

Chapter-III

3 Miscellaneous topics of interest relating to Government companies and Statutory corporations

3A Government companies

3A.1 Uttar Haryana Bijli Vitran Nigam Limited

3A.1.1 Extra expenditure on the purchase of disc insulators and fittings

Due to abnormal time taken in inviting and finalising bids, the Company purchased disc insulators without investigating causes for abnormally excessive rates as compared to estimated cost, resulting in extra expenditure of Rs 41.43 lakh.

World Bank guidelines for procurement of material under its loan scheme, *inter alia*, provided that if the lowest evaluated responsive bid exceeded pre bid cost estimates by a substantial margin, the borrower should investigate causes for excessive cost and consider invitation of fresh bids. Alternatively, the borrower might negotiate with the lowest responsive bidder to try to obtain a satisfactory contract through reduction in the scope etc., which could be reflected in a reduction of contract price.

The Company invited tenders for procurement of 48,000 disc insulators.

After getting clearance from the World Bank (May 1999), the Company invited (March 2000) tenders in two packages (under World Bank loan assistance) for procurement of 48,000 (24,000 each package) disc insulators of 70 kn./45 kn. with fittings for weasel and rabbit conductors for use on 11 KV overhead lines at an estimated cost of Rs 0.90 crore. In response thereto, tenders were received (July 2000) from two firms, which quoted their rates as under:

Name of firm	Disc Insulators	Fittings	P.G. clamps	Total (Rs in lakh)
Jaya Shree Insulators, Kolkata (firm A)	94.56	54.72	-	149.28
Insulators and Electricals Company, Bhopal (Firm B)	99.36	89.76	21.12	210.24

The Company considered the lowest bid as non-responsive without seeking any clarification and incurred extra expenditure of Rs 41.43 lakh.

Though the rates quoted by the bidders were higher by 66 and 134 *per cent* of the estimated cost of Rs 0.90 crore, the Company did not investigate causes for excessive cost as per World Bank guidelines. Though the bid of firm A was lowest, it was considered non-responsive and was rejected on the grounds that the firm had offered insulators without quoting for P G clamps and did not furnish performance guarantee in respect of fittings. The Company neither

sought clarification from firm A as to what was included in fittings nor asked the firm to furnish performance guarantee. The Company placed (October 2000) two purchase orders, each for supply of 24,000 disc insulators with fittings and P G clamps at a total cost of Rs 2.10 crore on firm B.

It was noticed (June 2001) in audit that the rates of firm B were higher by Rs 39.84 lakh for insulators (Rs 4.80 lakh) and fittings (Rs 35.04 lakh). But the Company did not ask firm B to reduce the rates to match the lowest quoted rates of firm A, particularly when both the firms were to supply the fittings manufactured by Rashtraudyog Limited.

In reply, the Chief Engineer (MM) stated (November 2001) that the estimated cost was inadvertently indicated at Rs 0.90 crore as the value of fittings and clamps appeared to have been left out. The Chief Engineer further stated (January 2002) that no written estimates were framed and fresh bids were not invited because the item was vital for completion of urgent time bound work and in view of the closing of World Bank Loan Project on 31 December 2000, sufficient time was not available for procurement after re-invitation of bids. The reply was, however, not tenable as this purchase was cleared by the World Bank in May 1999 itself and the Company took 10 months in inviting the bids, leaving no time for invitation of fresh bids. Further analysis revealed that there was avoidable delay of six months during which the Company took no action for preparation of bid documents. The Company also did not analyse the estimated cost with reference to actual cost in the absence of written estimates.

Thus, the Company, at the first instance, went beyond the cost estimates by a substantial margin against the World Bank guidelines and then did not ask firm B to reduce the rates to match the rates of lowest firm. This resulted in extra expenditure of Rs 41.43 lakh (including sales tax at 4 per cent).

The matter was referred to the Government in April 2002; the reply had not been received (September 2002).

