture content, thermal efficiency and other required characteristics of the coal being procured with the result that deviation from the required standards could not meaningfully be brought to the notice of the coal companies for compensation, improvement or remedial action;

(ii) the ash content of the coal is required to be within 34 *per cent* as per notification issued by the Union Ministry of Environment & Forests. The ash content was, however, not verified before passing of the bills;

(iii) bills were paid without any qualitative and quantitative verification of the coal received. There was no system of joint sampling or weighing at the unloading point which was necessary if proper verification is to be done before passing of the bills; and

(iv) no norms had been fixed for storage losses found during physical verification of stocks at the year end.

It was evident that systems for ensuring proper control and monitoring of both fuel received as well as payments being made was ineffective and inadequate.

Management stated in August 2004 that the Company has internal control for receipt and accounting of coal. The areas, however, requiring strengthening would be reviewed and suitable action would be taken.

6.10.16 Utilisation/ disposal of ash

Blocking of funds of Rs.57.31 lakh

Purchase of bricks in excess of requirement resulted in blockade of funds.

RTPS had awarded contracts in September 1999 for setting up of brick plants for manufacture of bricks from the residual ash generated by the power stations. The contracts expired in November 2002. During the tenure of contracts, DVB/IPGCL purchased 1,45,06,222 number of bricks at the rate of Rs. 1.10 per brick from the parties. Out of these, 62,21,900 bricks were used departmentally while 26,92,425 bricks were sold to outside parties at the rate of Rs. 1,225 per 1,000 bricks plus 2.5 *per cent* storage charges. The balance 55,91,897 bricks were lying in stock as of 31 March 2004.

A scrutiny of the records revealed that the agreement provided that surplus quantities could be returned to the manufacturer to be sold in the open market by them. Thus, purchase of bricks in excess of departmental consumption and

that which could be sold resulted in blockade of funds amounting to Rs. 57.31 lakh.

Management stated in September 2004 that stock is kept for planned works and to maintain a minimum stock balance required for yearly issue. The reply is not convincing as the consumption of bricks for departmental use during the last four years was about 15 lakh per annum. Hence, retention of over 55 lakh bricks sufficient to meet the requirement of over three and a half years was clearly unnecessary.

6.10.17 Conclusion

The generation targets fixed by IPGCL could not be achieved due to shortfall in receipt of coal, low thermal efficiency of the plants, etc. There was excess consumption of coal due to low calorific value of coal and transit and windage losses, which should have been controlled by the Management.

- There is a need for more realistic assessment of coal requirement and generation targets.
- Level of efficiency in utilisation of coal should be improved/ensured.
- Systematic changes in fuel management operations should be introduced to improve efficiency and reduce costs.
- Maintenance practices and procedures should be strengthened to avoid excessive tripping and improve efficiency.

Paragraphs

6.11 Information Technology audit of payroll system in Delhi Transport Corporation

In May 1998 Delhi Transport Corporation engaged M/S Binary Systems Ltd. to develop an application software for its payroll preparation. An audit of the computerisation of Payroll system revealed the following:

Deficiencies in System Development

The firm developed the application based on Oracle 8.04 at backend and Developer 2000 at front-end, and in-house preparation of payroll commenced from January 2000. Despite this there remained several discrepancies in the software. This resulted in non-generation of critical reports like Employees' Pension Scheme Reports, Provident Fund Updation Reports and Provident Fund Contributions Slips of each employee. Consequently, much of this work continued to be done manually despite expenditure of Rs. 7.30 lakh paid to the firm. Though the Management had issued a notice for breach of contract in January 2001 to the firm, it failed to ensure action to rectify the deficiencies.

Lack of physical and logical access controls

The Payroll system was also marked by a lack of adequate physical and logical controls to safeguard against unauthorized access, theft and damage. Audit scrutiny revealed that:

(a) no physical access register was being maintained to guard against unauthorized access to the computer system;

(b) only a single password was being used by all the users and even the administrative password was not kept confidential;

(c) the passwords were not being changed periodically.

Government stated in October 2004 that DTC had taken precautions to ensure physical and logical security and that access registers were being maintained and passwords set appropriately. Audit scrutiny of the reply revealed that instructions requiring maintenance of access registers, security passwords and for taking backup on regular basis were issued only in July 2004 after it was pointed out in audit.

Deficient application software

Audit analysis of the programs used for purposes of calculation of basic pay, City Compensatory Allowance (CCA), Dearness Allowance (DA) and House Rent Allowance (HRA) revealed several deficiencies and inaccuracies which undermined both the utility as well as the reliability of the application.

Test check of CCA, DA and HRA payments made during 2003 and 2004, using Computer Assisted Audit Techniques (SQL[1] and IDEA[2]), revealed that the calculations arrived at were not in consonance with the admissible rates or the prescribed formula as detailed below:

- In 1030 cases amounting to Rs. 24.83 lakh, the CCA was not in consonance with the admissible rates.
- In 7363 cases out of 3, 67,737 cases amounting to Rs. 1.18 crore, the HRA calculation was not equal to the amount arrived at by the stipulated formula.
- Similarly in 1,53,179 cases out of 3,92,610 cases, the DA calculation was not according to the prescribed formula.

Management stated in June 2004 that the differences were due to adjustments done at the unit level on account of payments of arrears and the existing software did not have a feature enabling calculation of arrears. Government further stated in October 2004 that there were no extra payments as there were three manual level checks to guard against the same. It is clear that the data generated by the application system cannot be relied upon and manual checks have to be conducted thus defeating the very purpose of a computerized payroll system.

Audit scrutiny also revealed that the 'Basic Pay' fixed was more than the maximum of the time scale in case of 118 drivers due to grant of next scale under Assured Career Progression (ACP) scheme. Management while admitting the error stated in July 2004 that the dates of joining had since been rectified in all the cases and only 20 cases remained entitled for the next higher scale under the ACP scheme. It was evident in audit that the system did not have the inbuilt validation checks to eliminate these errors. Further, the system did not have any provision to record and exhibit Stagnation Increment and Dearness Pay.

