

## Chapter-IV

### 4. Transaction audit observations relating to Government companies and Statutory corporations

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

#### Government companies

#### Haryana State Industrial and Infrastructure Development Corporation Limited

##### 4.1 Irregular disbursement of loan

#### Relaxation of conditions of personal guarantee/collateral security against the first and additional loan and not taking over timely possession of the unit put the recovery of Rs. 2.41 crore at risk.

The Company sanctioned (March 1997) a term loan of Rs. 75 lakh to OPC Aquatech Pvt. limited (unit) for manufacturing PSC\* pipes and RCC# pipes at village Gubhana district Rohtak. The Company asked the unit to furnish collateral security of Rs. 47.50 lakh against rupees one crore required as per the sanction letter and relaxed the condition of personal guarantee and undertaking by the promoter. The unit gave, as collateral security, agricultural land at Bahadurgarh, district Rohtak and a flat at Mumbai valued at Rs. 18.66 lakh and Rs. 28 lakh respectively. The Company disbursed Rs. 73.48 lakh between July 1997 and May 1998.

In view of the persistent default in repayment of loan, the Company took possession (24 June 1999) of the unit but restored it in the same month after obtaining an undertaking from the unit to repay the default amount by March 2000. Though the unit was in default of Rs. 38.91 lakh, the Company sanctioned (March 2000) another loan of Rs. 63 lakh without obtaining any collateral security and disbursed Rs. 61.39 lakh between March 2000 and March 2001.

The unit continued to default and though four notices were issued by the Company during August 2001 to August 2003 for taking over possession, possession was not taken over on receipt of meagre amounts in cash and cheques (which were subsequently dishonored by the banks). The valuer assessed (March 2006) the value of securities at Rs. 1.53 crore (primary

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\* Pre-Stressed Concrete.

# Reinforced Concrete.

security i.e. assets of the unit: Rs. 1.25 crore and collateral security: Rs. 28.27 lakh) against the total outstanding dues of Rs. 2.41 crore (principal: Rs. 1.29 crore, interest: Rs. 1.12 crore) as on March 2006.

Thus, violation of its own policy of obtaining personal guarantee/collateral security against first and additional loan coupled with not taking timely possession of the unit had put the recovery of Rs. 2.41 crore at risk (March 2006).

The management stated (April 2006) that acceptance of collateral security to the extent of Rs. 47.50 lakh was in line with the recommendation of Business Promotion Committee for first loan and the additional loan was sanctioned by taking personal guarantee of additional directors inducted. The reply is not tenable as acceptance of collateral security of lesser value had already proved to be imprudent decision. The real value of collateral security was assessed to be only Rs. 28.27 lakh against the accepted value of Rs. 47.50 lakh. Further, the Company had jeopardised its financial interest by accepting personal guarantee of directors for the second loan against the requirement of tangible collateral security required as per the manualised provisions. Besides, personal guarantee of the directors were also not invoked.

The matter was referred to the Government in April 2006; the reply had not been received (September 2006).

#### **4.2 Disbursement of loan to an ineligible unit**

**Sanction of term loan under Equipment Finance Scheme to an ineligible unit, disbursement of working capital loan without ensuring mortgage of lessee rights of the land owned by the promoter and failure to have direct interaction with other concerned lending institutions before disbursement led to non-recovery of Rs. 2.61 crore.**

Under the Equipment Finance Scheme (EFS) of the Company, financial assistance is available to the existing profit making concerns for acquiring machinery/equipment for expansion/modernisation schemes. The Scheme, *inter alia* provides that:

- the current ratio should preferably be 1.33:1 or above; and
- the concern should not be in default in repayment to other financial institutions/banks.

The Company sanctioned (November 2001) a term loan of rupees two crore to Auto Pins (India) Limited, Faridabad (unit) for expansion of leaf spring plant under EFS with the stipulation that the unit would hypothecate the machinery financed under the scheme and extend charge on the existing assets as well as collateral security already mortgaged to the Company for loan taken earlier. The Company released rupees two crore during December 2001 to January 2002.

The Company further sanctioned (March 2002) a Working Capital Term Loan (WCTL) of Rs. 90 lakh subject to the condition that before disbursement the

unit would furnish no objection certificate (NOC) from other lending financial institutions viz. Industrial Investment Bank of India (IIBI) and Canara Bank. The unit would, *inter alia*, mortgage lessee rights of the land owned by the promoter. The Company released Rs. 90 lakh in March 2002.

In spite of persistent default by the unit, the Company, instead of initiating action for taking possession of the unit under Section 29 of the State Financial Corporations Act, (SFCs) 1951, restructured the account and allowed (March 2004) the unit to sell certain securities (primary and collateral) subject to deposit of Rs. 2.43 crore against total outstanding dues of Rs. 3.26 crore. The unit was required to make balance payment of Rs. 82.65 lakh in monthly instalments of rupees five lakh commencing from June 2004. The unit deposited (March 2004) Rs. 1.06 crore only and did not deposit any amount thereafter. The Company issued (July 2005) a notice under Section 29 of SFCs Act, 1951 for taking possession of the unit. The unit informed (November 2005) that it had already been registered (May 2004) with BIFR\*, thereby, stalling the possession proceedings.

Audit scrutiny revealed (March 2006) that the Company had sanctioned the loan under EFS to an ineligible unit as its current ratio was only 1.22:1 against the norm of 1.33:1 and it was in default with Haryana Financial Corporation (HFC), IIBI and the Company itself. Further, before disbursement of WCTL, the Company did not verify (March 2002) the genuineness of NOCs issued by IIBI and Canara Bank, which were later found to be forged. Further, lessee rights of the land owned by the promoter were not mortgaged as required.

Thus, sanction of term loan under EFS to an ineligible unit, disbursement of working capital loan without ensuring mortgage of lessee rights of the land owned by the promoter and failure to have direct interaction with other lending institutions before disbursement had led to non-recovery of Rs. 2.61 crore as of July 2006 (principal: Rs. 2.02 crore and interest: Rs. 0.59 crore).

The management stated (May 2006) that the unit was not in default with HFC and IIBI and there were no prima-facie reasons to doubt the genuineness of the NOC received from IIBI and Canara Bank. The reply is not tenable as the default with HFC and IIBI was cleared by rescheduling the loans. The Company being in the business of lending money should have devised and put in place a robust/dependable system to verify the veracity of documents submitted by interested parties.

The matter was referred to the Government in May 2006; the reply had not been received (September 2006).

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\* Board of Industrial and Financial Reconstruction.