3A.1.2 Extra expenditure due to non-availing of benefit of lower rates

<p>Injudicious rejection of the offer of a firm for purchase of ACSR Weasel conductor and shortly thereafter purchasing the same at higher rates from the same firm resulted in extra expenditure of Rs 20.22 lakh.</p>
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To improve the local distribution system, tenders for the procurement of 3,720 kms (4 packages of 930 kms each) ACSR Weasel conductor were opened on 14 August 2000 under World Bank Loan. The rates of Hindustan Vidyut Products Limited, Delhi at Rs 9,042.52 per km for package 28 A, of North Eastern Cables and Conductors Limited, Jorhat (Assam) at Rs 9,005 per km for package 28 B and rates of Oswal Electrical Conductors, Jaipur at Rs 8,955.15 per km and Rs 9,000.10 per km for package 28 C and 28 D respectively (exclusive of sales tax) were the lowest. The Company decided (August 2000) to drop package 28 A on the ground of higher rate and enhanced the quantity of packages B, C and D by 15 per cent each as per

terms of the tender to compensate the deficit in quantity. The World Bank did not agree (3 October 2000) for enhancement of the quantity of packages B, C and D by 15 *per cent* and objected to the dropping of the package 28 A on the grounds of higher rate.

The Company did not avail lower rates which resulted in extra expenditure of Rs 20.22 lakh.

It was noticed (June 2001) in audit that while issuing (10 October 2000) revised letter of intents (LOI) for purchase of reduced quantity of Weasel Conductor against three packages (28 B to 28 D) at the instance of World Bank, the Company did not take action to place LOI against package 28 A on Hindustan Vidyut Products Ltd. even though its offer was valid up to 11 October 2000. However, it was decided (December 2000) to purchase 1,300 kms Weasel conductor at a higher negotiated rate of Rs 11,575 per km from the same firm. As such failure of the Company to avail of the lower rate (Rs 9,042.52 per km) received against World Bank tenders resulted in extra expenditure of Rs 20.22 lakh in the procurement of 930 kms of Weasel Conductor.

The management stated (May 2002) that decision to drop package 28 A was taken by Special High Powered Purchase Committee in view of comparatively higher rates quoted by the firms as compared to other packages and it was not possible to take any action against the decision of the committee. However, the fact remained that the Company had to purchase conductor at higher rates to recoup its requirement.

The matter was referred to the Government in February 2002; the reply had not been received (September 2002).

3A.1.3 Extra expenditure on the purchase of Meter Cup Boards

The Company purchased 57,500 MCBs at higher rates, which resulted in extra expenditure of Rs 12.56 lakh.

The Company invited (October 1999) tenders for supply of 1,15,000 Meter Cup Boards (MCBs) in two packages (22 A and 22 B) of 57,500 MCBs each for single phase meters under World Bank loan assistance. As per terms and conditions of the tender enquiry, the tenderer had the option to submit the tenders for one or more packages and offer discount for combined packages.

Capital Meters Limited, Noida who was the lowest tenderer had offered to supply MCBs against package 22 A and 22 B at the rate of US \$ 5.40 and US \$ 5.90 ex-works per MCB respectively and offered discount of US \$ 0.25 per MCB in case the order for combined package was placed on them. Though quantity and technical specifications of the MCBs were same in both the packages, the Company did not ask the firm to reduce their higher rates for package 22 B to the lower rate quoted against package 22 A. After availing discount of US \$ 0.25 each MCB, the Company decided to procure 57,500 MCBs each at US \$ 5.15 against package 22 A and at US \$ 5.65 against package 22 B for which two purchase orders vide No. WB-41 and WB-42 respectively were placed on 30 March 2000. The firm supplied the material up to 24 October 2000.

The Company did not correlate the prices of two packages, which resulted in extra expenditure of Rs 12.56 lakh.

It was noticed (June 2001) in audit that the Company in another tender of World Bank for supply of Electro Mechanical Energy Meters got the rates reduced (May 2000) from the same supplier as the quantity and specifications in the two packages were the same.

Thus, failure of the Company to correlate the purchase of meter cup boards of identical specification under two packages of World Bank loan resulted in extra expenditure of Rs 12.56 lakh in the purchase of 57,500 meter cup boards (Package 22 B).

The Government and the Company stated (February/March 2002) that the supplier offered discount on both the packages in such a way that amount payable to the firm by offering discount is the same as it would have been if the firm had reduced the higher rate for package (22 B) and brought it to the level of lower rates quoted for the package (22 A). The reply was not tenable as the supplier offered discount to obtain the order for both the packages and there was no justification in procuring the material of same specifications, from the same supplier at different rates.

3A.1.4 Short recovery of penal charges

The Company made short recovery of Rs 20.16 lakh from 127 Agriculture Pump consumers in 28 operation sub-divisions for regularisation of unauthorised extended load.