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[1] *Structured query language*
[2] *Interactive Data Extraction and Analysis.*

Further, it was noticed in audit that minus balances were being exhibited under Contributory Provident Fund of 639 employees. Management informed in July 2004 that most of these cases pertained to final payment wherein interest calculation had been added to the total amount of provident fund dues which resulted in the minus balances; format of the report for calculation of interest on PF contribution was yet to be modified.

It was clear that the system lacked effective validation checks and was highly dependent on manual checking and verification during all stages of data processing from preparation of source documents to final verification of pay bills.

The Government while accepting the audit observation that the payroll system was not fully operational, stated in October 2004 that in light of the audit observations and the discrepancies in the present software, the Corporation was considering either procuring a fresh payroll software from NIC or out-sourcing the application to some outside agency.

6.12. Deficiencies in Internal Control/Internal Audit System in Power Sector Companies

6.12.1 Internal Control

Introduction

Internal control is an integral part of an all pervasive process designed and effected by the management of an organisation to achieve its specified objectives ethically, economically and efficiently. It helps in creating reliable financial and management information system besides effective decision making.

The internal control systems, procedures and mechanisms in power sector companies of the Government of NCT of Delhi were evaluated with a view to assessing whether the existing systems were adequate, effective and fulfilled the intended purpose.

6.12.2 In July 2002, the Delhi Vidyut Board (DVB) was unbundled and the following power sector companies were formed under the control of Government of NCT of Delhi for carrying out the business of generation and transmission of power:

Sl. No.	Name of Company	Date of Formation	Authorized/ Paid Up Capital
1.	Delhi Power Company Ltd. (DPCL)	4 July 2001	Rs. 5 lakh
2.	Indraprastha Power Generation Company Ltd. (IPGCL)	4 July 2001	Rs. 140 crore
3.	Delhi Transco Ltd. (DTL)	4 July 2001	Rs. 180 crore
4.	Pragati Power Corporation Ltd. (PPCL)	9 Jan. 2001	Rs. 5 lakh

The internal control systems, procedures and mechanisms in power sector companies as mentioned above were reviewed and the audit observations are given in the succeeding paragraphs.

6.12.3 Lack of documentation

A proper internal control structure requires that all transactions and significant events should be properly documented and the documentation is readily available for examination. None of the companies had properly documented and developed internal control structure. The Audit Committees of DTL and IPGCL in their meeting held in March 2003 had recommended, *inter alia,* that (i) suitable internal control procedures commensurate with the nature and size of the business should be developed; and (ii) the complete scope of the internal audit should be clearly spelt out so that the various areas could be covered from time to time on rotational basis. No action, however, had been taken on these recommendations so far. The Department stated in September 2004 that the Company had adopted the internal control system as prevalent in the erstwhile DVB. The fact, however, remained that adequate documentation and a defined internal control structure covering all transactions and significant events was lacking. The Audit Committee in their meeting held in March 2003 clearly stipulated that the internal control procedures were to be developed commensurate with the nature of the business and the scope of internal audit should be clearly spelt out so that various areas could be covered from time to time on rotational basis.

6.12.4 Deficiencies in financial control system of Delhi Transco Ltd.

Statutory auditors (chartered accountants) are required to furnish a detailed report on the adequacy of the 'internal control system' in the organisation in accordance with the directions issued by the Comptroller and Auditor General of India under Section 619 (3) (a) of the Companies Act and to identify such areas which needed improvement.

During audit of the accounts of DTL for the year ended 31 March 2003, the statutory auditors had highlighted the following deficiencies in the system of financial control of the Company:

- system of financial control was marked by non-reconciliation of inter-office accounts and of the bank account with the bank statements at regular intervals,
- allocation of expenditure between capital and revenue was improper,
- physical verification of fixed assets was not done at regular intervals,
- surprise verification of cash and imprest was not done by higher authorities,
- maximum and minimum limits of stores and spares were not fixed,
- records for generation of scrap and its disposal were not maintained,
- cost records as prescribed by the Central Government under Section 209 (1) (d) of the Companies Act were not maintained, and
- Provident Fund Register as required under the provisions of the Provident Fund Act, 1952 was not kept.

Meaningful steps to remedy the deficiencies were yet to be taken. The Department stated in September 2004 that remedial steps were being taken to remove the deficiencies.

6.12.5 Internal audit

An internal audit system is a systematic and independent examination of data, statements, records, operations and performance (financial or otherwise) of the organization by officers/staff specially set apart for the purpose to ensure that there is optimum utilization of human and fiscal resources and that performance is in conformity with the management plans.

It is primarily the Management's responsibility to establish an internal audit unit as part of its internal control structure so that the same could be an useful mechanism to advise on internal controls. It was however observed in audit that even though the power sector companies were formed as independent companies under the provisions of the Companies Act and are working independently under the administrative control of their own Board of Directors, none of the companies except IPGCL made any effort to establish internal audit divisions of their own.

6.12.6 Organisational set up

The internal audit wing was manned by the Assistant Manager (Finance) who was assisted by one Section Officer and four Assistants for the audit of IPGCL and one Section Officer and two Meter Reading Inspectors for the audit of DTL. No supervisory level officer had been posted in the Wing. The independence or autonomy of the internal audit was also not secured as there was no system of independent direct reporting of the observations of internal audit to the Board of Directors or CMD. The Department stated in September 2004 that the Internal Audit teams report to Director(F) through General Manager(F). This would indicate that the Internal Audit Reports are not submitted directly to the top management and therefore independence or autonomy of the internal audit was not ensured.

6.12.7 Manpower

Lack of professionally qualified personnel

Managers and employees entrusted with internal audit functions should be technically proficient and fully equipped to discharge their functions through suitable formal and on-the-job training. It was, however, observed in audit that there was no laid down policy for recruitment of staff to the internal audit wing and the persons drafted in the wing were generally from the Finance cadre. No specialised training was imparted to the personnel before their induction into the internal audit wing in order to equip them with the appropriate skills. The Department stated in September 2004 that no separate recruitment policy for internal audit wing was felt necessary since the employees of the Finance Wing are familiar with the operation of the Company.

