

## 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 Non recovery of loan

#### Irregular sanction, defective disbursement and poor monitoring had put the recovery of Rs. 5.81 crore at stake.

The Equipment Finance Scheme of the Company provides for financial assistance to the existing units for purchase of plant and machinery for expansion/modernisation. For availing this assistance, the project should be in operation for last four years and cost of proposed plant and machinery should be less than 50 per cent of present gross block.

R K Ispat Limited, Bhiwani, (unit) a steel manufacturing unit since 1994, diversified into yarn manufacturing activity in October 2000 and applied (July 2001) for a term loan of Rs. 3.80 crore for expansion of yarn project. The Company sanctioned a loan of Rs. 3.80 crore in March 2002 and released Rs. 3.40 crore between March 2002 and March 2003. The unit could not achieve optimum production due to delay in receipt of two machines and delay in sanction of working capital by State Bank of India. Profit of the unit decreased from Rs. 82.48 lakh during 2001-02 to Rs. 35.61 lakh during 2002-03 and then turned into loss of Rs. 6.59 crore in 2003-04, which eroded its net worth. Resultantly, the unit defaulted in repayment of even the first instalment of Rs. 33.51 lakh due in April 2003. Five post dated cheques worth Rs. 46.80 lakh furnished (September 2003/February 2004) by the unit were dishonored on presentation. The Company took over deemed possession of the equipment on 19 March 2004 except two machines (value Rs. 85 lakh) which were yet to be received by the unit. Before the Company could dispose of the equipments, the unit got registered (August 2004) with BIFR thereby restraining the Company to dispose of the equipments. Final award of the BIFR was still awaited (August 2008).

Audit noticed that the Company sanctioned loan by ignoring the terms of the scheme as the yarn division had come into existence only about one and half

year earlier (October 2000), the cost (Rs. 6.37 crore) of new equipment was 114 *per cent* of gross block (Rs. 5.57 crore) of yarn division and released (April 2003) Rs. 29.38 lakh to the unit for purchase of two machines in contravention of its policy to make payment direct to the supplier. Further, the Company appointed its Director on the Board of the unit only in September 2003 who also did not attend the meeting of the Board of the unit held in July 2004 when it decided to refer the unit to BIFR. Total amount outstanding against the unit as on 31 March 2007 was Rs. 5.81 crore (Principal: Rs. 3.40 crore, Interest: Rs. 2.41 crore).

The contention of the Management (August 2008) that the unit was eligible for loan under Equipment Finance Scheme taking into account the unit as a whole was not acceptable as sanction of loan for yarn division (diversion from main activity) was not covered under the Scheme.

Thus, irregular sanction of loan, defective disbursement followed by poor monitoring had put the recovery of Rs. 5.81 crore at stake.

The matter was referred to the Government in July 2008; the reply had not been received (September 2008).

#### ***4.2 Loss of revenue***

**The Company suffered a loss of Rupees six crore due to delay in leasing out the Japanese Hostel-cum-Restaurant.**

To attract more investment in the State from Japan, the Company constructed (May 2005) a Hostel-cum-Restaurant complex at Gurgaon at a cost of Rs. 29.20 crore to cater to the boarding and lodging needs of the visiting senior business executives from Japan. Bids were invited (June 2005) for leasing out the complex initially for a period of 15 years with reserve price of Rs. 22 per sq. ft. per month. Companies that were already conversant with the management of hotel/hostel catering to the Japanese culture and life style were eligible to bid. The Company received 32 bids, the highest being Rs. 40.64 lakh per month. Though bids had been invited and opened, bid eligibility and evaluation criteria had, however, not been prescribed in advance. After opening of the bids, the BOD constituted a sub-committee to decide the criteria to finalise the bids. On the recommendations of the sub-committee, the Company decided (September 2005) that complex would be available for Japanese and the persons working in the Japanese companies only and reduced the lease period to 10 years. Eight bidders who had quoted rates higher than the reserve price were requested (September 2005) to submit their revised bids on the basis of revised criteria by 10 November 2005. Four bidders submitted their revised offers which were opened on 10 November 2005. Two bids at the rate of Rs. 23.01 lakh and Rs. 22.51 lakh per month were found eligible as per revised criteria. The Board considered (24 November 2005) the offers and deferred the decision till next meeting. One of the bidders, (highest during first bid) whose revised bid (Rs. 40.67 lakh per month) had been received on 18 November 2005 i.e. after the due date of the bid opening (10 November 2005) but was the highest, filed (25 November 2005) a writ petition in Punjab and Haryana High Court seeking directions to the Company to execute the lease deed in its favour.

The Court directed (25 November 2005) that contract should not be awarded without leave of the court. The Board on being apprised of the above status decided (January 2006) to withdraw the process of bidding for leasing out the Complex *ab initio* since the facility was meant to meet the requirements of Japanese entrepreneurs and not for commercialisation.

The Company again revised (August 2006) the eligibility criteria whereby, companies incorporated in Japan or companies incorporated in India having majority shareholding from companies of Japanese origin and having net worth of at least Rs. 100 crore only were to be eligible for submitting their offers. Accordingly, after inviting (October 2006) fresh bids the Company leased out (September 2007) the complex to Maruti Udyog Limited, the highest of the eligible two bidders, at negotiated rate of Rs. 30 lakh per month, against its bid of Rs. 25 lakh after the court formally dismissed the petition of the highest bidder in August 2007.

Audit observed (January 2008) that the Company had not evolved suitable criteria for eligibility of the bidder before inviting the bids. This led to subsequent revisions of the criterion and avoidable litigation and delays of 27 months (June 2005 to August 2007) in leasing of the complex. This resulted not only in avoidable loss of revenue of Rupees six crore (at the rate of Rs. 30 lakh per month after allowing six months after construction) to the Company, but also the objective of providing suitable boarding and lodging facilities to the visiting senior business executives from Japan could not be achieved upto August 2007 although the complex was available from June 2005.

The Management while admitting the facts, stated (August 2008) that after vacation of stay by the Court, it immediately leased out this complex. The fact remains that non-evolvement of suitable bid criteria before inviting tenders had resulted in abnormal delay in leasing out the complex.

The matter was referred to the Government in May 2008; the reply had not been received (September 2008).

#### ***4.3 Loss of revenue***

<b>The Company suffered a loss of revenue of Rs. 27.68 lakh due to non-charging of extension fee.</b>
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The Estate Management Procedures (EMP) have been framed by the Company in pursuance to the provisions of the State Industry Policy and are thus guiding documents for the implementation of management procedures regarding allotment, leasing, renting etc. of estates.

As per the EMP 1999, the allottee of a plot/shed is required to start commercial production within a period of three years from the date of offer of possession. In case the allottee is not able to start the commercial production within the stipulated time, the period for commencement of production can be extended by the allotting agency for a maximum period of one year by levying extension fee. Similarly, as per provisions of EMP 2005, extension for commercial production can be granted for fourth year at the rate of Rs. 40 per

square meter by the Company and for fifth year by the Board of Directors in exceptional circumstances with Rs. 80 per square meter extension fee. Further, any delay in payment of extension fee will attract interest at the rate of 11 *per cent*. There is no provision either in the EMP 1999 or in EMP 2005 regarding waiving off of extension fee.