The Company introduced (September 1999) Voluntary Disclosure Scheme (VDS) for declaration of unauthorised extended load for all categories of existing consumers which remained in force up to November 1999. The VDS, *inter alia*, provided that after the expiry of the scheme, consumers found using unauthorised extended load, were to be charged penal rates for their regularisation. The penal rates for Agriculture Pump (AP) consumers were Rs 3,000 per BHP for metered supply and Rs 4,000 per BHP for un-metered supply. Further, existing AP consumers coming forward to declare and apply voluntarily for extension in load were being charged at Rs 1,000 per BHP as special charges as per the instructions of November 1993.

In order to remove contradiction in the instructions issued in November 1993 and September 1999 regarding regularisation of extension in load, the Company withdrew (May 2000) the instructions of November 1993 w.e.f. 18 May 2000. The Company, however, issued (8 November 2000) new instructions for regularisation of extension of load by existing AP consumers by taking deposit of Rs 1,500 per BHP for metered supply and Rs 2,000 per BHP for un-metered supply. Thus, during the intervening period from 18 May 2000 to 7 November 2000, provisions for levy of penalty as VDS were applicable.

The Company charged lower rates for regularisation of unauthorised extended load, which resulted in short recovery of Rs 20.16 lakh from 127 AP consumers.

A test-check of records of 28 out of 112 sub-divisions of four* operation circles revealed that the Company regularised the unauthorised extended load of 140 AP consumers during the period from 18 May 2000 to 7 November 2000 without levy of penal charges. The Company, however, charged only Rs 1,000 per BHP as special charges as per the instruction of November 1993, which was withdrawn on 8 May 2000 itself. This resulted in short recovery of Rs 21.61 lakh.

While confirming the facts, the Superintending Engineer, Operation Circle, Ambala intimated (March 2002) that an amount of Rs 1.45 lakh from 13 AP consumers of one sub-division has been recovered. Thus, penal charges amounting to Rs 20.16 lakh in respect of other 127 AP consumers had not been recovered (April 2002).

The matter was referred to the Company and the Government in March 2002; their replies had not been received (September 2002).

3A.2 Haryana Power Generation Corporation Limited

3A.2.1 Purchase in excess of requirements

Wrong assessment of the requirement of additional cables by the consultants coupled with Company's inadequate supervision led to purchase of cables in excess of the requirement to the tune of Rs 36.39 lakh.

The erstwhile Haryana State Electricity Board (Board) awarded (November 1989) a contract to M/s Tata Consulting Engineers (TCE), Bangalore for providing consultancy services for preparation of construction design and drawings etc. for Unit-VI of Panipat Thermal Power Station. As per agreed terms, TCE was responsible for any defective work due to errors in design and drawings etc. of the Unit.

TCE assessed (August 1998) the requirement of various types of control instrumentation and power cables for Unit VI at Panipat. Accordingly, the Company placed (May/June 1999) three purchase orders for supply of 658.350 kms of cables on three suppliers**. The cables were received during October 1999 to March 2000. In December 2000, the TCE informed that there was no requirement of additional power cables. It subsequently intimated (January 2001) additional requirement of 114 kms of cable based on the quantity of cables available in stores. The Company without verifying the requirement and cabling schedule, placed order (January 2001) for 111.500 kms cable valued at Rs 0.64 crore on two firms after inviting limited enquiries. The cables were received during February/March 2001.

* Ambala, Kurukshetra, Karnal and Yamunanagar.

** Paramount Cable Corporation New Delhi, Hindustan Vidyut Products Limited New Delhi and Fort Gloster Industries Limited New Delhi.

Wrong assessment of the requirement of cables resulted in excess purchase to the tune of Rs 36.39 lakh.

It was observed that out of 111.500 kms additional cables purchased, 59.720 kms cables were lying unused since April 2001 and could not be diverted/utilised at other projects. The Company could not take action against TCE for improper assessment of the cables for want of any specific mention in the agreement relating to quantum of damages leviable from the consultants in this regard. The Company had not fixed responsibility of its own employees who failed to supervise the execution of project work. Thus, wrong assessment of the requirement of additional cables by TCE coupled with Company's inadequate supervision led to purchase of cables in excess of the requirement to the tune of Rs 36.39 lakh.

The matter was referred to the Company and the Government in March 2002; their replies had not been received (September 2002).

3A.3 Haryana Vidyut Prasaran Nigam Limited

3A.3.1 Avoidable loss

Poor maintenance of sub-station and non-supply of required stores resulted in loss of Rs 19.56 lakh due to fire at the sub-station.

The Manual of Maintenance and Inspection Schedule for transformers, allied sub-stations equipments and lines envisage daily inspection of the condition of the battery and oil level in the Oil Circuit Breakers (OCBs) by the staff of the Company. Batteries installed at the sub-station provide adequate current to effect efficient tripping of OCBs to avoid any accident in case faults occurred in the system.