6.12.8 Duties and responsibilities not clearly defined

The responsibilities and duties of the personnel of internal audit wing were not clearly defined. The staff strength (men in position) is not adequate to meet the overall audit requirements of the organisation especially when large volume of transactions relating to expenditure, income, turnover, share capital/loan funds, assets and liabilities, etc. of each Company are required to be covered. The Department stated in September 2004 that the officers related with the audit field are supposed to know the duties and responsibilities of internal audit and hence it was not considered necessary to redefine these.

6.12.9 Internal Audit Manual

An Internal Audit Manual prescribing the quantum and standards of audit to be followed did not exist in any of the companies. The Department stated in

September 2004 that it is proposed to get the Manual prepared after assessing the requirements.

6.12.10 Planning

Specific control objectives should be identified or developed for each activity of the organisation which are appropriate, comprehensive and integrated into the overall organisational objectives. Towards this end, annual audit plans are to be drawn up. These plans are to include a review of the accounting, financial and operating control systems to ensure economy and efficiency of operations. The plans should also provide for checks to see whether the financial and other records and reports depict the results of operations accurately and promptly. Further, review of the compliance with laws, regulations and other external requirements should also be provided along with surprise physical verification of stocks, cash, etc. It was however observed in audit that annual audit plans were never prepared or approved for the year 2003-04 in any of the companies. As a result, the work of internal audit was confined mainly to transaction audit without adequate coverage of other areas. The Department stated in September 2004 that the audit plans were prepared by internal audit department on quarterly basis and put up to the head of the finance of concerned unit for approval. The Department's assertion could not be substantiated with any documentary evidence by way of submission of audit plans on quarterly basis to the head of finance of the concerned unit for approval. Moreover internal audit is required to prepare a comprehensive audit plan and submit the same to the Director (Finance) for approval and not to the head of the finance of the concerned unit.

6.12.11 Lack of audit coverage

As against 92 units/divisions (IPGCL 22 nos; PPCL 1 no; DTL 68 nos. and DPCL 1 no), the internal audit wing carried out audit in respect of only eight units, viz. IPGCL / PPCL two units and DTL six units till February 2004. In these eight units, reports were issued in respect of only three units, viz. IPGCL / PPCL two and DTL one in October 2003, November 2003 and February 2004. The remaining reports were pending for issue. Evidently, the audit coverage was negligible and lacked seriousness. The transactions relating to DPCL have not been reviewed as of March 2004. The Board had also not been apprised of the arrears of audit at any time. The Department stated in September 2004 that audit programmes were prepared in phases to cover all areas of operations and review of these plans would be done.

6.12.12 Reporting

Lack of follow up action on Internal Audit Reports

There was no system of compliance of the observations of internal audit in any of the companies. The three reports issued by the internal audit wing contained 26 audit observations with a money value of Rs. 60.17 lakh. All of these are pending for compliance though six weeks is the stipulated time for submission of compliance. The Department stated in September 2004 that replies had since been received and were being reviewed.

6.12.13 Audit Committee

Section 292A of the Indian Companies Act, 1956, stipulates that every public company having paid up capital of not less than Rupees five crore should constitute a committee of the Board known as 'Audit Committee' consisting of not less than three Directors which should have regular discussions with the auditors and ensure compliance of the internal control system.

A review of the minutes of meetings of the Audit Committees of IPGCL and DTL revealed that there was no system or procedure for the preparation of a consolidated position of pending internal audit observations which could be periodically brought to the notice of the top Management for follow up. The Board of Directors had also not prescribed a system for monitoring of outstanding audit observations. The Department stated in September 2004 that the internal audit reports had been placed before the Audit Committee.

It was evident that the fundamentals of a sound internal audit system had not been adopted by the power sector companies. The internal audit structures and practices were weak, ad hoc and clearly not commensurate with the size and scope of the business.

6.13 Implementation of Voluntary Retirement Scheme by State Public Enterprises/ Corporations

6.13.1 Government of India introduced a scheme for voluntary retirement of employees of public enterprises in October 1988 with a view to reducing surplus manpower and optimizing performance. No separate guidelines were issued by the Government of NCT of Delhi. The public enterprises and corporations under the Delhi Government followed the guidelines of the Government of India while introducing voluntary retirement schemes for their regular and permanent employees. The scheme of Government of India

stipulated that an employee who had completed 10 years of service or attained 40 years of age could seek voluntary retirement by written request. The scheme defined the conditions for its applicability and the terminal payments available to employees seeking voluntary retirement. In May 2000, the Government introduced a revised Voluntary Retirement Scheme (VRS) for enterprises that made marginal profits or were loss making.

While enterprises which were financially sound and could sustain a scheme of VRS on their own surplus resources were free to devise and implement variants of the VRS introduced earlier in October 1988, in no case was the compensation to exceed 60 days' salary for each completed year of service or the salary for the number of months of service left, whichever was less.

6.13.2 A total of 545 employees in four[1] PSUs opted for VRS and were paid an amount of Rs. 44.85 crore towards ex-gratia and other terminal benefits.

A review of the implementation of VRS by these four PSUs with reference to the guidelines issued by the Government of India revealed certain deficiencies and irregularities as discussed in the succeeding paragraphs.

6.13.3 Guidelines of the Government of India stipulate that PSUs are to introduce VRS with the approval of their Boards and the administrative Ministries concerned. None of the Companies except DSIDC, however, obtained the approval of the Government of Delhi for the VRS implemented by them. The Management of IPGCL, DSCSC and DTTDC stated that the matter was within the ambit of their own Board of Directors and action was taken accordingly.