**Haryana Roads and Bridges Development Corporation Limited**

**4.3 Loss due to irregular/hasty forfeiture of security deposit**

**Defective agreement and hasty decision to forfeit security before terminating the agreement put the Company to a loss of Rs. 1.17 crore.**

The Company issued (7 February 2003) letter of acceptance for collection of toll tax at Uttar Pradesh border (Sonepat-Gohana Road) to Wazir Singh and Company, Hisar for a contract price of Rs. 14.58 crore for two years. The terms and conditions of the letter of acceptance provided that:

- the contractor would deposit security of Rs. 2.19 crore and first instalment of Rs. 60.75 lakh within 15 days from the date of issue of the letter of acceptance and the remaining 23 instalments of Rs. 60.75 lakh each by 15 of every calendar month;
- in case of default to pay any instalment by the due date, the same could be paid within the next 30 days alongwith interest at the rate of 0.05 *per cent* of the due amount for each day of delay. If any instalment was not paid within 30 days of the due date alongwith interest, the contract would be terminated and security deposit and instalments paid would stand forfeited; and
- the decision of the Managing Director (MD) of the Company as regards interpretation of any of the conditions of the contract would be final and, in case of disagreement, the Contractor may request for appointment of an arbitrator for adjudication of dispute.

The contractor deposited the requisite bank guarantee (Rs. 2.19 crore) and first instalment of Rs. 60.75 lakh on 19 February 2003. The contract came into force from 20 February 2003 for two years.

The Company asked (10 April 2003) the contractor to deposit the second instalment due on 15 March 2003 alongwith interest on delayed payment of instalment. The Contractor contested (15 April 2003) the due date and stated that the due date worked out to 15 April 2003 as the first instalment was paid on 19 February 2003 for the period from 20 February to 19 March 2003 and that he would make the payment of the second instalment by 15 May 2003 with interest in accordance with the provisions of the agreement. The Company did not accept the version of the contractor and forfeited (9 May 2003) the security and cancelled the authorisation of toll collection. The Company started toll collection departmentally from 10 May 2003. The contractor termed the forfeiture without termination of contract as illegal and requested (5 June 2003) for appointment of an arbitrator for adjudication of the dispute. The Arbitrator was appointed on 14 September 2004.

The arbitrator while upholding (11 October 2004) the interpretation of the contractor also held the forfeiture of security before termination of the contract as arbitrary, illegal and against the provisions of the agreement. A refund of Rs. 1.17 crore with simple interest at the rate of 10 *per cent* per annum was

made out of the forfeited security after adjusting Rs. 1.02 crore being the toll fee payable by the contractor from 20 February to 9 May 2003 in terms of the agreement. The Legal Rememberancer and Advocate General of the State held (December 2004) that the case was not fit for appeal against the award of the arbitrator. The Company released (March 2005) payment of Rs. 1.38 crore to the contractor (inclusive of interest of Rs. 21 lakh). Mandatory tax deduction at source of Rs. 2.10 lakh on the interest component was, however, not made.

The Company worked out the loss of toll tax at Rs. 6.02 crore due to short collection for the remaining period of the rate contract (10 May 2003 to 19 February 2005). Professional handling of the situation could have reduced the loss by Rs. 1.17 crore.

Thus, not recording the specific dates for payment of instalments in the agreement and hasty forfeiture of security without terminating the contract first had put the Company to a loss of Rs. 1.17 crore.

The management stated (March 2006) that the Company had acted prudently and with a sense of financial discipline in the best interest of the Company. As regards non-deduction of TDS, the lapse occurred inadvertently and the Company was making efforts to recover this amount. The reply is not tenable, as the Company should have acted in line with legal procedures to avoid the loss sustained.

The matter was referred to the Government in March 2006; the reply had not been received (September 2006).

### **Haryana Agro Industries Corporation Limited**

#### ***4.4 Loss due to improper storage of wheat stock***

#### **Storage on open plinth and failure to maintain the health of the stock resulted in an avoidable loss of Rs. 83.37 lakh.**

The Company procures wheat from various mandis and delivers it to Food Corporation of India (FCI). FCI accepts the wheat of specified quality and makes payment of cost alongwith carry over charges for the period the wheat remains in the custody of the Company. The Company is required to maintain the health of the stock till its delivery to FCI and any expenditure incurred on account of segregation, restacking, replacement of bardana is to be borne by the Company.

It was noticed during audit (February 2006) that wheat stock of 17,669 MT at Sirsa pertaining to crop year 2003-04 could not be delivered as delivery schedule was not received from FCI, and was stored in the open. It was not properly covered with poly covers and adequate preservation measures were not taken. As a result the stock got damaged and 974 MT of wheat had to be sold as cattle feed and for industrial use at a loss of Rs. 56.58 lakh. Apart from this, the Company had to incur an expenditure of Rs 26.79 lakh towards

labour (Rs 13.04 lakh) and replacement of bardana (Rs 13.75 lakh) during 2004-06 to make the stock despatch-worthy.

Thus, damage due to prolonged storage on open plinth, and failure to maintain the health of the stock caused an avoidable loss of Rs. 83.37 lakh.

The Management stated (August 2006) that the defaulting official had already been charge-sheeted and also attributed the cap\* /long storage and non movement by FCI as cause for damage of stocks. The fact, however, remains that the Company failed to maintain the health of the stock and final action against the defaulting official was awaited.

The matter was referred to the Government in July 2006; reply had not been received (September 2006).

### **Dakshin Haryana Bijli Vitran Nigam Limited**

#### **4.5 Loss of revenue**

#### **Non-deletion of tamper data coupled with improper overhauling of the consumer account resulted in loss of revenue of Rs. 25.61 lakh.**

The Sales Manual of the Company provides that in the case of an inaccurate meter found at the premises of a consumer, his account shall be overhauled for actual period of default or for a period not exceeding six months immediately preceding the date of checking. For determining the exact date of default, a tamper indicator with a memory of 50 events is inbuilt in the meter. Sales instructions (August 2002) required that the tamper data should be washed out (deleted) after it has exhausted its capacity of 50 recording events to have further recording on it.

Metering and Protection (M&P) staff of the Company checked (January 2004) the premises of Realest Super Services Private Limited, Gurgaon (sanctioned load: 1717 KW) under OCC sub division, Gurgaon (previous checking: 25 April 2003) and noticed that the meter was slow by 33.33 *per cent*. The meter was replaced in March 2004. The sub-division charged additional amount of Rs. 10.59 lakh to the account of the consumer for the period from December 2003 to February 2004 on the basis of the consumption pattern during November 2002 to January 2003.

Audit scrutiny (January 2005) revealed that though the tamper data memory of the meter had exhausted in April 1998, the data was not washed out and as such the meter could not record the dates of tampering thereafter. In the absence of such recording, exact date of 'slowness' of the meter could not be determined. Consumption data of the consumer, however, revealed that there was a substantial downfall (25.13 *per cent*) in power consumption in October 2003 (3,76,920 units) as against the consumption of September 2003 (5,03,450 units), which indicates that the fault crept in during October 2003. On the basis of significant decrease in the power consumption, slowness of the meter should have been taken from October 2003 and the customer's account

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\* Cap storage is storage in open plinths with poly covers.

overhauled accordingly by charging Rs. 36.20 lakh as per the extant rules instead of Rs. 10.59 lakh based on previous year's consumption. Thus non-washing of the tamper data in time and resultant improper overhauling of the account resulted in loss of revenue of Rs. 25.61 lakh to the Company.