Central Warehousing Corporation (CWC) was allotted (June 2000) a plot measuring 20,250 square meters for setting up a custom bonded warehouse and container freight station at Kundli. As per terms and conditions of the allotment, CWC was required to commission the project by 28 March 2003. The project was, however, commissioned by CWC on 10 June 2005. The Company regularised (January 2007) the delay in implementation by levying extension fee at Rs. 40 per square meter plus interest at the rate of 11 *per cent* with effect from 29 March 2003 for one year up to 28 March 2004 and at Rs. 80 per square meter thereafter plus interest at the rate of 11 *per cent* with effect from 29 March 2004. The extension fee leviable worked out to Rs. 27.68 lakh excluding interest. CWC, however, requested (February 2007) the Company to exempt it from extension fee on the plea that the project was ready for implementation but could not be commissioned for want of issue of notification by the Revenue Board, Ministry of Finance. The Board of Directors of the Company condoned (May 2007) the delay in implementation without charging extension fee on the plea that the unit was a Government body and a facilitator for exports at Kundli.

The Management stated (July 2008) that extension fee was not levied as the CWC could not start its operations for want of notification by the GOI and there was no delay on the part of CWC in commissioning of the project. The reply is not tenable as non-charging of extension fee was not justified as there was no such provision in the EMP and timely commissioning of the project was the responsibility of the allottee. Extension was permissible in exceptional circumstances only by recovering extension fee.

Thus, injudicious waiving of the extension fee resulted in loss of Rs. 27.68 lakh excluding interest.

The matter was referred to the Government in June 2008; the reply had not been received (September 2008).

#### **Haryana Tourism Corporation**

##### **4.4 Avoidable loss in the operation of unviable unit**

**The Company suffered loss of Rs. 68.22 lakh due to non-closure of an unviable Golf course.**

In order to promote the game of Golf, the Company set up (April 1999) a golf course at Karnal at a cost of Rs. 40.44 lakh on land measuring 13 acres (provided free of cost by Tourism Department). No feasibility study was done before setting up the golf course. The Company formed a club to run the Golf course. As per constitution of the Club, a governing body comprising official

and non-official members, with Commissioner and Secretary Tourism as patron, was to run the activities of the Club. The Club's revenues included entry fee, monthly subscription from members, 'green fee' from non members, equipment hiring charges, etc. A person was to cease to be a member of the Club in case of default in paying the Club bills as laid down by the governing body from time to time.

The Club received Rs. 10.29 lakh as entry fee from the members and a nominal amount of Rs. 0.38 lakh as 'green fee' during the last nine years upto March 2008, indicating negligible interest by non-members. During audit (December 2007) it was noticed that most of the members had defaulted in payment of monthly subscription and recoverable amount worked out to Rs. 7.94 lakh as on 31 March 2008. The Club started incurring losses from the very first year of its operation and had incurred a loss of Rs. 68.22 lakh upto March 2008 as it was started without assessing its economic viability. The Company also did not review its performance to operate it economically or to decide on its closure.

Thus, due to starting the golf course without assessing its economic viability, the Company had suffered a loss of Rs. 68.22 lakh during 1999-2008.

In reply (August 2008), endorsed by the Government (September 2008) the Management stated that keeping in view the continued losses, reference had been made to the State Government for its closure.

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

##### ***4.5 Loss due to non adherence to linkage plan***

**The Company suffered a loss of Rs. 12.46 lakh as it could not recover carry-over charges from Food Corporation of India due to delayed delivery of wheat.**

The Company procures wheat for the Central Pool on behalf of Government of India. The delivery of wheat stock is made as per linkage plan provided by the Food Corporation of India (FCI). In the event of non adherence to the linkage plan, the FCI deducts carry-over charges from the bills of wheat stocks delivered beyond the stipulated period.

To carry out wheat procurement operations for 2005-06, the Company directed (March 2005) its field offices to obtain linkage plan from FCI and strictly adhere to it. In case of non-utilisation of space offered by FCI for direct delivery, the loss was to be the sole responsibility of concerned field staff.

The FCI asked (April 2005) the Jind circle to directly deliver 29,500 MT\* wheat by 30 June 2005. The pace of delivery of wheat stocks was slow and the FCI reminded (April - May 2005) the Company to increase the pace of

\* 17,000 MTs at Dhamtal, 7500 MTs at Barate and 5000 MTs at Narwana mandi.

delivery, failing which carry-over charges would not be reimbursed for the deliveries made beyond 30 June, 2005. As the Company could not adhere to the linkage plan, the FCI deducted Rs. 12.46 lakh from the bills of 2005-06 being the carry over charges of shortfall quantity of 22,649 MTs delivered after 30 June 2005.

The Company approached (December 2005 and March, 2007) the FCI for release of deducted amount on the plea that wheat stocks at Dhamtal mandi could not be made due to dispute between transporter and labour contractor and thereafter non availability of space as on 30 June 2005, with FCI. FCI rejected (March 2006 and July 2007) the claim on the ground that during 2005-06 there was sufficient covered as well as open space for the quantity allocated to the Company.

Thus, failure of the Company to adhere to the delivery schedule of wheat stocks as per linkage plan to FCI had resulted in a loss of Rs. 12.46 lakh.

The Management stated (March 2008) that these payments had not been deducted but had been withheld by FCI for which matter was being taken up with it and was under active consideration of FCI. The reply is not tenable as these payments had been deducted by FCI from the bills of the Company during 2005-06 and FCI had not responded to the request of the Company to refund this amount so far (July 2008).

The matter was referred to the Government in February 2008; the reply had not been received (September 2008).

#### ***4.6 Undue benefit to supplier***

**The Company suffered a loss of Rs. 21.98 lakh due to unjustified refund of security to a defaulting supplier of Di-Ammonium Phosphate.**

For procurement of 23,200 MT Di-Ammonium Phosphate (DAP), the High Powered Purchase Committee (HPPC<sup>\*</sup>) approved (June 2003) placement of order on HINDALCO. The Company issued (July 2003) order for supply of the DAP during June to November 2003. Due to rains, the Company revised (September 2003) the supply schedule according to which 8,000 MT and 15,200 MT were to be supplied in October and November 2003 respectively. The supplier did not object to the revised schedule but supplied only 4,158.500 MT during October 2003 and assured to supply the balance quantity of 19,000 MT in November 2003. The supplier, however, supplied 9,095.350 MT during November 2003 leaving a shortfall of 9,946.150 MT. The Company imposed (March 2004) a penalty of Rs. 30 lakh at the rate of Rs. 300 per MT (being its gross margin on the shortfall quantity) against the supplier due to non-performance of the contract. The supplier represented (August 2004) to the Company against the imposition of penalty. The HPPC headed by the Chief Minister asked the Financial Commissioner (FC), Agriculture to look into this matter. The FC, Agriculture held (October 2004)