6.13.4 Before introduction of VRS scheme, the enterprises should have undertaken an exercise to identify surplus manpower, establish criteria for acceptance of VRS requests, identify skills which should be retained and those which had become redundant, a cost benefit analysis, etc. None of the enterprises except DSCSC undertook any such exercise either on their own or by engaging any specialized agency for assessing or planning their manpower requirements or profile. The VRS was thus implemented without ensuring retention of optimum manpower with the skills necessary for the efficient functioning of the companies. The response to the scheme was also very poor as the percentage of VRS optees to the existing strength ranged between only four and 17 *per cent*, which undermined one of the primary objectives of VRS viz. to weed out excess and redundant manpower.

[1] *Indraprastha Power Generation Company Limited, Delhi State Industrial Development Corporation Limited, Delhi State Civil Supplies Corporation Limited and Delhi Tourism and Transportation Development Corporation Limited.*

6.13.5 Indraprastha Power Generation Company Ltd. (IPGCL)

IPGCL paid ex-gratia of Rs. 19.76 crore to its employees from its borrowed working capital funds. For payment of other terminal benefits such as pension, family pension, commutation, gratuity, leave encashment, etc., the Company entered in March 2004 into an agreement with the Pension Trust established for employees of the erstwhile Delhi Vidyut Board (DVB). Though IPGCL was running in losses and there would be a heavy cash outflow of Rs. 37.58 crore besides the future pension liabilities of Rs. 7.12 crore as a result of implementation of the scheme, the Company had neither adequately assessed the financial implications involved nor ensured adequate resources to meet its liability which resulted in non payment of its dues to the Pension Trust as well as terminal benefits to certain employees. The Department of Power stated in August 2004 that initially it was expected that pension payments to employees would be met by the Pension Trust but subsequently it was realised that the Trust was liable for payment of pensions only on the superannuation of the employees and the Trust refrained from disbursement of terminal benefits for VRS optees from May 2004 onwards. It is thus clear that the Company had not adequately determined the legal liabilities or financial implications of the matter. The Department added that due to implementation of VRS, it expects annual saving of around Rupees six crore. This “saving” was, however, hypothetical since it was worked out without taking into account the total cash outflow of Rs. 38 crore and interest there on.

6.13.6 Delhi State Industrial Development Corporation Ltd (DSIDC)

- In DSIDC, 20 Group `D’ employees were allowed to avail of VRS and were paid Rs. 54.61 lakh in VRS benefits, while 74 Group `D’ posts were regularized/appointments made in July 2002 by increasing the sanctioned strength involving an additional financial burden of Rs. 21.65 lakh per annum. The proposals for fresh recruitment and introduction of VRS in the Corporation were in fact approved simultaneously by the Board in its 192ndmeeting held in June 2002. The Management stated in July 2004 that the regularisation of Group`D’ employees was done on merits by the Board of Directors and it was ensured that there was no increase in the sanctioned strength. The reply is not tenable as the sanctioned strength of Group `D’ employees which stood at 346 in April 1999 gradually increased to 383, 399 and 400 in July 2002, October 2002 and January 2004 respectively.
- Government of India guidelines prescribed that the Management should ensure that highly skilled and qualified workers and staff are not given the option of VRS so that the organization is not denuded of talent or deprived of essential manpower resources. The DSIDC allowed certain highly skilled and essential employees, viz. those holding the posts of

Superintending Engineer (Civil), Executive Engineer (Civil) and Chief Accounts Officer to avail of VRS. Subsequently, these posts were filled up by fresh recruitment and deputation since these posts were necessary for the functioning of the Corporation. It was noticed in audit that the persons allowed to avail of VRS were in the age range of 56-57 years and thus had only three to four years left to superannuate. Hence, unless continuation of these persons was detrimental to the interests of the Corporation, they should have been continued till their normal superannuation thus avoiding the payment of ex-gratia of Rs. 22.44 lakh.

6.13.7 Delhi State Civil Supplies Corporation Limited.(DSCSC)

- The DSCSC, being a loss making Corporation, should have adopted the VSS package meant for sick and unviable units as per the Government of India guidelines. The Corporation, however, adopted the guidelines meant for Companies which are financially sound and could sustain on their own surplus resources for its Phase-I VRS viz. 60 days salary for each completed year of service or the salary for the number of months of service left, whichever is less. For Phase-II, it followed its own VRS, offering compensation @ 60 days salary for each completed year of service or 60 days salary for each year of service left <u>whichever is higher.</u> Adoption of higher benefit for those availing VRS, however, failed to generate much enthusiasm for the scheme as only 37 employees opted for VRS in Phase-II as against 26 employees in Phase-I. The terms of Phase-II VRS were clearly contrary to the guidelines and resulted in excess payment of Rs. 13.88 lakh. The Commissioner of Food, Supplies and Consumer Affairs stated in August 2004 that the second phase VRS was adopted after approval by the Board of Directors in order to attract a large number of employees.

It was evident that the enterprises did not adhere to the principles and guidelines prescribed by the Government of India in implementing their VRS. Three out of the four companies adopted VRS without obtaining necessary approval of the Government. The companies implemented the VRS without undertaking a systematic study to identify surplus manpower or redundant skills so as to ensure retention of an optimum manpower profile and without a full assessment of their financial liability and the resources required to meet them. The response to the schemes was poor and was not commensurate with the expected gains in terms of a streamlined organization despite heavy cash outflow towards payment of terminal benefits.

Delhi Financial Corporation

6.14 Blocking of Funds

Failure to take concrete action to recover outstanding dues resulted in blocking of funds amounting to Rs. 4.41 crore. The purpose for which the loans had been disbursed was also defeated.

The Corporation during 1996-97, disbursed loans aggregating Rs. 2.76 crore to 285 traders of Poly Vinyl Chloride (PVC) whose shops at Jawalapuri were burned down in a fire. The loans were granted for purchase of new plots to be developed and allotted by the Delhi Development Authority (DDA). As per the terms and conditions of the loan sanction, the entire loan was to be repaid by 2002-03 and it was secured against mortgage of all the existing as well as future fixed assets. According to the specific conditions of loans, the loanees were required to implement the scheme within nine months from the date of offer of possession given to them by the DDA or within six months from the date of taking over possession which ever was earlier. In case of failure the loan was to be recalled. The loanees were also required to stop any activity at the existing site (i.e. Jawalapuri) and give an undertaking to that effect before release of the loan.