The matter was referred to the Government and the Company in February 2006; their replies had not been received (September 2006).

#### 4.6 *Extra expenditure*

**The Company incurred avoidable extra expenditure of Rs. 20.30 lakh due to non-placing of order of the required quantity of GI wire on the second lowest firm.**

Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) invited (30 October 2003) tenders for procurement of 333 MT GI wire. The offers of two eligible bidders *i.e.*, Ram Swarup Industrial Corporation, Kolkata (firm R) and Himachal Wire Industries Private Limited, Kangra (firm H) were lowest at Rs. 31,000 and Rs. 31,896 per MT respectively. While the case for procurement was being processed, Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) intimated (28 November 2003) its requirement of 300 MT GI wire to UHBVNL (both companies have reciprocal purchase arrangement). Accordingly, in the purchase proposal submitted (March 2004) to the Special High Power Purchase Committee (SHPPC) the consolidated requirement of 633 MT was indicated. The SHPPC approved (26 March 2004) order for purchase of only 366 MT (333+10 *per cent* enhancement allowed) on firm R at Rs. 31,000 per MT being the quantity offered by the lowest eligible tenderer.

Audit scrutiny (October 2005) revealed that despite knowledge of rising trend in the prices at the time of finalisation of the order, the representatives of the Company did not impress upon SHPPC to approve the purchase order of the balance quantity of 267 MT on the second lowest firm H at Rs. 31,896 per MT. It was further noticed that during March 2004 there was stock of 54 MT only which was consumed by May 2004 and thereafter no stock was available with the Company which affected the completion of ongoing works. Subsequently, the Company purchased this quantity at Rs. 39,500 per MT from firm H against tender finalised by SHPPC in October 2004 resulting in extra expenditure of Rs. 20.30 lakh (inclusive of CST and ED).

Thus, non-placing of purchase order of the required quantity on firm H during March 2004 resulted in extra expenditure of Rs. 20.30 lakh.

The matter was referred to the Government and the Company in March 2006; their replies had not been received (September 2006).

#### 4.7 *Short levy of penalty*

**Non-enforcement of provisions of the Electricity Act 2003 in levy of penalty for theft of electricity resulted in revenue loss of Rs. 50.23 lakh.**

The Electricity Act, 2003 (the Act) was made applicable in the State of Haryana from December 2003. According to Section 152 of the Act, the rates of penalty for theft of electricity by the consumers range between Rs. 2,000 and Rs. 20,000 per KW/KVA for Industrial, Commercial, Agricultural and other services.

Audit scrutiny (October 2005, December 2005 and March 2006) revealed that during March - November 2004 in 34 cases in seven\* sub-divisions of operation circles Sirsa, Faridabad and Gurgaon, penalty for theft of electricity levied was not as per the provisions of the Act. The Company levied penalty of Rs. 58.95 lakh at the rates prescribed for cases of unauthorised use of electricity instead of Rs. 109.18 lakh required to be levied for theft cases. This resulted in short imposition of penalty by Rs. 50.23 lakh.

Thus, non-enforcement of the statutory provisions resulted in loss of Rs. 50.23 lakh.

The matter was referred to the Government and the Company in March 2006; their replies had not been received (September 2006).

#### **4.8 Non levy of penalty**

**The Company was put to loss of revenue of Rs. 84.87 lakh due to its not imposing penalty for theft of electricity.**

The premises of Sunvisors (India) Private Limited (sanctioned load: 114.40 KW) was checked by the Company in July 2003. During checking it was found that all the seals (except one seal) of the meter were missing. The consumer's account was debited by Rs. 7.04 lakh for penalty for theft of energy for the last six months as per the rules of the Company and notice for recovery was issued in August 2003. On the plea of the consumer that his premises stood disconnected permanently from the year 2000 for unknown reasons and that he had been using the power generated by Maruti Udyog Limited, the notice was withdrawn (December 2003). It was noticed in audit that withdrawal of the notice was not justified and rather, the consumer should have been charged Rs. 84.87 #lakh for theft of energy from June 2000 to March 2006 since the supply was never disconnected as is evident from the following:

- The unit continued to pay minimum charges as demanded by the Company from time to time.
- The Company issued monthly energy bills for Rs. 14.88 lakh of minimum charges during June 2000 to March 2006, which were deposited by the consumer.
- During this period, the Company issued notices (May, June, July, December 2001 and June, October 2002) to the consumer for temporary/permanent disconnection when he defaulted in timely payment of minimum charges. This is indicative of the fact that the disconnection orders were never implemented at site.

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\* 1. City sub-division, Sirsa 2. Operation sub-division, Dabwali 3. Operation sub-division, Jeevan Nagar 4. Industrial Area sub-division, Sirsa 5. Sub-division No-2, Faridabad 6. Sub-division, Mathura Road, Faridabad 7. Operation cum construction sub-division, Gurgaon.

# Amount chargeable (contract demand x power factor x load factor x no. of working hours x no. of days in a month x no. of months x rate per unit) Rs. 99.75 lakh less minimum charges Rs. 14.88 lakh.

- Neither was the meter removed nor was the service line dismantled which is a prerequisite for disconnection.

Thus, the consumers should have been charged Rs. 84.87 lakh for theft of energy from June 2000 to March 2006. By not imposing penalty for theft of electricity, the Company had been put to a loss of Rs. 84.87 lakh.

The matter was referred to the Government and the Company in March 2006; their replies had not been received (September 2006).

#### **4.9 Extra expenditure**

**The Company incurred avoidable extra expenditure of Rs. 20.87 lakh due to non-placing of order on the next lowest firms.**

Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) invited (30 October 2003) tenders for procurement of 280 MT Black Hexagonal M S nuts and bolts. The offers of Pearl fasteners, Chandigarh (Firm 'P'), Techman (India), Chandigarh (Firm 'T') and A V Forgings, Mohali (Firm 'A') were found to be lowest at their quoted rates ranging between Rs 34,500 and Rs 35,050 per MT. While the case for procurement was being processed, Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) intimated (28 November 2003) its requirement of 250 MT of these items to UHBVNL (both companies have reciprocal purchase arrangement). Accordingly, in the purchase proposal submitted (January 2004) to the Special High Power Purchase Committee, (SHPPC) the additional requirement of DHBVNL of 250 MT was also indicated. The SHPPC approved (January 2004) orders for purchase of 330 MT (280 MT for UHBVNL and 50 MT for DHBVNL) on firms 'P', 'T' and 'A' at the negotiated rate of Rs. 34,000 per MT for various sizes of material.