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\* Consisted of Chief Minister, Finance Minister, Financial Commissioner & Principal Secretary Agriculture Department, Director Supplies and Disposal and Managing Directors of HAIC, HAFED and HLRDC.

that the supplier did not make any wilful default and there was no loss to the Company as it had not purchased the balance quantity at the risk and cost of the supplier. He, however, recommended that the Company could recover Rs. 5 lakh (being its net margin of Rs. 50 per MT) from the supplier as notional loss. The Company refunded (December 2004) Rs. 25 lakh without the approval of the Board of Directors (BOD). The BOD of the Company, while granting (June 2005) ex-post facto approval for the refund of penalty, took serious view that the Company had waived off and refunded the penalty without its approval. Audit observed (January 2006) that in another case of similar nature the Company had recovered penalty of Rs. 1.45 crore (being gross margin) for the shortfall quantity from Oswal Fertilizer and Chemical Limited during 2004-05. Further, representative of HINDALCO had agreed for penalty of Rs. 26.98 lakh as per the terms of the tender.

Thus, non imposition of agreed penalty has resulted in loss of Rs. 21.98 lakh (Rs. 26.98 lakh - Rs. 5 lakh) to the Company.

The Management stated (May 2008) that refund was made on the directions of the State Government. In case of the other firm penalty was not waived as no direction was received from the State Government. The reply is not tenable as the Company should not have refunded penalty amount without prior approval of the BOD and the refund in this case was in deviation of its past practice.

The matter was referred to the Government in May 2008; the reply had not been received (September 2008).

#### **Haryana Electronics Development Corporation Limited**

##### ***4.7 Irregular payment of conveyance allowance***

**Inadmissible re-imbusement of conveyance allowance amounting to Rupees one crore was made to employees in violation of State Government instructions.**

The Company had been re-imbursing conveyance allowance to its employees at fixed rates depending upon their entitlement. The Company decided (September 2006) to reimburse the conveyance allowance depending upon their entitlement, in the shape of cost of petrol, in place of fixed conveyance allowance with effect from July 2006.

The State Government, while accepting the recommendations of Pay Revision Committee for Public Sector Undertakings, issued instructions (October 1998) to all the Administrative Departments of Public Sector Enterprises (PSUs)/Institutions that Dearness allowance, House Rent allowance, City Compensatory allowance, Conveyance allowance and other incentives granted to the employees of all the State PSUs/Institutions should not exceed those admissible to State Government employees under any circumstances. The State Government was not paying Conveyance allowance to its employees except to the blind and orthopaedically handicapped employees.

Test check of records by Audit revealed (July 2007) that the Company adopted (September 1998) new scales approved by the Government but did not discontinue the reimbursement of conveyance charges in tune with the State Government orders. Thus, the Company paid Rupees one crore as Conveyance allowance during December 1998 to March 2008 in violation of State Government instructions.

The Management stated (May 2008) that the new pay scales were adopted in 1998 and the facility of reimbursement of local conveyance allowance was continued as it was already in existence for more than 16 years, with the approval of Board of Directors. The reply is not tenable in view of the State Government instructions (October 1998) which restricted the State PSUs from allowing any allowance/incentive to their employees, in excess of those admissible to State Government employees.

The matter was referred to the Government in February 2008; the reply had not been received (September 2008).

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

##### *4.8 Extra expenditure*

**The Company incurred extra expenditure of Rs. 14.18 crore on purchase of transformers due to delayed finalisation of tenders and resultant procurement at higher rates.**

The Company invited (September 2005) tender for procurement of 7,980 transformers (including 4,375 transformers for Uttar Haryana Bijli Vitran Nigam Limited) of 100 KVA capacity. As per the tender conditions, supplies were to be completed within five and a half months from the date of receipt of order/approval of drawings, whichever was later. Tenders were opened (October 2005) and all the 11 offers were found technically/financially valid. Special High Powered Purchase Committee (SHPPC) decided (December 2005) to procure 2,500 transformers as per tendered specifications at the lowest rate of Rs. 86,200 per transformer from two firms and to go in for fresh global tenders for balance quantity and the annual requirement with self protecting features (SPF). Accordingly, purchase orders were issued by the Company on 31 January 2006 for this quantity and transformers received between April 2006 and January 2008.

In the meantime, to meet with urgent requirement, MD of the Company requested (2 January 2006) the Punjab State Electricity Board (PSEB) for immediate supply of 500 transformers. On getting their nod, the Company proposed to the Financial Commissioner (Power) to procure these transformers from PSEB on cost-to-cost basis which was accepted (January 2006) by Financial Commissioner (Power). The Company, however, procured (January 2006) 500 transformers without SPF and warranty clause from PSEB at the rate of Rs. 1.45 lakh per transformer against their landed rate of Rs. 99,037 per transformer. In addition, the Company procured 5,000 transformers (2,500 transformers for each Company) from seven firms without SPF at higher rate of



Rs. 1.11 lakh per transformer against subsequent short term tender enquiry finalised in April 2006. Separate global tenders for procurement of transformers with SPF were floated (January 2006) but could not be finalised due to poor response. It was observed (December 2006) that though there was urgent requirement of transformers, the Company failed to impress upon the SHPPC to procure the whole tendered quantity with tendered specifications.

Thus, casual approach of the Management and resultant purchase of 5,480 transformers at higher rates (500 transformers from PSEB at the rate of Rs. 1.45 lakh and 4,980 transformers at Rs. 1.11 lakh per transformer) resulted in extra expenditure of Rs. 14.18 crore.

In reply, endorsed by the Government, the Management stated (September 2008) that due to acute shortage, the transformers were purchased from PSEB. The reply does not address the audit observation that the Company incurred extra expenditure due to delay in finalisation of tenders.

#### **4.9 Loss of revenue**

**The Company suffered a loss of Rs. 80.08 lakh on the sale of aluminum scrap at the rates lower than the prevailing market rates.**

The Company invited (February 2006) tenders for disposal of 279.839 MT scrap of high voltage (HV)/low voltage (LV) aluminum coils with paper insulation. Three firms quoted their rates ranging between Rs. 85.85 to Rs. 86.11 per kg (AG Metals, Jagadhari), Rs. 85.99 to Rs. 86.09 per kg (Shree Ganesh Metal Products, Jagadhari) and Rs. 85.21 to Rs. 86.05 per kg (Shree Ganpati Enterprises, Rohtak) for various lots lying at different places. The Company without ascertaining the prevalent market rate/sale rates of its sister concern Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL), negotiated sale rate of Rs. 87.50 per kg and issued (11 May 2006) sale order for 279.839 MT to all the three firms (AG Metals, Jagadhari: 153.941 MTs, Shree Ganesh Metal Products: 71.953 MTs and Shree Ganpati Enterprises, Rohtak: 53.945 MTs). UHBVNL had sold such scrap at the rates ranging between Rs. 108.34 per kg to Rs. 112.20 per kg during 15 February 2006 to 15 May 2006 and Shree Ganpati Enterprises had lifted 10 MTs scrap at Rs. 111 per kg on 15 February 2006.