None of the beneficiaries to whom plots were allotted actually built shops and shifted their business to the new market. They also failed to repay the loans. The Board subsequently decided in January 1999 to revise the repayment schedule from six to seven years and the entire loan was to be now re-paid by end of 2003-04. In spite of re-scheduling of the repayment, the loanees did not start repayment of the loan. Hence, the Corporation decided in January 2001 to invoke Section 29 of State Financial Corporations Act, 1951 (SFC's Act). The response was however, only partial as would be seen from the table given below:

Total No. of loanees	Loanees who repaid their loan in full	Loanees who repaid their loan in part	Loanees who did not respond	Total amount of outstanding loans
285	69	71	145	Rs. 4.41 crore

The Corporation thereafter failed to take any further action to enforce the provisions of Section 29 by taking over the plots allotted to the loanees to recover its dues. Subsequently, even the 71 loanees who had initially made part re-payment on invocation of Section 29 stopped further repayment. A sum of Rs. 4.41 crore (principal Rs. 2.06 crore plus interest Rs. 2.35 crore) remained outstanding against 216 loanees as of March 2003.

Management stated in March/April 2004 that the loan and interest thereupon was fully secured by way of mortgage of the plots in favour of the Corporation and the amounts due could be realised at any stage by auctioning the plots. It added that a One Time Settlement Scheme (OTS) has been sent in February 2004 to all the loanees under which penal interest @ four *per cent* recoverable from the defaulting loanees was proposed to be waived. If no response was received, then the provisions of Section 29 of the SFC Act would be enforced.

On the matter being reported by audit in May 2004, Government stated in June 2004 that the benefit of OTS was offered to the allottees because they were entrepreneurs at a marginal level of existence and the plots were in the outlying areas of the city with minimum or no infrastructure development. Fresh notices under Section 29 had, however, now been issued and the Corporation was in the process of disposing off the plots to recover its dues.

The reply of the Government is not tenable as the Corporation had itself noted as early as in December 2000 that none of the loanees had started construction of buildings on the allotted plots despite availability of complete infrastructure in terms of roads, electricity and sewerage and that they were continuing to carry on their business in the non-conforming areas in violation of the express conditions of the loan sanction. The Corporation had also noted that there were a number of prospective buyers of the plots and the price ranged from Rs. 4 lakh to Rs. 8 lakh per plot against the loan amount ranging from Rs. 0.15 lakh to Rs. 1.13 lakh per plot and that the loanees had apparently availed of the loan only to sell the plots subsequently at a premium. Under such circumstances, there was no justification why the terms of the loans should not have been enforced and Section 29 of the SFC's Act invoked and carried to its logical conclusion in order to recover the outstanding dues instead of offering an OTS.

Thus, failure to initiate timely and meaningful action for recovery of loan resulted not only in blocking of funds of Rs. 4.41 crore but also defeated the purpose for which the loans had been disbursed.

6.15 Loss due to fixation of wrong revised repayment schedule

Incorrect fixation of revised repayment schedule coupled with injudicious one time settlement resulted in loss of Rs.1.02 crore.

The Audit Report of Comptroller and Auditor General of India for the year ended 31 March 1997 – Government of NCT of Delhi had highlighted {Para No.6.6.12(a)}a case of undue favour in sanction of a loan to Dr. R.L. Khera Charitable Trust (Trust) for setting up of a hospital at Pandav Nagar in New Delhi. In October 1987, the Corporation had sanctioned a loan of Rs. 60 lakh repayable in five years which was disbursed in March 1989 after executing a mortgage deed in respect of land & buildings and plant & machinery. In October 1991, an additional loan of Rs. 29.10 lakh was sanctioned with a repayment schedule of five years of which Rs. 27.83 lakh was disbursed to the Trust.

The Trust defaulted in repayment of the loan right from the beginning. The loan repayment schedule was, however, repeatedly revised. As per the last revised repayment schedule of April 1993, the loan was to be repaid by March 2000. In December 1995, internal audit of the Corporation pointed out that the approved settlement plan was not sufficient for repayment of both the principal and interest by March 2000. In view of this, the Corporation sought to enhance the monthly instalments w.e.f. February 1997 which was resisted by the party on the plea that the repayment schedule had already been agreed to in April 1993. The party failed to adhere to the repayment schedule of either April 1993 or the revised schedule of February 1996. An amount of Rs. 1.28 crore (principal Rs. 88.08 lakh and interest Rs. 39.98 lakh) was outstanding against the Trust as of 1 August 1997. The 1996-97 Audit Report had brought out *inter alia* that the sanction and disbursement of the additional loan were unjustified in view of the unsatisfactory repayment record of the Trust and that the repayment schedule agreed to in April 1993 was inadequate to clear both the principal and interest by the stipulated date of March 2000.

In their Action Taken Note (ATN) on the Audit Report submitted to the Committee on Government Undertakings (COGU) of the Delhi Legislative Assembly, the Corporation, while defending the sanction of the additional loan to the Trust, had informed in May 1998 that the Trust authorities had been advised to hike the installments and pay Rs. 3.85 lakh per month w.e.f. 1 April 1997.

Scrutiny of records relating to further developments in the case revealed that the repayment installments were not hiked as had been stated by the Corporation in its ATN. In view of the continuous default, the Corporation

invoked Section 29 of State Financial Corporations Act 1951 on 4 September 1999 which was challenged in the Court by the loanee on the plea that the amount agreed to in April 1993 had already been paid by them. The Honourable Court granted a stay on invocation of Section 29. Subsequently in January 2002, the party requested for an One Time Settlement on the basis of its earlier offer of May 1999 which had been rejected by the Corporation in August 1999. The Corporation, however, now decided in February 2002 to settle the outstanding amount of Rs. 165.45 lakh as on 31 January 2002 against a payment of Rs. 63.18 lakh thereby sacrificing Rs. 1.02 crore (principal Rs. 24.03 lakh + interest Rs. 78.24 lakh) instead of further pursuing the case in the Court.