Audit scrutiny (October 2005) revealed that though there were valid offers for supply of balance quantity of 200 MT at slightly higher rates ranging from Rs. 34,300 to Rs. 34,950 per MT, these offers were not considered. The representatives of DHBVNL did not impress upon SHPPC to approve purchase of balance quantity at the next available lowest rates despite meagre stock available which exhausted in May 2004. Subsequently, the Company purchased this quantity at Rs. 45,000 per MT (100.5 MT) and Rs. 45,300 per MT (97 MT) against purchases approved by SHPPC in October 2004 resulting in extra expenditure of Rs. 20.87 lakh.

Thus, non-placing of purchase order for the balance requirement on the next lowest firms resulted in extra expenditure of Rs. 20.87 lakh.

The matter was referred to the Government and the Company in April 2006; their replies had not been received (September 2006).

#### 4.10 Avoidable extra expenditure

**The Company incurred avoidable extra expenditure of Rs 29.50 lakh due to non-enforcement of quantity increase clause in purchase of transformers.**

Standard terms and conditions for purchases (Schedule D) of the Company provide that quantities specified in purchase orders can be increased/decreased by upto 10 *per cent* at the discretion of the Company. Audit scrutiny (October 2005) revealed that in the purchase of transformers, this clause was not enforced to increase the ordered quantity before placement of fresh orders on the existing suppliers at higher rates resulting in extra expenditure of Rs. 29.50 lakh as detailed below:

Sl. No.	Name of the firm	Type of transformers	Date of PO (Period of supply)	Quantity (Number)	Rate (Rs.)	Additional quantity purchased at higher rate	Rate (Rs.)	Extra expenditure (Rs. in lakh)
1.	Accurate Transformers limited, Delhi	25 KVA	16.7.2003 (September 2003 to August 2004)	6,000	52,500	600	56,000	21.00
		100 KVA	28.1.2004 (June 2004 to November 2004)	1,000	1,18,000	100	1,23,500	5.50
2.	Modern Transformers limited, Noida	63 KVA	9.1.2004 (March 2004 to December 2004)	500	92,000	150	94,000	3.00
<b>Total</b>								<b>29.50</b>

Thus, by not enforcing the terms of the supply orders, the Company incurred extra expenditure of Rs. 29.50 lakh in the purchase of transformers.

The matter was referred to the Government and the Company in April 2006; their replies had not been received (September 2006).

#### 4.11 Incorrect application of tariff rate

**The Company incurred loss of Rs. 11.94 lakh due to incorrect charging of tariff rate.**

As per the instructions of the Company non-domestic supply (NDS) tariff is applicable to non-domestic premises such as business houses, hotels, resorts, clubs, shopping malls, petrol pumps, cinemas etc.

Maruti sub-division Gurgaon of the Company released (August 2002) a connection for a load of 2000 KW under NDS category on 11 KV supply to Dynamic Universal, Gurgaon for commercial complex. It was noticed during audit that instead of charging NDS tariff at the rate of Rs. 4.19 per unit, the sub-division billed the consumer under bulk supply (11 KV) tariff at Rs. 4.09 per unit. This resulted in short recovery of revenue by Rs. 11.94 lakh during August 2002 to March 2006.

After this was pointed out (March 2006) in audit, the Company debited the consumer's account with Rs. 11.94 lakh. Recovery is awaited.

The matter was referred to the Government and the Company in July 2006; their replies had not been received (September 2006).

### **Uttar Haryana Bijli Vitran Nigam Limited**

#### **4.12 Avoidable payment of interest**

**The Company did not insert put/call option clause in the bonds issued. This will result in avoidable loss of Rs. 1.02 crore by way of excess payment of interest on redemption of the bonds on their maturity.**

The Company raised funds (September 2000) of Rs. 19.51 crore carrying interest rate of 12.21 *per cent* per annum through issue of bonds for its ongoing works. The bonds were secured by Government guarantee. The tenure of the bonds was seven years and the bonds were redeemable in five equal half yearly installments commencing at the end of the fifth year *i.e.*, 9 September 2005.

Audit analysis revealed that though the interest rates of banks had been steadily falling since May 1998, the Company did not safeguard its financial interest against the decline in interest rates by inserting the usual put/call option\* clause whereas other PSUs like Madhya Pradesh State Electricity Board and Punjab State Electricity Board had issued (November 1999) bonds with put/call option. It was noticed that the interest rate on borrowings fell from 12.21 *per cent* per annum in September 2000 to seven *per cent* per annum in September 2005. Had the Company inserted the usual put/call option clause, it could have repaid the entire amount of Rs. 19.51 crore at the end of the fifth year *i.e.*, September 9, 2005 and saved interest of Rs. 1.02<sup>§</sup> crore payable during 2006 and 2007.

The matter was referred to the Government and the Company in April 2006; their replies had not been received (September 2006).

#### **4.13 Loss of revenue**

**Non-enforcement of provisions of the Electricity Act 2003 in levy of penalty for theft of electricity resulted in revenue loss of Rs. 4.66 crore.**

The Electricity Act, 2003 (the Act) was made applicable in the State of Haryana with effect from December 2003. According to Section 152 of the Act, the rates of penalty for theft of electricity by the consumers range between Rs. 2000 and Rs. 20,000 per KW/KVA for Industrial, Commercial, Agricultural and other services.

Audit scrutiny (March 2006) revealed that during January 2004 to January 2005 in 84 cases in 11<sup>#</sup> sub-divisions of operation circle Karnal,

\* An option available to the bond holders to exit and the Company to redeem the bonds after a specified lock-in period.

§ Represents the difference of interest between the rates at 12.21 *per cent* and 7 *per cent*.

# Operation sub-division Smalkha, Israna, Sub-urban Panipat, Model Town Panipat, Samali Road Panipat, Assandh, Munak, City Gharaunda, Sub-urban Gharaunda, Jundla and Chhajpur.

penalty for theft of electricity levied was not as per the provisions of the Act. The Company levied penalty of Rs. 2.73 crore for unauthorised use of electricity instead of Rs. 7.39 crore required to be levied for theft cases. This resulted in short imposition of penalty by Rs. 4.66 crore.

Thus, non-enforcement of the statutory provisions had resulted in loss of Rs. 4.66 crore.

The Company stated (May 2006) that:

- there was no provision for assessment of theft under Section 135 of the Act; and
- special courts had not been established to determine civil liability and taking cognisance of the offence.

The reply is to be viewed in the light of the fact that provisions for assessment of theft already existed in Section 152 of the Act. Further, sufficient time of six months (June 2003 to December 2003) was available for working out modalities for implementing various provisions including establishment of special courts.

The matter was referred to the Government in April 2006; reply had not been received (September 2006).