It was further observed that while sale against above tenders was under process, the Chief Engineer (Material Management) proposed (22 April 2006) sale of additional quantity of 90 MTs to Shree Ganpati Enterprises at the sale rate of Rs. 87.50 per kg finalised on 13 April 2006 for the tendered quantity. The Managing Director gave his approval on 11 May 2006 and the firm deposited 10 *per cent* security on 12 May 2006 and got the order on 16 May 2006 whereas for the tendered quantity allotment was made on 17 April, security deposited on 1 May and order placed on 11 May 2006. Even the two other firms were not apprised of the additional quantity available for sale. Another firm, AG Metals, objected (15 May 2006) to this favour and offered a rate of Rs. 105 per kg for the additional quantity. Despite this, sale order for additional quantity of 90 MT was issued in favour

of Shree Ganpati Enterprises on 16 May 2006. Sale order on AG, Metals was issued on 11 July 2006 for lifting additional quantity of 90 MTs at the rate of Rs. 105 per kg. Thus, the sale of additional 180 MTs was made on arbitrary basis and lacked transparency as fresh tenders were not invited and even the bidders of the first tender were not allowed an equal opportunity to participate in this sale. The Company, thus, favoured one firm in the disposal of this additional quantity and lost Rs. 15.75 lakh by selling 90 MTs at Rs. 87.50 per kg when it had an offer of Rs. 105 per kg in hand.

Had the Company assessed the prevailing market rate and rates of UHBVNL, it could have earned additional revenue of Rs. 80.08 lakh on the disposal of 459.839 MTs at the minimum rate of Rs. 108.34 per kg fetched by UHBVNL.

Thus, failure to ascertain the prevailing market rates/rates of UHBVNL and apparently to favour a firm, the Company was put to a loss of Rs. 80.08 lakh\* with reference to minimum rate fetched by UHBVNL during this period.

In reply, endorsed by the Government the Management stated (September 2008) that the rates negotiated by the Company were competitive and based on market rates and could not be compared with auction rates of UHBVNL. The fact, however, remains that UHBVNL had sold similar scrap during this period at higher rates and both the Companies effect purchases of various equipments jointly at uniform rates.

#### **4.10 Undue favour to suppliers**

**The Company recovered less liquidated damages of Rs. 1.74 crore by giving undue extension in supply period.**

The Company placed (18 May 2006) and (March 2007) two purchase orders for the supply of 500 transformers of 100 KVA and 2,019 transformers of 200 KVA rating on Vijay Electricals Limited, Hyderabad (firm) and Nucon Power Control (P) Limited, Ludhiana (firm) at a firm price of Rs. 1,25,682.52 per transformer and Rs. 1,74,750 per transformer respectively. As per terms and conditions of the purchase orders, delivery of 20 *per cent* of ordered quantity was to commence within 45 days from the date of receipt of the purchase orders/approval of drawings whichever was later and was to be completed within five months and four months (four months for Nucon) in equal lots thereafter. The firms were required to submit the drawings for approval within 15 days on receipt of the acceptance of the offer and these drawings were to be approved by the Company within one month from the date of receipt. Submission of complete drawings within 15 days of the acceptance of the offer by the Company was the firms' responsibility. Further, in case of delay in delivery, monthly lot wise penalty was to be imposed at the rate of one half of one *per cent* of the delayed portion of the material per week of the period of delay or a part thereof subject to the maximum of 10 *per cent* (five *per cent* in case of Vijay Electricals) of the cost of delayed material.

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\*  $(Rs. 108.34 - 87.50) \times (2,79,839 + 90,000) + (Rs. 108.34 - 105.00) \times 90,000 = Rs. 80.08 \text{ lakh.}$

Audit observed (November 2007) that the firms did not furnish drawings of the transformers alongwith requisite type test certificates within the stipulated time. After being pointed out by the Company repeatedly to submit drawings as per type test certifications or vice versa, the firms submitted the type test certificates on 4 August 2006 and 12 June 2007 after a delay of 50 and 63 days. The drawings were approved by the Company on 9 August 2006 and 12 June 2007. On the request of the firm, the Company allowed (13 February 2007 and 18 July 2007) extension in delivery period from the date of approval of drawings i.e. 9 August 2006 and 12 June 2007. On that basis, the Company recovered liquidated damages of Rs. 10.61 lakh and Rs. 34.37 lakh for delayed supplies whereas the actual penalty as per delivery schedule of the purchase orders worked out to Rs. 28.73 lakh and Rs. 1.90 crore from Vijay Electricals and Nucon Power Control respectively. This had resulted in short recovery of liquidated damages of Rs. 1.74 crore.

In reply (January and July 2008) endorsed by the Government (September 2008) the Company stated that delays in getting the type tests conducted were beyond the control of the firms as the technical specifications adopted by the Company were not of general nature and as such the firms had to get the type tests done only after placement of purchase order and also early bookings for tests were not available. These contentions are to be viewed in the light of the fact that as per terms and conditions of the purchase orders the delay in submission of drawings alongwith requisite type test certificate was the responsibility of the firms and the nature of specifications and the conditions regarding the type test were known to the bidders before the submission of bids.

#### **4.11 Extra expenditure**

**The Company incurred extra expenditure of Rs. 43.20 lakh due to non-enforcement of quantity increase clause in the purchase of transformers.**

The Company invited (September 2003) tenders for procurement of 400 distribution transformers (DTs) of 200 KVA. As per clause 7 of schedule 'D' of the tender enquiry, the quantities specified in the tender could be increased upto 10 *per cent* at the sole discretion of the purchaser. Price bids of eight technically and commercially suitable firms were opened on 11 February 2004 wherein bid of Svasca Industries (India) Limited, Delhi (L1) was found to be the lowest at equated cost of Rs. 2.07 lakh per DT. In the meantime, total requirement was increased to 862 DTs (Company: 250, UHBVNL: 600 and HVPNL: 12 Nos.). All the eight firms were invited for negotiations on 26 March 2004 with Special High Power Purchase Committee (SHPPC). Representatives of five firms who attended the negotiations were verbally informed about the enhanced quantity. During negotiations, L1 was specifically asked to give undertaking in writing for acceptance of the enhanced quantity but the firm did not give any such commitment due to rising trend in prices. SHPPC decided to place order for 862 DTs (original: 400 + enhanced quantity: 462) on L-1. SHPPC directed that letter of intent for enhanced quantity should be placed separately to avoid any legal complications in future as the firm had not given acceptance of the enhanced quantity in writing. Accordingly, the Company placed two separate purchase

orders on L-1 for supply of 400 DTs (tendered quantity) and additional quantity of 462 DTs. The firm completed the supply against the first order upto May 2005 but refused to supply the additional quantity. Finally, the order for 462 DTs was cancelled in June 2005. Subsequently, the Company placed order (March 2006) for 750 DTs on Jay Bee Industries, Panchkula at higher rate of Rs. 3.15 lakh per DT against tender enquiry of October 2005.