On 19 August 1999 (16.20 Hours), the 11 KV Bhadaf OCB installed in 132 KV sub-station, Kanina (falling under Superintending Engineer, Operation circle, Narnaul) tripped due to earth fault. The Breaker trolley of Bhadaf feeder flashed and a fire broke out in the OCB. The fire spread to other breakers and damaged 11 KV incoming-I line and six other outgoing breakers on left side of the bus coupler. The sub-station was re-energised on 22 August 1999 after replacing 11 KV outgoing/incoming OCB panels as well as DC battery at a cost of Rs 19.56 lakh.

A Committee constituted (August 1999) by the Company under the chairmanship of Superintending Engineer, sub-stations, D&P, HVPNL, Hisar for investigating the damage observed (August 1999) that the fire broke out due to use of badly carbonised and contaminated oil, unfit for use in an OCB tank, repeated tripping and reclosing of OCB on 11 KV Bhadaf feeder without fault investigation and bad condition of battery.

Poor maintenance of sub-station and non-supply of required stores resulted in loss of Rs 19.56 lakh due to fire.

It was noticed (March 2001) in audit that the contaminated oil could not be changed due to non-availability of fresh oil with sub-station despite sending repeated requirement of oil to Operation Division, Mohindergarh from September 1998. The Chief Engineer (Material Management) who was responsible for procuring transformer oil and supplying it through the network

of its stores, did not supply even a single drop of fresh oil to Kanina sub-station from September 1998 and 209 litres of fresh oil was issued only on 20 August 1999 after the fire took place. The Executive Engineer, M&P, Gurgaon had also pointed out the bad condition of cells of DC battery in April 1999, but the same was not replaced despite repeated requests for replacements from the Division since March 1999. Thus, non-availability of transformer oil and cells for DC battery despite repeated demand from the sub-station were the reasons for the poor maintenance of the sub-station, which led to loss of Rs 19.56 lakh on replacement of equipments.

While admitting the facts, the management stated (July 2002) that one Junior Engineer had been charge sheeted and action against another Junior Engineer had been taken. It was further stated that the concerned sub-station Engineer and Executive Engineer were being charge sheeted. However, reasons for non-arrangement of fresh transformer oil and the cells for replacement were not intimated.

The matter was referred to the Government in February 2002; the reply had not been received (September 2002).

3A.4 Haryana State Industrial Development Corporation Limited

3A.4.1 Injudicious grant of loan

The Company disbursed loan of Rs 2.33 crore to a unit without verifying the title of the collateral security offered which resulted in doubtful recovery of loan and interest thereon.

The Company sanctioned (October 1997) a term loan of Rs 2.50 crore to Fraternity Organics Limited for setting up a chemical unit at Kakkar Majra (Distt. Panchkula). The terms and conditions of sanction, *inter alia*, provided that the loanee unit would provide collateral security of Rs 0.75 crore (equivalent to 30 *per cent* of loan amount) and arrange working capital limit of Rs 2.55 crore from a bank before seeking disbursement of last 25 *per cent* of the term loan. The loan was to be repaid in 26 quarterly instalments with an initial moratorium period of one and half year.

The Company accepted (November 1997) mortgage documents of land measuring 37 kanals (valued at Rs 9.23 lakh) in village Pasyala (Distt. Ambala) as collateral security. Thereafter, to complete the quantum of collateral security, the unit offered (December 1998) mortgage documents in respect of a plot measuring 700 square yards at village Bhalswa, Jahangir Puri, Delhi, as another collateral security.

The Company deputed (9 December 1998) an Assistant General Manager (Sh. Mahavir Singh) to verify and evaluate the proposed collateral security. The officer reported (11 December 1998) that the land was located on the main road and had an industrial unit in its vicinity; evaluation of Rs 0.72 crore

submitted by the unit was realistic and should be accepted subject to clearance of title by documentation cell.

The Company did not get the lien marked/verify ownership of mortgaged properties from Revenue Department.

The Company had obtained the documents in respect of properties at Ambala and Delhi but their lien was not got marked/status of ownership not verified from the Revenue Department. The documentation cell headed by Company Secretary (Shri R.P.Gupta), assisted by Manager Legal (Shri H.P.Singh) accepted (December 1998) the documents on the basis of search report submitted by an advocate.