It was observed in audit that the decision of the Corporation to now accept the One Time Settlement was not justified and the Corporation should have pursued the matter in Court and sought recovery of its dues from the mortgage of the property which was valued at Rupees seven to eight crore. The legal case of the Corporation was, however, undermined and it was compelled to accept the One Time Settlement primarily due to the incorrect fixation of repayment schedule agreed to in April 1993 which the Corporation could not disown subsequently.

The matter was reported to the Management and the Government in April 2004. The Management replied in June 2004 that the One Time Settlement had been approved by the Board of Directors on the recommendation of the Recovery Advisory Committee and that the settlement was in accordance with the guidelines of the Reserve Bank of India. The reply of the Management is not tenable because the Corporation was forced to accept the OTS primarily due to the incorrect fixation of repayment schedule in April 1993 which it could not disown subsequently. Moreover, the guidelines of OTS referred to do not relate to the period when the loan was sanctioned. The recovery policy in vogue in 1994 specifically stipulated that no concession or relief was to be afforded to a loanee where the Corporation had financed both land and building and plant and machinery.

Thus, the initial incorrect scheduling of repayment and its repeated relaxation undermined the legal position and the ability of the Corporation to enforce recovery. This resulted in loss of Rs. 1.02 crore. No responsibility had been fixed for the lapse which had led to such a huge loss.

The reply of the Government was awaited as of February 2005.

Delhi Transport Corporation

6.16 'Injudicious purchase of sub-standard acrylic destination boards'

Acrylic destination boards were purchased at a cost of Rs.16.60 lakh. The boards proved to be sub-standard and failed to serve the intended purpose. The Corporation, however, imposed only a nominal penalty upon the supplier instead of either cancelling the order or recovering the full cost.

Delhi Transport Corporation invited in September 2002 open tenders from manufacturers for purchase of 17,056 acrylic Destination Boards to replace the existing metallic boards in its buses in order to enhance visibility and presentation in both day and night conditions. The old metallic boards were supplied free of cost by the body builders along with the new buses. Six firms submitted offers in September 2002. The Techno Evaluation Committee recommended that the price bids of (i) Kapoor Sales Corporation, Delhi, who was the consignment stockist of Gujarat State Fertilizers & Chemical Limited (GSFCL) and (ii) Dipcraft Industries, Delhi, who were offering their material through their authorised dealers, Vineet Enterprises, Delhi, should be opened. The Financial Advisor of the Corporation recommended on 27 September 2002 that the price bid of only Dipcraft Industries should be admitted since this firm was the only manufacturer who had responded. The recommendation was accepted by the CMD on 28 September 2002.

A Purchase order was subsequently placed on 1 October 2002 on Dipcraft Industries for supply of 16,298 acrylic boards (39" X 8.25") at a cost of Rs. 17.11 lakh and the material was received in October 2002 through their authorised dealer. As per the terms and conditions of the purchase order, payment was to be made within 30 days after receipt and approval of the material. In November 2002, the material was sent for testing to ensure that it met the requisite quality standards. In January 2003, the acrylic boards failed in all the three impact strength tests. By this time the Corporation had however already released all the payments to the firm except Rs. 0.75 lakh. Management thereafter decided in May 2003 to impose a nominal penalty of only Rs. 0.51 lakh on the firm including recovery of test charges of Rs. 0.27 lakh adopting a formula of the Association of State Road Transport Undertakings (ASRTU) relating to levy of penalty in such cases. Subsequent reports received from seven depots out of total of 33 depots reported that

2,486 out of 5,207 boards received by them viz. 48 *per cent*, got damaged within four to twelve months and were unusable.

A scrutiny in audit of the transaction revealed the following:

- Levy of only nominal penalty under ASRTU formula was not correct as acrylic destination boards were not one of the items listed under the ASRTU's standard rate contract and hence it was not applicable in this case. Action should have been taken under the purchase policy of the Corporation where under it was entitled to reject the material, cancel the purchase order and buy the requirement from open market at the risk and cost of the supplier. Adoption of the ASRTU formula was clearly injudicious and constituted undue favour to the firm.

- The price bid of Dipcraft industries was opened on the plea that only this firm was an original manufacturer. GSFCL is an ISO-9002 certified PSU of the Government of Gujarat which manufactures acrylic sheets. GSFCL had informed the Corporation on 23 September 2002 that Kapoor Sales Corporation was their consignment stockist and were authorised to submit the offer on their behalf. Hence, not even opening the price bid of GSFCL lacked justification particularly since even Dipcraft Industries were supplying the items through an authorised distributor Vineet Enterprises Delhi and the items being purchased were merely acrylic boards. Thus, failure to consider both the offers vitiated the requirement of transparent assessment of such offers and deprived the Corporation of the benefit of competitive rates by unnecessarily turning the items into a single source item.

- The expected average life and performance guarantees were not incorporated in the terms and conditions of the agreement. Moreover, the items should have been tested within the time stipulated and the payments should not have been released unless they satisfied the specifications. This was not done which resulted in the Corporation releasing the payment without being aware of the test results which subsequently showed the items to be sub-standard.

Government stated in September 2004 that acrylic destination boards were being purchased for the first time and the Corporation was not in a position to stipulate the expected life and performance guarantee. It added that the boards were required urgently to meet a target date fixed by the Department of Transport and hence the boards were accepted based on a visual inspection without waiting for the results of the lab tests which were expected to take two months. The firm was selected as it was the only manufacturer and penalty was imposed as per the extant policy.