Audit observed (December 2006) that the Company failed to bring to the notice of the SHPPC clause 7 of schedule D (accepted by the firm), for placing order for 440 DTs (tendered quantity plus 10 *per cent* increase) despite non commitment by L-1 for the additional supply and non acceptance of L-1 rates by other tenderers. Resultantly the Company incurred avoidable extra expenditure of Rs. 43.20 lakh on subsequent purchase of 40 DTs.

In reply (June 2008) endorsed by the Government (September 2008) the Management stated that the increased quantity (862 transformers) was intimated (March 2004) to the firm by SHPPC while deciding the purchase proposals. The firm, however, did not agree to accept the enhanced quantity. The fact, however, remains that the firm was not impressed upon to supply 40 transformers (10 *per cent* of 400) which it was bound to supply as per terms and conditions of the tender.

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

##### **4.12 Loss of revenue**

**The Company was put to a loss of revenue of Rs. 21.78 lakh due to inadmissible rebate on power factor.**

Schedule of tariff for supply of energy and general and miscellaneous charges, issued in January 2001 by the Company provides that general/mixed load exceeding 10 KW to the Railways (other than traction) will be issued under bulk supply (BS) category. As per schedule of tariff applicable to HT industrial consumers, rebate of 0.5 *per cent* on supply of power would be allowed for every one *per cent* increase in power factor above 90 *per cent*. This rebate is not applicable to bulk supply consumers.

Audit noticed (October 2007) that Sub Division, Kalka allowed power factor rebate to the Northern Railway Workshop, Kalka in contravention of the schedule of tariff. In this way inadmissible power factor rebate of Rs. 21.78 lakh was allowed to the consumer during January 2001 to November 2007 and was discontinued from December 2007. Thus, the Company was put to a loss of revenue of Rs. 21.78 lakh by allowing inadmissible power factor rebate.

The matter was referred to the Government and the Company in April 2008; their replies had not been received (September 2008).

### 4.13 Loss of revenue

**The Company lost revenue of Rs. 23.62 lakh due to waiver of legitimate surcharge of an industrial consumer.**

As per general decision of the erstwhile Haryana State Electricity Board (HSEB), old electric meter (three phase - three wire) installed at the premises of A S Industrial Gases, a consumer of the then Operation Sub-Division, Industrial Area, Panipat, was replaced (29 August 1992) with new electric meter (three phase - four wire). The consumer reported in August and September 1992 that the new meter was defective. On the request of the consumer a check meter was installed from 19 April 1993 to 26 April 1993 which showed that the meter was running fast. The meter was replaced in September 1993. For resolving the dispute of the unpaid bill for the period from September 1992 to August 1993 during which the meter was defective, the matter was referred to the arbitrator who ordered (August 1995) the consumer to pay Rs. 1.59 lakh for the period from September 1992 to August 1993. The award was made (June 2002) rule of the court by Civil Judge, Panipat. The appeals filed by the consumer against the award were dismissed by Additional District Judge, Panipat, Punjab and Haryana High Court and the Supreme Court in June 2002, February 2005 and January 2007 respectively.

The consumer was served (April 2007) a notice for disconnection of supply or to make payment of the total outstanding dues which had accumulated to Rs. 31.19 lakh till August 2007 after including the legitimate surcharge. After the disconnection (May 2007), the consumer deposited Rs. 1.59 lakh in June 2007 and requested the Company for waiver of surcharge on the plea that the dues had accrued as the matter remained pending in the courts since 1992 and the award was silent about interest and surcharge. On the proposal for waiver of surcharge on the analogy of the case of Vardhman Overseas Limited (VOL), the Board of Directors of the Company decided (August 2007) to waive off the surcharge and recover simple interest at the rate of 15 *per cent* per annum from September 1992. After adjusting the available security and interest of Rs. 3.54 lakh, the balance surcharge of Rs. 23.62 lakh was waived off.

Audit observed (January 2008) that the Company defended its case successfully for about 12 years at every stage upto the Supreme Court and the payable amount accumulated due to non acceptance of the award of the arbitrator by the consumer. Further, in the case of VOL, the Company had lost the case in the High Court and the firm had been declared a sick unit. In view of this, waiver of surcharge on that analogy was not justified. Thus, due to unjustified waiver of legitimate surcharge, the Company lost revenue of Rs. 23.62 lakh.

The Management stated (April 2008) that the Board of Directors had approved the proposal of waiver of surcharge. The reply is to be viewed in the light of the fact that the consumer had lost the court case at every stage.

The matter was referred to the Government in April 2008; the reply had not been received (September 2008).

#### 4.14 Extra expenditure

**The Company incurred extra expenditure of Rs. 14.86 lakh on the purchase of poles due to reduction in ordered quantity and subsequent purchase at higher rates.**

The Company invited (January 2006) tenders for procurement of 15,000 prestressed cement concrete (PCC) poles each of 8 and 9 meters length in three (A, B and C) groups. Tender conditions *inter-alia* included that the tendered quantity could be increased/decreased upto 25 per cent and the offers were to be regarded as constituting an offer or offers open to acceptance in whole or in parts.

The Company received nine offers out of which offers of Shree Prestress, Delhi and Hanuman Concrete, Delhi for supply of 15,000 poles of 8 meters at Rs. 1,190 (group A) and Rs. 1,170 (group B & C) and 15,000 poles of 9 meters at Rs. 1,390 (group A) and Rs. 1,370 (group B & C) each were the lowest. The Company recommended (21 April 2006) to the Special High Power Purchase Committee (SHPPC) for procurement of 10,000 poles of 8 meters and 15,000 poles of 9 meters from each of the above two firms at their quoted rates so as to meet the revised requirement of poles for 2006-07. On getting the approval of the SHPPC, the Company placed (22 May 2006) orders on these two firms each for supply of 10,000 poles of 8 meters and 15,000 poles of 9 meters length. The firms, however, represented that total ordered quantities against the two orders was in excess of tendered quantity which could not be delivered in the scheduled delivery period and ordered quantity against the two orders be restricted to tendered quantity and orders equally divided. The Company decided (9 June 2006) to reduce the ordered quantity against these two orders each to 9,375 poles of 8 meters and 9 meters on the plea that in case total ordered quantity was not restricted to the quantities mentioned in the NIT, the suppliers might not supply the material and go for litigation/arbitration.