The Company released the loan of Rs 2.33 crore between November 1997 and December 1999 and cancelled the balance loan being not required. However, arrangements made by the unit for working capital was not verified before release of last two instalments of loan in March and December 1999.

As the unit defaulted repayment of loan instalments, the Company after issuing (June 2000) a notice under Section 29 of State Financial Corporations Act, took over (July 2000) possession of the unit, the value of which was assessed at Rs 2.94 crore. The assets of the unit were put to auction thrice from September 2000 and the highest bid of Rs 26.50 lakh received in February 2001 was rejected. The Company also issued (July 2001) recovery certificates for recovery of its dues against the unit and the promoters/guarantors, but with no results.

The Company took over (February 2002) possession of the collateral security at Ambala District which was under disposal. On inspection (August 2001) of collateral security at Delhi, the Company noticed that the said plot had already been acquired by the Delhi Government in the year 1978-79. Consequently, the Company could not take over the possession of the collateral security. The Company had neither filed any criminal case against the advocate for furnishing the forged search report nor initiated any action against the defaulting officers.

Non-verification of title of security resulted in doubtful recovery of Rs 3.85 crore.

The management in its reply (March 2002) stated that the Unit defrauded the Company by concealing the facts with regard to acquisition of property offered for mortgage and it had lodged FIR against the promoters/owners of collateral security. However, the fact remained that the Company did not verify the title of the collateral security which led to doubtful recovery of Rs 3.85 crore (principal: Rs 2.33 crore and interest: Rs 1.52 crore up to May 2002).

The matter was referred to the Government in April 2002; the reply had not been received (September 2002).

3A.4.2 Extravagant expenditure on purchase of flats

Injudicious decision to purchase flats without working out actual requirement led to non-use of 45 flats valued at Rs 3.38 crore.
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The Company purchased 110 flats from Haryana Housing Board at a cost of Rs 4.84 crore.

To provide housing accommodation to all categories of employees, the Company assessed (September 1991) the requirement of 105 flats and purchased (July to September 1995) 110 flats at Panchkula (comprising Type-I: 40, Type-II: 35, Type-III: 20, Type-IV: 10 and Type-V: 5) from Haryana Housing Board (HHB) at a cost of Rs 4.84 crore.

Before taking over the possession of the flats, the House Allotment Committee of the Company recommended (May 1995) to purchase 14 additional flats from HHB. Keeping in view the existing and future expansion and to meet the additional requirement of flats, Board of Directors, however, decided (July 1995) to approach Haryana Urban Development Authority (HUDA) for allotment of one acre of land at Panchkula to construct additional flats thereon.

The Company constructed another 52 flats at a cost of Rs 4.15 crore.

HUDA issued (September 1996) letter of allotment for plot measuring 5,824 square metres in sector 14, Panchkula at a tentative cost of Rs 0.78 crore. The Company, after taking possession (October 1996) of the plot, started (February 1999) construction of 52 flats of the type A, B, & C (equivalent to type-III, IV and V) against the existing requirement of 14 flats and completed construction in September 2000 at a cost of Rs 4.15 crore.

Meanwhile, the Company at its own observed (October 1999) that entire 35 flats of Type-III, IV and V purchased from HHB had become surplus and approached (June 1999) HHB for grant of permission for disposal of these flats. No such permission had been granted so far (March 2002).

Number of surplus flats increased to 45 valuing at Rs 3.38 crore.

It was noticed (June 2001) in audit that on completion of 52 new flats and allotment thereof, the number of surplus flats purchased from HHB increased to 45 (Type-I: 16, Type-II: 14, Type-III: 10 and Type-V: 5) valued at Rs 3.38 crore. It was further seen that only one senior manager and five managers were inducted after January 1995, who were eligible for Type-IV and Type-III accommodation respectively and Company had not diversified/expanded its activities during the last five years. Seven flats of new accommodation were also awaiting allotment (May 2002).

Thus, the injudicious decision to construct 52 additional flats, while the Company had no expansion plan in hand, resulted in blockage of investment of Rs 3.38 crore in 45 flats purchased from HHB and loss of interest thereon worked out to Rs 0.85 crore at 15 *per cent* per annum from October 2000 to May 2002 besides deterioration in condition of flats due to their non-use.

The management stated (May 2002) that the decision to construct additional flats was taken, to provide better constructed accommodation to the employees of coming projects. Reply of the management was not tenable as the Company had not diversified/expanded its activities during the last five years and recruited only five managers and one senior manager during that period.

The matter was referred to the Government in March 2002; the reply had not been received (September 2002).