#### ***4.14 Nugatory expenditure***

**Non-compliance with statutory requirements resulted in nugatory expenditure of Rs. 53.31 lakh.**

According to Section 25 H of the Industrial Disputes Act, 1947, where any workmen are retrenched, and the employer proposes subsequently to employ any persons, he shall give an opportunity to the retrenched workmen for re-employment, and such retrenched workmen offering themselves for re-employment shall have preference over other persons. Further, as per the ruling of the High Court of Madras (1985), High Court of Karnataka (1986) and the Supreme Court (1999), if the workmen are engaged through an unregistered contractor, they would be the workmen of the principal employer.

Audit noticed (December 2005) that the erstwhile Haryana State Electricity Board (now Company) engaged (January 1987) 250 workmen through village panchayats, which were not registered contractors. The management terminated the services of these 250 workmen in August 1987. Without providing opportunity to the terminated workmen, the management recruited (1988) 200 afresh persons for discharging the same duties. Fifty retrenched workmen submitted (1993) a demand notice to the Labour-cum Reconciliation Officer, Sonapat for reinstatement of their services, which was rejected. On a writ petition filed by the workmen, Punjab and Haryana High Court directed (January 1995) the State Labour Department to refer the dispute to an appropriate labour court for adjudication. Special Leave Petition filed by the Board against the orders of the High Court was rejected by the Supreme Court in November 1996. Consequently, the Labour Court ordered (December 2002) reinstatement of 47 workmen with continuity of service and 40 *per cent* back wages on the grounds that no notice had been given to the terminated persons before appointment of the fresh persons.

Appeals filed by the management against the decision of the Labour Court were dismissed by the Punjab and Haryana High Court in October 2004 and the Supreme Court in January 2005.

In compliance with the Court's orders 47 workmen were taken into service (February - May 2005) and were paid (April 2005) back-wages of Rs. 53.31 lakh for March 1993 to May 2005.

Thus, due to failure to follow the statutory requirements of the Industrial Dispute Act, the Company had to incur nugatory expenditure of Rs. 53.31 lakh.

The matter was referred to the Government and the Company in May 2006; their replies had not been received (September 2006).

### Haryana Vidyut Prasaran Nigam Limited

#### 4.15 Avoidable payment of interest

**The Company did not insert put/call option clause in the bonds issued. This will result in avoidable loss of Rs 16.41 crore by way of excess payment of interest on redemption of the bonds on their maturity.**

The Company, with a view to repay loans and raise funds decided (January 1999- June 2000) to mobilise resources by issue of redeemable bonds of rupees one lakh each on private placement basis. The bonds were secured by Government guarantee. The Company raised funds of Rs. 258.43 crore as per details given below:

Date of issue	Amount of bonds (Rs in crore)	Redemption period	Rate of interest (Per cent)	Available Rate of interest (Per cent)	Excess interest paid/payable (Rs in crore)
16.4.99	117.74 crore	30 per cent after 5 years, 30 per cent after 6 years and 40 per cent after 7 years	14	7	9.07
16.4.2000	130.32 crore	In five half yearly equal instalments after five years	12.24	7	6.83
16.6.2000	10.37 crore	-do-	11.89	7	0.51
<b>Total</b>	<b>258.43</b>				<b>16.41</b>

Audit analysis revealed (February 2006) that though interest rates from banks had been steadily falling since January 1998, the Company did not safeguard its financial interest against decline in interest rates by inserting the usual put/call option clause while issuing the bonds. It was noticed that the interest rates on borrowing gradually fell from 17.05 per cent in January 1998 to seven per cent in April 2004. Had the Company inserted the usual put/call option clause, it could have repaid the entire amount of Rs 258.43 crore at the end of the fifth year and saved an interest of Rs. 16.41 crore.

In its reply (May 2006), endorsed by the Government in June 2006, the Company stated that the matter should be viewed in the economic scenario prevalent at the time of taking decisions and various other entities had issued bonds at 11.75 to 15 *per cent* between March 1997 to February 2005. The reply is not relevant as the Company failed to insert put/call option in the conditions for issue of bonds. Further, the declining trend in the interest rates was also in the knowledge of the management and other PSUs like Madhya Pradesh State Electricity Board and Punjab State Electricity Board had issued (November 1999) bonds with put/call option.

### **Statutory corporation**

### **Haryana Financial Corporation**

#### **4.16 Acceptance of highly inflated/defective collateral security**

#### **Disbursement of loan against inflated collateral security has put the recovery of Rs. 1.41 crore in jeopardy.**

The Corporation sanctioned (June 1998) a term loan of Rs. 85 lakh to Kishkinda Foods (unit) for setting up a rice milling plant with the stipulation that the unit would provide collateral security of Rs. 42.50 lakh (50 *per cent* of the term loan). The unit offered collateral security of a plot (measuring 1150 square yards at village Alipur, Delhi) with an assessed value of Rs. 36 lakh. The value was assessed (June 1998) by an empanelled valuer of the Corporation and verified (July 1998) by the Branch Manager, Jind. Since the unit could offer collateral security of Rs. 36 lakh only, the Corporation restricted the release of the term loan to Rs. 72 lakh on *pro-rata* basis. The balance loan of Rs. 13 lakh cancelled in April 1999 was revived (May 2000), as a special case, against acceptance of collateral security of an unpartitioned plot at Kaithal valued at Rs. 6.50 lakh. Accepting security without clear title was in violation of the policy of the Corporation. The Corporation disbursed Rs. 83.31 lakh during August 1998 to May 2000.

Due to persistent default, the Corporation took over (May 2002) possession of the unit under Section 29 of the State Financial Corporations Act, 1951. The valuer assessed (8 January 2004) the value of the unit at Rs. 72.40 lakh against the accepted value of Rs. 1.21 crore. The Corporation sold (July 2004) the unit (mortgaged to the Corporation) for Rs. 45 lakh against the outstanding amount of Rs. 1.45 crore (principal: Rs. 83.31 lakh and interest: Rs. 61.26 lakh). The Corporation took possession (October 2004) of the collateral security (the plot) at Alipur for recovery of the balance amount and sold (July 2005) it for Rs. 10.25 lakh against the accepted value (March 1998) of Rs. 36 lakh.

The Corporation took deemed possession of the unpartitioned plot at Kaithal also and assessed its value at Rs. 0.64 lakh against the accepted value at Rs. 6.50 lakh. In absence of clear demarcation, the plot has not been sold so far (May 2006).

Audit scrutiny (September 2005) revealed that against the general trend of appreciation in the value of land, the Corporation could sell (July 2005) the Alipur plot for Rs. 10.25 lakh against the accepted value of Rs. 36 lakh and assessed (November 2004) the value of unpartitioned plot at Kaithal for Rs. 0.64 lakh against accepted value of Rs. 6.50 lakh, reflecting incorrect valuation of the collateral security. This had put (March 2006) the recovery of Rs. 1.41 crore (principal: Rs 83.31 lakh and interest: Rs. 57.31 lakh) at risk.