Audit observed (May 2007) that the action to reduce the ordered quantity was not justified as the two firms had submitted offers separately for supply of 15,000 poles each of 8 meter and 9 meter size and orders on these firms were finalised by matching their tendered quantity with the total required quantity and the firms were bound to supply the ordered quantities of poles. Further, for reduction in quantity, approval of SHPPC which had earlier decided to procure 25,000 poles each from the two firms was not obtained. Subsequently the Company placed orders (December 2006) for procurement of 1,250 poles of 8 meters and 11,250 poles of 9 meters length at higher rate\* against tender enquiry finalised in November 2006. Thus, unjustified reduction in ordered quantity of poles resulted in extra expenditure of Rs. 14.86 lakh.

The Management stated (June 2007) that both the firms on whom the orders were placed were owned by one proprietor and it was apprehended that the firms might not supply a single pole. This plea was not justified as two

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\* 750 poles of 8 meters length at Rs. 1289/- and 500 poles at Rs. 1,300/-; 11,250 poles of 9 meter length at Rs. 1540/- (3,750 poles), Rs. 1550/- (3,750 poles) and Rs. 1,399/- (3,750 poles).

separate firms had quoted as individual entities and had offered to supply the tendered quantities individually. In fact, reducing the ordered quantity on the ground that both the firms were owned by the same person was tantamount to acceptance by the Company of cartelisation.

The matter was referred to the Government and the Company in April 2008; their replies had not been received (September 2008).

#### **4.15 Extra expenditure**

**The Company incurred avoidable expenditure of Rs. 12.66 lakh due to incorrect assessment of demand and arbitrary reduction in tendered quantity.**

The Company invited (10 January 2006) tenders for procurement of 900 kms (including 500 kms for Dakshin Haryana Bijli Vitran Nigam Limited) PVC cable of 2c X 6 Sq. mm to meet requirement of material for 2006-07. Unisef Cable, Ghaziabad, the lowest tenderer, offered to supply 900 kms cable at a price of Rs. 9,300 per km variable as per IEEMA formulae. The offer was valid upto 17 August 2006. As per the terms of the tender, the tendered quantity could be increased/decreased upto 25 per cent. During the meeting of the Special High Powered Purchase Committee (SHPPC) held on 24 April 2006, the quantity was decreased from 900 kms to 600 kms (300 kms each for both the companies) for which reasons were not found on record. Accordingly, SHPPC decided to purchase 600 kms cable at a variable rate of Rs. 9,300 per km which finally worked out to Rs. 9,988.58 per km, after applying variations as per IEEMA formula. After the purchase order had been placed (June 2006), the Company assessed (21 July 2006) its additional requirement of 1,000 kms cable for 2006-07 and invited (27 July 2006) fresh tenders for the procurement. SHPPC decided (16 January 2007) to purchase 2000 kms cable from KNG Wires Delhi (1,000 kms cable for the Company) and Phoneix cable Delhi (1,000 kms cable for DHBVNL) at the lowest firm rate of Rs. 12,400 per km. Had the Company assessed the requirement correctly, it could have purchased 1,125 kms cable (900 km + 25 per cent increase) instead of 600 kms at the landed rate of Rs. 9,988.58 per km.

Thus, incorrect assessment of requirement and arbitrary reduction in tendered quantity had resulted in extra expenditure of Rs. 12.66 lakh in procurement of 525 kms cable.

The Management stated (June 2007) that the quantities were reduced for ensuring better quality of material in future. The fact, however, remains that there was no difference in the technical specifications of PVC cables in the earlier and the subsequent tenders. The Management further stated (April and May 2008) that SHPPC had taken decision to reduce the quantities and it had absolutely no role in it. Further, purchase of increased quantity would have violated its policy to make purchases at firm rates. These pleas do not hold good as the Company had itself informed the SHPPC of the reduced quantity during its meeting on 26 April 2006 and SHPPC had decided in the instant enquiry to purchase at variable rates.

The matter was referred to the Government in May 2008; the reply had not been received (September 2008).

**Haryana Power Generation Corporation Limited**

**4.16 Unjustified grant of cash incentive**

**The Company made payment of incentive of Rs. 67.02 lakh on unjustified grounds.**

Bharat Heavy Electricals Limited (BHEL) constructed units 7 and 8 of the Company at Panipat Thermal Power Station (PTPS) on a turnkey basis. The units were commissioned on 29 December 2004 and 8 April 2005 respectively. The Management paid (October 2007 to January 2008) cash incentive of Rs. 67.02 lakh to the employees of PTPS for commissioning these units within the scheduled time, after getting approval of the Board of Directors (BOD). In the proposal placed (December 2006) before the BOD, it was stated that cash incentive was also awarded to the staff on successful commissioning of the units 5 and 6 of this power station.

It was, however, noticed in audit that this proposal was not based on facts. The units 7 and 8 were commissioned after a delay of 65 and 42 days respectively of the scheduled completion date and liquidated damages of Rs. 29.96 crore were recovered. Further, these units were constructed by BHEL on a turnkey basis whereas units 5 and 6 were constructed by the Company departmentally. Thus, the Company made payment of incentive of Rs. 67.02 lakh on unjustified grounds.

The matter was referred to the Government and the Company in June 2008; their replies had not been received (September 2008).

**4.17 Short recovery of water and sewerage charges**

**The Company suffered a loss of Rs. 61.18 lakh due to short recovery of water charges from the staff residing in its colonies.**

On unbundling (August 1998) of erstwhile Haryana State Electricity Board (HSEB) and incorporation (March 1997 to March 1999) of new power sector companies, the management of estate functions in respect of power colonies was regulated as per State Government rules. The HSEB had decided (November 1978) that water charges be recovered from the employees residing in Board colonies at the rates approved by the State Government. As per the Government instructions (July 1994) recovery of water charges in the case of unmetered supply was to be made at Rs. 100 per month and on actual basis in the case of metered supply and Rupees five per water closet (WC) for sewerage connections.

Audit scrutiny of records of Tau Devi Lal Panipat Thermal Power Station Panipat, Faridabad Thermal Power Station, Deenbandhu Chottu Ram Thermal Power Plant (DCRTPP), Yamunanagar and Hydrel Yamunanagar of the Company revealed that recovery of water charges was being made at the rates



of half *per cent* of basic salary of pre revised scale, i.e., as applicable in January 1986 (ranging between Rupees 5 and Rs. 63 per month) and nothing was recovered for sewerage connections.

Thus, failure of the Company to recover water charges and WC charges at the rates approved by the State Government resulted in short recovery of Rs. 61.18 lakh for the period from April 2005 to March 2008 as worked out in Audit. The amount of short recovery for earlier period (from July 1994) was not readily available which needs to be worked out by the Company for executing the recovery.

The matter was referred to the Government and the Company in February 2008; their replies had not been received (September 2008).