The reply of the Government is not tenable because the Corporation ought to have been more vigilant and ensured quality standards particularly since it was the first such purchase. Procurement of sub-standard boards in fact defeated the intended purpose of improving the visibility of the destination boards as had been desired by the Department. Thus, purchase of acrylic destination boards at a cost of Rs. 16.60 lakh proved to be wasteful.

6.17 Undue benefit to employees

Excess contribution of employer's share by the Corporation towards provident fund resulted in undue benefit of Rs. 3.15 crore to its employees.

Section 29 of the Employees' Provident Fund Scheme (EPFS) 1952, provides that contribution payable by the employer under the scheme shall be at the rate of 12 *per cent* of the pay (basic wages, dearness allowance and retaining allowance) payable to each employee. The contribution payable by the employee under the scheme shall be equal to the contribution payable by the employer in respect of such employee subject to the condition that though the employee can contribute an amount exceeding twelve *per cent* of the wages mentioned above, the employer shall not be under any obligation to pay any contribution over and above his contribution payable under the Act. Further, Section 26A stipulates that where the monthly pay of an employee exceeds Rs. 6,500/-, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of Rs. 6,500/-.

Audit of the accounts of the Delhi Transport Corporation revealed that the Corporation contributed employer's share at the rate of 12 *per cent* during June 2001 to January 2004 without limiting the amount payable on monthly pay up to the prescribed limit of Rs. 6,500/-. This resulted in payment of excess contribution amounting to Rs. 3.15 crore.

The matter was reported to Management and the Government in May 2004. Government stated in August 2004 that clause 29(2) of EPFS stipulates that the contribution payable by the employer shall be equal to the contribution payable by the employee and that there was no ceiling of Rs. 6,500/- as cited by audit. Hence the contribution had been correctly made. The reply of the Government is not tenable because Section 26-A of the EPFS clearly stipulates that the employer is under no obligation to pay any contribution over and above that payable under the Act and that this contribution should be equivalent to the share of employee limited to the amount payable on a

monthly pay of Rs. 6,500/-. Non observance of this limit resulted in excess contribution of Rs. 3.15 crore into the Provident Fund accounts of the employees at the cost of the Corporation.

Delhi Transco Limited

6.18 Blockage of funds

Failure to ensure that land being acquired for establishment of a sub-station was free of all encumbrances as well as technically suitable for the purpose resulted in blockage of funds amounting to Rs. 18.06 crore for over four years.

In February 1992, the then Delhi Electricity Supply Undertaking {Delhi Vidyut Board (DVB) from 26 February 1997} requested the Delhi Development Authority (DDA) for allotment of a land measuring 16 hectares for establishment of a 220 KV (subsequently upgraded to 400 KV) grid sub-station in Maharani Bagh, New Delhi. In June 1999, the DDA allotted a plot of land measuring 13.19 hectares indicating that the remaining portion of 2.81 hectares was under litigation. In August 1999, the Senior Architect of DVB advised that it would not be desirable to release any money till the technical suitability of the land for establishment of the sub-station was assessed. Ignoring the advice of the Senior Architect, DVB released Rs. 14.70 crore in May 2000 to DDA. Subsequently, a joint inspection with the Central Electricity Authority and DDA revealed (August/October 2000) that a part of the land was under encroachment and that a big nallah was passing through it. Moreover, the plot was irregular in shape and quite unsuitable for the purpose of establishing the proposed grid sub-station.

In January 2002, DDA offered DVB an alternative piece of land measuring 15.9 hectares. DVB accepted the proposal and in February 2002 paid an additional Rs. 3.36 crore to DDA bringing the total payment to DDA to Rs. 18.06 crore. DVB took possession of the plot in June 2002. At the time when fencing was started, six farmers produced a stay order obtained from the Delhi High Court way back in 1991-92 against acquisition of their land which fell within the plot acquired by the DVB. Consequently, no construction could take place and TRANSCO, which had since come into existence with the unbundling of DVB, decided in January 2003 to change the layout plan. No physical progress for establishment of the grid sub-station could be achieved as of June 2004.

The Government stated in June 2004 that there was no nallah in the drawing submitted by the DDA in July 1996 in respect of the plot of land initially allotted and that the water course of Barapura nallah changed due to the subsequent construction of the Noida Toll Bridge thereby dividing the plot into two parts and rendering it unsuitable for construction of a 400 KV sub station. Further, the alternative plot offered thereafter was reported to be free from encroachment at the time of handing and taking over. Government added that the stay orders has since been got vacated and action was being taken for construction of boundary wall and designing of the sub-station.

The reply of the Government is not tenable as the payment of Rs. 14.70 crore was released in May 2000 without ensuring the technical suitability and physical availability of the land for the intended purpose by conducting a physical survey. The Chief Engineer (Planning) of DVB had in fact observed in October 2001 that even the clear site was not technically acceptable for the establishment of a 220/400 KV grid sub station. In so far as the plot subsequently acquired in June 2002 was concerned, the stay orders were of 1991-92 and it should have been known to both DDA and DVB/TRANSCO, had due diligence been exercised before releasing payment.

Thus, release of payment of Rs. 18.06 crore without ensuring technical suitability and encumbrance free status of land resulted in blockage of the amount for over four years.

6.19 Avoidable loss due to non-encashment of bank guarantee

Failure of the Management to ensure timely action to encash bank guarantees despite default by the supplier resulted in avoidable loss of Rs.13.79 lakh.

In October 1999, the erstwhile Delhi Vidyut Board (Delhi Transco Limited w.e.f. July 2002) placed an order for procurement of two Auto Power Transformers on NGEF Limited at a cost of Rs. 1.26 crore viz. Rs. 63.07 lakh each. The purchase order provided for a ten *per cent* interest free advance against furnishing of a bank guarantee of an equal amount. The balance 90 *per cent* payment plus taxes and duties was to be paid to the firm against despatch of documents against a bank guarantee of five *per cent* of the value of the contract valid for three months from the date of expiry of the delivery period. The supply was to commence within five to six months from the date of receipt of approval of the drawings or date of receipt of above payment and completed at the rate of one unit per month thereafter. Subsequently in

January 2001, the then DVB placed an additional order on the same firm for two more transformers at a total cost of Rs. 1.25 crore on the same terms and conditions except that the supply was to commence within six months from the date of receipt of the purchase order and was to be completed within one month thereafter i.e. by 8 August 2001. The firm furnished two bank guarantees dated 14 February 2001 for Rs. 13.79 lakh (Rs. 12.51 lakh valid up to 31 August 2001 and Rs. 1.28 lakh valid up to 30 September 2001) against interest free advance and security respectively.