The management stated (May 2006) that the matter had been taken up with the Police Department for initiating criminal proceedings against the official who had accepted inflated collateral security and partners of the unit in respect of the plot at Alipur. As regards plot at Kaithal no official could be held responsible for overvaluation of collateral security as the same was accepted on the basis of an assessment report of a valuer. The reply is not tenable as valuation done by the valuer should have been verified by the Corporation in this case also. Further, no action has been initiated against the valuer for inflated valuation of the security.

The matter was referred to the Government in March 2006; reply had not been received (September 2006).

#### **4.17 Irregular disbursement of loan**

**Not ensuring availability of working capital with the loanee while sanctioning loan, acceptance of corporate guarantee in lieu of collateral security and release of loan despite doubtful antecedents of a sister concern being known had rendered the recovery of Rs. 3.44 crore as improbable.**

The Corporation sanctioned (May 1998) a term loan of Rs. 2.40 crore to Singhal Industries Limited (unit) for manufacturing precision steel tubes at Sampla, district Rohtak. As per the appraisal report, the unit was required to arrange working capital ranging between Rs. 63.40 lakh and Rs. 84.47 lakh during the first three years of its operation. As per the policy in vogue, the loanee was required to provide collateral security of a given amount against the sanctioned loan for establishing the unit outside the industrial areas developed by Government agencies.

The Corporation released Rs. 1.25 crore during March-April 1999 after obtaining corporate guarantee of the sister concern as collateral security in deviation of its laid down policy of obtaining collateral security of immovable assets. The Corporation received (16 May 1999) a letter from Bank of Baroda to ascertain the authenticity of the credit worthiness certificate issued by the Corporation (4 December 1998) relating to the accounts of the sister concern. The Corporation intimated (26 May 1999) the Bank that the credit worthiness certificate was forged as no such certificate was issued by it. Despite this, the Corporation further released Rs. 75 lakh on 12 July 1999. The unit defaulted in repayment since November 2000 due to non-availability of working capital. The Corporation recalled (August 2001) the entire loan and issued (June 2002) notice under Section 29 of State Financial Corporations Act, 1951 for taking possession of the unit. The unit submitted a proposal under 'Extension in Currency Scheme' for clearance of overdue amount and deposited the requisite amount of Rs. 49.10 lakh (June 2002 to May 2003). As per the

scheme, the Corporation waived off (July 2003) the penal interest (Rs. 14.78 lakh) and treated the balance amount of Rs. 72.41 lakh as overdue amount, repayable in five years in quarterly instalments. The unit did not make any payment thereafter and approached (January 2004) the Board of Industrial and Financial Reconstruction (BIFR) for getting itself registered as a sick Company. As a result the Corporation could not take physical possession of the unit.

Thus, not ensuring availability of working capital with the loanee while sanctioning the loan, acceptance of corporate guarantee in lieu of collateral security and release of Rs. 75 lakh despite learning about the doubtful antecedents of the guarantor coupled with failure to take over possession under Section 29 of the State Financial Corporation Act, 1951 prior to the unit getting registered with BIFR in January 2004, had put the recovery of Rs. 3.44 crore (principal: Rs. 1.91 crore and interest: Rs. 1.53 crore) as on March 2006 at stake.

The management stated (May 2006) that the corporate guarantee was accepted as collateral security as the promoter showed their inability to mortgage any property as it had already mortgaged properties to institutions/banks. The fact of submission of forged documents came to notice on 12 July 1999 and no disbursement was made thereafter. The reply is not tenable as acceptance of corporate guarantee was violative of the laid down policy and the fact of forged documents was in the notice of the Corporation in May 1999.

The matter was referred to the Government in March 2006; the reply had not been received (September 2006).

#### **4.18 Non recovery of loan due to irregular disbursement**

<b>Disbursement of loan without ensuring availability of working capital and relaxation of requirement of collateral security from 50 to 30 per cent led to non recovery of Rs. 1.44 crore.</b>
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The Corporation sanctioned (July 1997) loan of Rs. 44.65 lakh (term loan: Rs. 34.87 lakh and working capital loan: Rs. 9.78 lakh) to Tirupati Alloys (unit) for manufacturing brass sheets at Jagadhri with the stipulation that the unit would furnish collateral security equivalent to 50 per cent of the term loan and 100 per cent of the working capital loan. The unit requested (July-August 1997) to reduce the collateral security to 30 per cent of the term loan as the unit was being set up within the municipal limits. It also requested to cancel the working capital loan as it would arrange the same from its own resources or banks. The Corporation initially turned down (August-September 1997) the request as a conscious decision had been taken by the advisory committee to have more collateral security, keeping in view the type of unit and realisable value of assets of the proposed project. But on the unit's subsequent request (November 1997) the Corporation agreed (December 1997) for collateral security of 30 per cent of the term loan and cancelled the working capital loan without ensuring availability of working capital with the loanee to run the unit. The Corporation accepted (March 1998) a house measuring 144 sq. yards at Yamunanagar with assessed value of Rs. 8.72 lakh as collateral security which worked out to 25 per cent of the total loan and disbursed (March-April 1998) Rs. 33.59 lakh out of the

sanctioned loan of Rs. 34.87 lakh. It cancelled (September 1998) the balance loan of Rs. 1.28 lakh.

The loanee did not pay any instalment due from June 1999. The Corporation took (May 2000) possession of the unit under Section 29 of the State Financial Corporations Act, 1951 and could sell (April 2002) it, in its 15th attempt, for Rs. 2.59 lakh. The Corporation further took possession (July 2002) of the collateral security and sold (January 2004) it, in its seventh attempt, for Rs. 4.95 lakh. After adjustment of these realisations, the outstanding amount was Rs. 1.44 crore (principal and miscellaneous expenses: Rs. 33.67 lakh and interest: Rs. 1.10 crore) as of March 2006.

It was noticed during audit (November 2004) that the unit did not start commercial production due to non-availability of working capital. Thus, disbursement of loan without ensuring availability of working capital and relaxation of collateral security from 50 to 30 *per cent* led to non recovery of Rs. 1.44 crore as of March 2006.

The management stated (June 2006) that the relaxation in quantum of security was given keeping in view the value of primary security, total means of partners/guarantors and the location of the unit in municipal limits of Jagadhri. The reply is not tenable because relaxations were given without safeguarding the financial interest of the Corporation.

The matter was referred to the Government in April 2006; the reply had not been received (September 2006).