### **Haryana Vidyut Prasaran Nigam Limited**

#### **4.18 Extra expenditure**

**The Company incurred extra expenditure of Rs. 25.58 lakh due to acceptance of delayed supply of power transformers without considering the lower prevailing market rates.**

The Company placed (February 2006) a purchase order on ECE Industries Limited, Sonapat for supply of five 10/16 MVA 132/11 KV power transformers at ex-works rate of Rs. 82.98 lakh (exclusive of 16.32 *per cent* excise duty and 4 *per cent* CST, freight and insurance of Rs. 1,02,167.50) per transformer. The prices were variable with base date as 1 March 2005 as per Indian Electric and Electronic Manufacturing Association (IEEMA) formulae. As per terms and conditions of the purchase order, the supplier was required to supply two transformers upto 8 May 2006, one transformer each upto 8 June, 8 July and 8 August 2006 and the Company had the right to refuse or accept the delayed supplies. Whole Time Members of the erstwhile Haryana State Electricity Board had decided (October 1994) that while accepting delayed supplies, the prevailing market rate of the material should be ascertained and compared with the rates of delayed supplies.

The Company floated (January and July 2006) two tender enquiries for the procurement of three and 15 transformers respectively. Part I of tendering firms were opened on 3 March and 30 October 2006 respectively. Price bids against the above two tender enquiries were opened only on 6 December 2006 and 18 December 2006 respectively. The offer of the existing supplier (ECE Industries Limited, Sonapat) was accepted being the lowest ex-works at variable rate of Rs. 97,57,739.59 (exclusive of 16.32 *per cent* excise duty and 4 *per cent* C.S.T., freight and insurance of Rs. 1,53,825) per transformer with base date as 1 July 2006 as per IEEMA formulae.

Audit noticed (September 2007) that the Company, while accepting delayed supplies received on 6 September and 6 October 2006 at final rates of Rs. 1,01,11,024 and Rs. 1,10,60,654 (including price variation with base date 1 March 2005), did not persuade the supplier to supply transformers at the prevailing market rates of Rs. 88,32,706 and Rs. 93,92,800 (including price variation with base date 1 July 2006) finalised against subsequent tender enquiry.

Thus, failure of the Company to offer the prevailing market price while accepting delayed supplies resulted in extra expenditure of Rs. 25.58\* lakh (including excise duty, CST and difference in freight and insurance) after deducting the liquidated damages recovered for delayed supplies.

The Management stated (May 2008) that at the time of acceptance of delayed supplies, lesser rates were not available as price bids (Part II) were opened in December 2006. The reply is not tenable as Material Management cell was expected to be aware of the latest market condition and prevailing prices.

The matter was referred to the Government and the Company in June 2008; their replies had not been received (September 2008).

**Dakshin Haryana Bijli Vitran Nigam Limited, Uttar Haryana Bijli Vitran Nigam Limited, Haryana Vidyut Prasaran Nigam Limited and Haryana Power Generation Corporation Limited**

#### **4.19 Irregular payment of conveyance allowance**

**Inadmissible reimbursement of conveyance allowance amounting to Rs. 15.40 crore was made to employees in violation of State Government instructions.**

The State Government, while accepting the recommendations of Pay revision committee for Public Sector Undertakings (PSUs) issued instructions (October 1998) to all the Administrative Departments of PSUs/institutions that Dearness Allowance, House Rent Allowance, City Compensatory Allowance, Conveyance Allowance and other incentives granted to the employees of all the State PSUs/institutions should not exceed those admissible to State Government employees under any circumstances. The State Government was granting conveyance allowance to blind and Orthopadically handicapped employees only.

Test check of records of four Power Sector Companies<sup>§</sup> revealed that though the erstwhile Haryana State Electricity Board adopted (February 1998) new scales approved by the Government, it did not discontinue the reimbursement of conveyance allowance. The conveyance allowance being paid in the range of Rs. 75 and Rs. 300 per month was raised to the range of Rs. 150 and Rs. 800 per month with effect from January 2006 by Dakshin Haryana Bijli Vitran Nigam Limited and May 2006 by other three Companies without approval of the State Government. At these revised rates an amount of

* Ex works price actually paid = 2 x Rs. 82.98 lakh	= Rs. 165.96 lakh
Add price variation paid	= Rs. 45.76 lakh
Less Ex works price payable (Rs. 88.32 lakh + Rs. 93.93 lakh)	= Rs. 182.26 lakh
	= Rs. 29.46 lakh
Add 16.32 per cent ED and four per cent CST	= Rs. 6.18 lakh
	= Rs. 35.64 lakh
Add difference in freight and insurance (2 x Rs. 0.51 lakh)	= Rs. 1.03 lakh
	= Rs. 36.67 lakh
Less liquidated damages recovered	= Rs. 11.09 lakh
	= Rs. 25.58 lakh

<sup>§</sup> Haryana Vidyut Prasaran Nigam Limited (HVPNL), Haryana Power Generation Corporation Limited (HPGCL), Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL)

Rs. 15.40\* crore had been paid to the employees of all the four Power Sector Companies from the date of revision to March 2008. Thus, all the four Power Sector Companies paid Rs. 15.40 crore as conveyance allowance in violation of State Government instructions.

HVPNL stated (May 2008) that the allowance was being paid on the pattern of Punjab State Electricity Board. The DHBVNL in its reply, endorsed by the Government stated (September 2008) that the conveyance allowance already being paid was not withdrawn and did not require any approval of the State Government.

This plea does not hold good in view of specific State Government instructions.

### Statutory corporations

#### Haryana Warehousing Corporation

##### 4.20 Undue favour

#### **Injudicious decision to allow less out turn ratio of rice on fair average quality paddy resulted in undue favour of Rs. 25.24 lakh to the millers.**

The Corporation procures paddy as per specifications of Government of India (GOI) for Central Pool and provides the same to millers, who deliver rice to the Food Corporation of India (FCI) at the fixed out turn ratio of paddy. The GOI conveyed (1 September 2005) uniform specifications of paddy and rice for Kharif Marketing Seasons (KMS) 2005-06 which were circulated (9 September 2005) to procuring agencies by the State Government. Before the commencement of procurement (with effect from 1 October 2005), the State Government approached (26 September 2005) the GOI for grant of relaxation in specifications of paddy/rice due to unprecedented and incessant rains during September 2005 to avoid distress sale of paddy by farmers.

Pending grant of relaxation in specifications, the Corporation started procuring paddy of Fair Average Quality<sup>§</sup> (FAQ) as per specifications with effect from 1 October 2005. The GOI relaxed (6 October 2005) the specifications of paddy for procurement from 6 to 24 October 2005 and directed the procuring agencies to stock and account for separately the stocks procured up to 5 October 2005, up to 24 October 2005 and thereafter. The State Government again approached (14 October 2005/24 October 2005) the GOI for relaxation in specifications of rice, for lower percentage of out turn ratio and extension in period of relaxation beyond 24 October 2005 to cover the entire period of

\* HPGCL - Rs. 3.08 crore, HVPNL - Rs. 2.72 crore, UHBVNL - Rs. 4.12 crore from May 2006 to March 2008 and DHBVNL – Rs. 5.48 crore from January 2006 to March 2008.

§ FAQ means within specifications fixed by the Government of India.