While the firm delivered the transformers as per the terms of the first purchase order, it defaulted in delivery of the subsequent additional transformers by the stipulated delivery period of 8 August 2001. Despite this default, DVB/Transco failed to take (August/September 2001) any action to encash the bank guarantees which expired on 31 August 2001 and 30 September 2001 respectively. In the mean time, NGEF was referred to Board for Industrial and Financial Reconstruction (BIFR) on 2 June 2002 and was subsequently closed on 20 December 2002. As, such there is now no chance of recovery of the amount.

Thus, failure of the Management to take timely action to encash the bank guarantees resulted in an avoidable loss of Rs. 13.79 lakh.

The matter was reported to the Government and the Management in May 2004; their reply was awaited as of February 2005.

Indraprastha Power Generation Company Limited

6.20 Avoidable liability on account of income tax of employees

The Company incurred an expenditure of Rs 16.36 lakh on account of income tax of its employees from its own funds instead of recovering it from the employees.

Indraprastha Power Generation Company Limited (Company) had provided accommodation and electricity to its employees at concessional rates. Section 17 of the Income Tax Act, 1961, stipulates that the value of rent free accommodation as well as the value of any concession in the matter of rent being perquisites is taxable and the employer is required to deduct income tax from the salary of the employees and deposit it into Government account. It was, observed in audit that the Company paid in March 2003 income tax amounting to Rs. 16.36 lakh on behalf of its employees from its own funds instead of deducting it from their salaries.

On the matter being referred to the Management and the Government in May 2004, the Management stated in January 2005 that allotment of accommodation to employees of erstwhile DVB absorbed into the Corporation was to be on the same terms as when they were in DVB in accordance with a Tripartite Agreement signed at the time of unbundling of the Board. It added that the accommodation was neither rent free nor at concessional rates.

The reply is not tenable as the income tax liability accrues from the provisions of the Income Tax Act which should have been considered while entering into the Tripartite Agreement.

Failure of the Management to determine the income tax liability of its employees on account of perquisites in accordance with the provisions of the Income Tax Act resulted in avoidable loss of Rs. 16.36 lakh as the same had to be paid out of the Company's own funds.

The reply of the Government was awaited as of February 2005.

Delhi State Industrial Development Corporation Limited

6.21 Unfruitful expenditure on purchase of bar coding systems

Failure of the Company to properly plan, install and utilize computer systems required for bar coding resulted in unfruitful expenditure of Rs. 29.77 lakh.

The Delhi State Industrial Development Corporation Limited (Company) operates L-2 vends for retail sale of Indian Made Foreign Liquor (IMFL) in Delhi. In February 2001, the Government of NCT of Delhi decided that all new L-2 vends should be equipped with bar code scanners in order to facilitate proper inventory control, monitoring of stocks of liquor and to eliminate unscrupulous sales. In view of the high cost involved in implementation of bar coding systems, the Government also decided in April 2001 to provide subsidy to partially defray the cost of installation of such systems at vends opened after April 2001. In October 2001, the extent of subsidy decided was 40 *per cent* in case the bar coding system was installed by 30 November 2001 and 33 *per cent* in case it was installed by 31 December 2001. In February 2002, the requirement of installation of bar coding systems were extended to all L-2 vends functioning in Delhi. It was

also decided that subsidy would be restricted to 20 *per cent* of the cost of installation of systems installed thereafter and that installation of bar coding systems should be completed in all vends by 30 April 2002.

In pursuance of the above directions, the Company decided in May and September 2001 to take up installation of bar coding systems in ten vends to begin with. During 2000-01 to 2002-03, the Company spent Rs. 31.06 lakh on purchase of computer systems (Rs. 30.11 lakh) and for services of trained staff of the supplier (Rs. 0.95 lakh) to be deployed to assist the regular staff in implementing the bar code system.

Audit scrutiny of the records relating to the purchase and implementation of the system revealed that none of the computer systems purchased were being utilized for the intended purpose and sales were being made under the old manual system. Failure to operationalise the system was attributed to shortage of power supply, shortage of staff, lack of dust free conditions and improper maintenance. The Company had received in May 2002 a subsidy of only Rs. 1.29 lakh against a total subsidy due of Rs. 9.11 lakh.

The matter was reported to the Management and the Government in April 2004. The Management stated in July 2004 that the bar coding system could not be implemented due to heavy dust and irregular power supply. It added that even inverters/generators installed at the vends proved unsuccessful due to prolonged power cuts since the invertors/UPSs could not be re-charged during the night in view of instructions of the Delhi Fire Service that all electrical points should be switched off at closing time. Efforts were now being made to divert the hardware to other shops having better power availability.

The reply is not tenable as the conditions prevailing in the vends were known to the Company at the time of decision to install the bar coding system and suitable operating conditions should have been ensured before incurring the expenditure of Rs. 31.06 lakh. Moreover, generators do not require re-charging and they could be used in place of inverters, where necessary, as was in fact being done in one out of the ten vends. In fact, generators themselves can be used to charge the UPSs to provide the necessary power back-up.

Thus, failure to properly conceptualize, plan and install bar coding systems resulted in expenditure of Rs. 29.77 lakh (after adjusting subsidy received of Rs. 1.29 lakh) being rendered unfruitful. Further, the overall objective of monitoring inventory and sale of liquor and elimination of unscrupulous sales was defeated.

The reply of the Government was awaited as of February 2005.