#### **4.19 Acceptance of forged and inflated collateral security**

<b>Acceptance of collateral security at inflated value without ensuring its clear title resulted in non-recovery of Rs. 77.54 lakh.</b>
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The Corporation sanctioned (April 1998) a term loan of Rs. 20 lakh to Rajesh & Company (unit) with the stipulation that the unit would furnish collateral security of not less than 100 *per cent* of the sanctioned amount. The unit offered collateral security of land measuring 47 Kanal 11 Marla in village Durjanpur Mazra Barsi, district Bhiwani which was accepted (July 1998) at a value of Rs. 45 lakh after verification by the Branch Manager. Title of the security was also checked by the Corporation's Law Officer. The Corporation disbursed Rs. 17.67 lakh in March 1999.

The unit did not repay any instalment of loan due from March 2000. Due to persistent default, the Corporation took over (January 2001) the possession of the unit under Section 29 of the State Financial Corporations Act, 1951 and sold (April 2004) it for Rs. 0.65 lakh. The Corporation also took (April 2003) deemed possession of the collateral security. Audit scrutiny revealed that for the sale of the collateral security, the highest bid received (27 June 2005) was Rs. 2.50 lakh against the accepted value of Rs. 45 lakh. This could not be sold even for this price as it was found that the mortgager was not the owner of the land. Besides, correctness of the valuation of collateral security was not ensured by the respective officers despite specific instructions issued (May 1996) by the Corporation. The amount outstanding against the unit as of September 2006 was

Rs. 77.54 lakh (principal: Rs. 17.67 lakh, interest: Rs. 58.29 lakh and miscellaneous\* expenses: Rs. 1.58 lakh).

The Negotiation Committee of the Corporation, constituted to consider the sale of sick units, decided (27 June 2005) to fix responsibility for accepting land without clear title as security and for the gap between the value of security accepted and its present assessed value. No action had, however, been taken so far (September 2006).

Thus, acceptance of collateral security at inflated value without ensuring its clear title had resulted in non-recovery of Rs. 77.54 lakh.

The management stated (June/September, 2006) that it had decided to lodge FIR against promoter/guarantor of the unit alongwith all the connected persons. Final action taken in this regard shall, however, be awaited in audit.

The matter was referred to the Government in May 2006; the reply had not been received (September 2006).

### **General**

#### ***4.20 Persistent non compliance with Accounting Standards in preparation of financial statements***

Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate comparability of the information contained in the published financial statements of companies. Under Section 211 (3A) of the Companies Act, 1956 it is obligatory for every company to prepare the financial statements (profit and loss account and balance sheet) in accordance with the AS. A review of the financial statements and the Statutory Auditors' reports thereon in respect of 24 Government companies and two Statutory corporations revealed non-compliance with upto eight Accounting Standards as detailed in **Annexure 8**.

It would be seen from the **Annexure 8** that:

- Eleven<sup>#</sup> companies violated AS-15 which deals with accounting for retirement benefits to employees (viz. provident fund, pension, gratuity, leave encashment etc.) and provides that the contribution payable by the employer towards retirement benefits be charged to the profit or loss for the year on accrual basis and the accruing liability calculated according to actuarial valuation. The impact on profitability due to violation as

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\* Miscellaneous expenses include legal expenses, expenses incurred on watch and ward and expenses on publication of auction notice etc.

# Sl. No. 2,3,5,6,7,8,9,13,14,15 and 16 of **Annexure-8**.

commented by the CAG/Statutory Auditors is given below:

Sl. No.	Name of the company/corporation	Quantum of misstatement
		(Rupees in crore)
1.	Haryana Financial Corporation	3.18
2.	Haryana Seeds Development Corporation Limited	3.12
3.	Haryana Land Reclamation and Development Corporation Limited	1.80
4.	Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited	0.61
5.	Haryana Scheduled Castes Finance and Development Corporation Limited, Chandigarh	1.49
6.	Haryana Roadways Engineering Corporation Limited	0.93

- Seven<sup>@</sup> companies did not comply with AS-2 relating to determination of the value at which inventories are carried in financial statements until the related revenues are realised and provides that inventories should be valued at the lower of the cost or net realisable value. The impact of violation as commented by the CAG on the accounts of Haryana Warehousing Corporation resulted in overstatement of profit and stock in hand by Rs. 81.46 lakh in the accounts for the year 2004-05.
- Five<sup>#</sup> companies did not comply with AS-9 which deals with revenue recognition and provides that revenue from sales or service transactions should be recognised properly and if at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed. Due to non compliance of this Accounting Standard the loss of Dakshin Haryana Bijli Vitran Nigam Limited was understated by Rs. 336.11 crore in the accounts for the year 2004-05.
- Five<sup>^</sup> companies did not comply with AS-6 which deals with depreciation accounting and provides that depreciation amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.
- Three<sup>§</sup> companies did not comply with AS-22 which deals with deferred tax liability and provides for determination of the amount of expenses or saving relating to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statements. Due to non compliance of this AS, Haryana Agro Industries Corporation Limited understated losses by Rs. 17.94 lakh for the year 2004-05 and Haryana Roadways Engineering Corporation Limited overstated profits by Rs. 40.26 lakh for the year 2003-04.

Thus, out of the 26 companies/corporations test checked in audit, 16 companies/ corporations as per **Annexure 8** were persistently violating one or more Accounting Standards and thus affecting the true and fair view of accounts of these undertakings to that extent. In reply four<sup>\*\*</sup> companies and two<sup>!</sup> corporations stated (June-July 2006) to have complied with the AS.

<sup>@</sup> Sl. No. 4,5,10,12,14,15 and 16 of **Annexure-8**.

<sup>#</sup> Sl. No.4,9,12,14 and 16 of **Annexure-8**.

<sup>^</sup> Sl. No. 10,11,12,14 and 15 of **Annexure-8**.

<sup>§</sup> Sl. No. 1, 5 and 13 of **Annexure-8**.

<sup>\*\*</sup> Sl. No. 3, 9, 15 and 16 of **Annexure-8**.

<sup>!</sup> Sl. No. 13 and 14 of **Annexure-8**.

The matter was referred to the Government and the companies/corporations in May 2006; replies of the Government and 10 companies had not been received (September 2006).

#### **4.21 Vigilance mechanism in power sector companies**

**4.21.1** For investigating the complaints of corruption against the officers/officials working in the Power Sector Companies<sup>\*</sup> and to detect cases of theft of energy by consumers, there exists a Vigilance Wing in HVPNL under the supervision of an Inspector General of Police designated as I.G. (Vigilance, Enforcement and Security). Presently, the post is held by an Additional Director General of Police drawn on deputation from the State Government. He functions under the overall control of the Commissioner and Secretary to Haryana Government, Power Department and is assisted by two Executive Engineers and one Senior Accounts Officer at Headquarters. There are six<sup>#</sup> field offices, each headed by an Executive Engineer and supported by Assistant Engineers/Junior Engineers. Besides, some police personnel are also on deputation from the Police Department.