KMS 2005. The GOI decided (28 October 2005) to extend the period up to 15 November 2005, relaxed the specifications of rice and reduced the out turn ratio from 67 per cent to 66 per cent for paddy procured by State procuring agencies with the relaxed specifications. The State Government again approached (28 November 2005) the GOI for relaxation of specifications of paddy/rice from 1 October 2005 to the end of KMS, i.e., up to 31 December 2005. The GOI, however, agreed (5 December 2005) to allow relaxation from 1 October to 5 October and extended the period up to 30 November 2005. As per relaxation, the financial burden on account of reduction in out turn ratio was to be shared equally by the State Government and GOI. The Corporation had procured 22,468 MTs (16,473 MTs during 1 October to 5 October 2005 and 5,995 MTs during 16 November to 30 November 2005) paddy of FAQ and 1,79,609 MTs paddy with relaxed specifications.

Audit observed that benefit of reduced outturn ratio to millers was extended even on FAQ Paddy (22,468 MTs) alongwith paddy procured with relaxed specifications on the ground that Punjab had also been given this benefit. The decision lacked justification as the Corporation had procured paddy during 1 October to 5 October and from 16 November to 30 November 2005 as per specifications laid down by the GOI which had out turn ratio of 67 per cent. Thus, injudicious decision to extend the benefit of reduced outturn ratio has resulted in undue favour of Rs. 25.24 lakh to the millers and resultant loss to the Corporation.

In reply (March 2008) endorsed by the Government (April 2008), the Corporation stated that in view of instructions given by Government of India in December 2005 and endorsed by the State Government, the benefit was extended for the whole period. The reply is not tenable as the Government of India had reduced the outturn rates to 66 per cent for the paddy procured under relaxed specifications only whereas the paddy pointed out in audit was of Fair Average Quality as per original specifications.

### **Haryana Financial Corporation**

#### **4.21 Less recovery of loan**

**The injudicious decision of the Corporation to allow *parri-passu* charge on the assets to another financing Company had resulted in short recovery of loan by Rs. 41 lakh.**

The Corporation sanctioned (April 1999) a term loan of Rs. 1.20 crore to Mahal Foods & Beverages Private Limited (unit), Rewari for producing purified drinking water. The Corporation also sanctioned (May 2000) additional term loan of Rs. 15 lakh to meet the cost overrun of the project. The unit also approached (May 2000) the Haryana State Industrial and Infrastructure Development Corporation Limited (HSIIDC) for term loan for plant and machinery for expansion of unit for manufacturing of milk, namkeen and soda despite the fact that it was yet to start commercial production for existing project. As the unit expressed inability to offer any collateral

security, HSIIDC sanctioned (May 2000) the term loan of Rs. 55 lakh for the plant and machinery on the condition that HFC should grant *parri-passu* charge to HSIIDC on all the present and future assets of the unit. The Corporation accepted (June 2000) this condition though in other cases *parri-passu* charge had not been accepted. HSIIDC further sanctioned (September 2000) Rs. 18.62 lakh against *parri-passu* charge with the Corporation.

As per the mortgage deed, repayment of loan was to start from February 2001. The unit defaulted from the very beginning (February 2001) and failed to repay any instalment despite the loans being rescheduled. The Corporation recalled (December 2001) the entire loan. The unit also made default against the loan of HSIIDC which took over (March 2002) the possession of the unit. The assessed value of the unit was Rs. 2.39 crore which included Rs. 37.38 lakh for the Plant and Machinery. HSIIDC sold (September 2005) the unit at Rs. 2.28 crore and out of this the Corporation's share worked out to Rs. 1.50 crore against the due amount of Rs. 3.71 crore. After excluding Rs. 37.38 lakh for the value of plant and machinery the sale proceeds for the remaining assets worked out to Rs. 1.91 crore. Had the Corporation not agreed for *parri-passu* charge, it could have recovered Rs. 1.91 crore instead of Rs. 1.50 crore. As of February 2008, the Corporation's outstanding against the unit was Rs. 3.64 crore (Principal and miscellaneous expenses: Rs. 1.18 crore, interest: Rs. 2.46 crore).

The Management stated (July 2008) that total available security of the unit was Rs. 305.99 lakh against total loan of Rs. 210 lakh (including Rs. 55 lakh given by HSIIDC). Hence, there was sufficient margin. The reply lacks justification as by allowing *parri-passu* charge to HSIIDC, the Corporation suffered additional loss as the realisation value of machinery came down at the time of sale and this fact should have been in the knowledge of the Corporation, being in the business of financing for many years. Thus, injudicious decision to allow *parri-passu* charge to HSIIDC resulted in less recovery of Rs. 41 lakh.

The matter was referred to the Government in June 2008; the reply had not been received (September 2008).

## General

### 4.22 Follow up action on Audit Reports

#### *Replies outstanding*

**4.22.1** The Report of the Comptroller and Auditor General of India represents 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 2005-06 and 2006-07 were presented to the State Legislature in March 2007 and March 2008 respectively, two out of six departments, which were commented upon, did not submit replies to 11 out of 48 paragraphs/reviews as on 30 September 2008 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
2005-06	2	22	-	3
2006-07	4	20	2	6
<b>Total</b>	<b>6</b>	<b>42</b>	<b>2</b>	<b>9</b>

Department-wise analysis is given in **Annexure 21**. The Power department was the major defaulter 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.

***Outstanding action taken notes on Reports of Committee on Public Undertakings (COPU)***

**4.22.2** Replies to 29 paragraphs pertaining to 11 Reports of the COPU presented to the State Legislature between March 1995 and March 2008 had not been received (September 2008) 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	1	1
2000-01	1	1
2002-03	2	2
2003-04	2	3
2005-06	1	9
2006-07	1	8
2007-08	1	2
<b>Total</b>	<b>11</b>	<b>29</b>

These reports of COPU contained recommendations in respect of paragraphs pertaining to six<sup>@</sup> departments, which appeared in the Reports of the Comptroller and Auditor General of India for the years 1990-91 to 2004-05.

***Response to Inspection Reports, Draft Audit Paragraphs and Reviews***

**4.22.3** 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 2008 revealed that 512 paragraphs relating to 186 Inspection Reports pertaining to 21 PSUs and the Haryana Electricity Regulatory Commission remained outstanding at the end of 30 September 2008. Department-wise break up of Inspection Reports and

<sup>@</sup> Power (12), Agriculture (five), Industry (four), Mines and Geology (three), Forest (one) and Tourism (four).

audit observations outstanding as on 30 September 2008 is given in **Annexure 22**.

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, 14 draft paragraphs and four reviews forwarded to the various departments during February to July 2008 as detailed in **Annexure 23** had not been replied to so far (30 September 2008).

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 the prescribed period; and (c) the system of responding to audit observations is revamped.

**Chandigarh**  
**Dated**

**(Jagbans Singh)**  
**Accountant General (Audit), Haryana**

**Countersigned**

**New Delhi**  
**Dated**

**(Vinod Rai)**  
**Comptroller and Auditor General of India**