The main duties entrusted to the Vigilance Wing are to:

- process cases of corruption against the officers/officials of the power sector companies;
- detect pilferage of energy; and
- inspect various stores of the power sector companies to check surplus/shortages of material.

It submits monthly progress report of its performance to the Government and the Board of Directors of the respective Companies. The performance of the Wing was analysed during March 2006 and results are given in the succeeding paragraphs.

#### **4.21.2. Processing of vigilance cases**

The Wing receives complaints against the employees/consumers of the power sector companies from various sources and investigates such complaints. After holding enquiry, if found fit, the Vigilance Wing gives its recommendations to the respective company for taking further action. The table below indicates the number of enquiries received, finalised and pending at the close of each year during the last three years ended 31 March 2006.

Year	Enquiries pending in the beginning of the year	Number of enquiries received	Number of enquiries finalised	Number of enquiries pending at the end of the year
2003-04 <sup>@</sup>	742	838	1190	390
2004-05	390	839	1011	218
2005-06	218	781	772	227

<sup>\*</sup> Haryana Power Generation Corporation Limited, Haryana Vidyut Prasaran Nigam Limited, Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited.

<sup>#</sup> Ambala, Faridabad, Gurgaon, Hisar, Karnal and Rohtak.

<sup>@</sup> Details prior to 2003-04 were not available.

Audit scrutiny of the records revealed that no system was evolved to monitor the follow up action subsequent to the recommendations made by the Wing as no information in this regard was supplied to Audit.

#### **4.21.3 Delay in finalisation of cases**

Government of India, Department of Personnel and Administrative Reforms had issued instructions in September 1981 that vigilance cases should be finalised within one year. Test-check of records for 2005-06, however, revealed that 37 cases were finalised taking one to five years and in one case the delay was more than 14 years without any reasons on record. Out of 227 cases pending finalisation as on 31 March 2006, 10 cases were pending (May 2006) for more than one year.

#### **4.21.4 Detection of pilferage of power**

The wing is engaged in enforcement activity *i.e.*, to detect pilferage of power by conducting raids on the premises of the consumers. Neither has the wing fixed any targets for checking/conducting raids nor had the Government prescribed any norms/targets. In absence of targets, the performance of the wing with regard to detection of pilferage cases could not be evaluated. The number of connections checked during the last five years ended 31 March 2006 are tabulated below:

Year	Total number of connections	Number of connections checked	Percentage of connections checked
2001-02	35,44,380	8,375	0.24
2002-03	36,19,868	9,980	0.28
2003-04	37,37,556	12,568	0.34
2004-05	38,74,965	8,480	0.22
2005-06	39,61,177	7,558	0.19

The table above would reveal that the percentage of checking of connections ranged between 0.19 and 0.34 only during these years.

On the basis of raids, the Vigilance Wing imposed total penalty of Rs. 92.60 crore during 2001-06. Audit scrutiny revealed that the wing had not evolved any system for watching actual recovery against the penalty imposed.

#### **4.21.5 Court cases**

During an exercise carried out by the Vigilance Wing in 2003-04, it was found that during 2001-04, out of 779 cases decided by various courts, the decisions were against the companies in 249 cases. Thus the success rate of the wing was about 68 *per cent*. It was further noticed that success rate at Gurgaon and Hisar offices was only 32 and 13 *per cent* respectively. Reasons for failure/low success rate were not analysed by the Vigilance Wing to enable it to take remedial measures. The Vigilance Wing did not review the success rate of court cases after 2003-04. Audit analysis revealed that non issue of provisional notice of assessment to the consumers, failure to produce evidence mentioned in the checking report, absence of witness's/consumer's signature on the checking reports, etc. resulted in losing the court cases.

#### **4.21.6 Inspection of stores**

The wing, in contravention of the duties entrusted by the Government, was not carrying out surprise checking of stores in order to ascertain surplus/shortage of material.

The matter was referred to the Government and the Company in May 2006; their replies had not been received (September 2006).

## **4.22 Follow up action on Audit Reports**

### *Replies outstanding*

**4.22.1** The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Haryana issued (July 1996) instructions to all Administrative Departments to submit replies to paragraphs/reviews included in the Audit Reports within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires.

Though the Audit Reports for the years 2002-03, 2003-04 and 2004-05 were presented to the State Legislature in February 2004, March 2005 and December 2005 respectively, four out of 11 departments, which were commented upon, did not submit replies to 15 out of 68 paragraphs/reviews as on 30 September 2006 as indicated below:

Year of the Audit Report (Commercial)	Number of reviews/paragraphs appeared in the Audit Report		Number of reviews/paragraphs for which replies were not received	
	Reviews	Paragraphs	Reviews	Paragraphs
2002-03	3	19	1	Nil
2003-04	2	22	-	2
2004-05	2	20	1	11
<b>Total</b>	<b>7</b>	<b>61</b>	<b>2</b>	<b>13</b>

Department-wise analysis is given in **Annexure 9**. The Power and Industries departments were the major defaulters with regard to submission of replies. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and deficiencies in execution of various schemes.

### *Action taken notes on Reports of Committee on Public Undertakings (COPU) outstanding*

**4.22.2** Replies to 22 paragraphs pertaining to 12 Reports of the COPU presented to the State Legislature between March 1995 and December 2005 had not been received (September 2006) as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1994-95	2	3
1996-97	2	1
2000-01	3	1
2002-03	2	2
2003-04	2	3
2004-05	1	12
<b>Total</b>	<b>12</b>	<b>22</b>

These reports of COPU contained recommendations in respect of paragraphs pertaining to five<sup>@</sup> departments, which appeared in the Reports of the Comptroller and Auditor General of India for the years 1990-91 to 2000-01.

<sup>@</sup> Power (seven), Agriculture (six), Industry (five), Mines and Geology (three) and Forest (one).

#### **4.22.3 Response to Inspection Reports, audit paragraphs and Reviews**

Audit observations noticed during audit and not settled on the spot are communicated to the respective heads of the PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Review of Inspection Reports issued upto March 2006 revealed that 691 paragraphs relating to 242 Inspection Reports pertaining to 21 PSUs and the Haryana Electricity Regulatory Commission remained outstanding at the end of 30 September 2006. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2006 is given in **Annexure 10**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 20 draft paragraphs and one review forwarded to the various departments during January to July 2006 as detailed in **Annexure 11** had not been replied to so far (30 September 2006).

It is recommended that the Government may ensure that: (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/draft paragraphs/reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayments is taken within a prescribed period; and (c) the system of responding to audit observations is revamped.

**Chandigarh**  
**Dated**

**(Ashwini Attri)**  
**Accountant General (Audit) Haryana**

**Countersigned**

**New Delhi**  
**Dated**

**(Vijayendra N. Kaul)**  
**Comptroller and Auditor General of India**