3A.5 Haryana Agro Industries Corporation Limited

3A.5.1 Loss in disposal of paddy

Due to rejection of better offer, the Company suffered loss of Rs 46.82 lakh in auction of unmilled paddy besides further loss of Rs 7.31 lakh on account of shortages.

The miller delivered rice equivalent to 2,064.50 MT of paddy leaving unmilled paddy of 5,001.13 MT.

The Company procures paddy for central pool and provides the same to millers who deliver rice to Food Corporation of India (FCI) after milling. During Kharif 1999, the Company procured 15,512.355 MT of paddy out of which it stored 7,065.630 MT with Om Rice Mills, Ratia (Fatehabad) for milling and delivery to FCI. The agreement with the miller, *inter alia*, provided that miller would ensure delivery of rice to FCI between October 1999 and February 2000 and would be responsible for safe custody and maintenance of paddy. In March 2000 after reviewing the progress in milling of paddy procured for central pool by State procurement agencies, the last date for acceptance of rice was extended up to April 2000 by FCI and thereafter, onus for disposal of paddy/rice rested with the Company. Up to April 2000, the miller could deliver rice equivalent to 2,064.50 MT of paddy leaving unmilled paddy of 5,001.13 MT.

The Company auctioned unmilled paddy at a loss of Rs 46.82 lakh.

Subsequently, the miller offered (May 2000) to deposit either the cost of balance paddy on book weight basis at Rs 723.38 per quintal or the cost of rice as per FCI rates at Rs 993.87 per quintal. But, the Company did not accept the offers on the plea that it could not sell the rice of levy quota in the open market. The plea taken by the management was not tenable as the unmilled paddy stood de-levied by the Government after 30 April 2000 and it could have been disposed of in any manner by the Company. The Company, thereafter, auctioned (July 2000) the unmilled paddy at the rates ranging between Rs 629 and Rs 640 per quintal.

Besides, shortage of 301.18 MT was noticed while lifting the sold paddy, which was reduced to 101.062 MT after allowing driage allowance of 4 *per cent* to the miller. The shortage valuing Rs 7.31 lakh, however, has not been recovered from the miller.

Thus, besides Rs 7.31 lakh on account of shortages, the Company suffered a loss of Rs 46.82 lakh in auction of paddy by not accepting the offer of miller.

The matter was referred to the Company and the Government in April 2002; their replies had not been received (September 2002).

3A.5.2 Doubtful recovery due to acceptance of defective security

Acceptance of defective security led to non-recovery of Rs 30 lakh.

The Company agreed to subscribe to equity capital of Rs 30 lakh in the unit.

The Haryana Agro Industries Corporation Limited (Company) signed (March 1996) financial collaboration agreement with the promoters of Tushar Agri-Business Consortium (India) Limited, Bahadurgarh for setting up a project of export oriented soft/hardened plants and cut flowers in assisted sector. The collaboration agreement, *inter alia*, provided that the Company would subscribe to equity share capital to the maximum of Rs 30 lakh and the promoter was required to purchase the equity after expiry of the period of three years from the date of commencement of commercial production or five years from the date of first disbursement towards equity, whichever was earlier. Further, clause 38 and 39 of the agreement envisaged that if the project was not implemented within a period of two years from the date of this agreement, the Company could cancel the agreement and would be at liberty to sell its shareholding in the unit to any person and recover the difference, if any between the price payable and sale proceeds of the share from the collaborator.

The Company got FDRs of Rs 30 lakh as collateral security.

In order to safeguard the interest of Company, the promoters were asked to give Fixed Deposit Receipts (FDRs) of an amount equivalent to the equity to be released in the form of collateral security. The Company disbursed (28 October 1996) a sum of Rs 30 lakh to the unit after receipt of FDRs of equivalent amount from the promoters.

The FDRs could not be encashed as these were in the joint names of the Company and father of a promoter which resulted in doubtful recovery of Rs 30 lakh.

During audit (May 2001), it was noticed that while accepting the FDRs, the Company did not observe that the FDRs were in the joint name of the Company and Shri T N Aggarwal (father of one of the promoters). The unit did not implement the project in terms of agreement. As such, the Company recalled (March 1998) the equity capital. In order to encash the said FDRs, the Company approached (February 1999) Nainital Bank Limited, Delhi through Union Bank of India, Chandigarh to release the payment. However, the Nainital Bank Limited returned (18 March 1999) the FDRs to the Union Bank of India with the remarks that the FDRs had not been discharged by the competent authority of the Company as well as Shri T N Aggarwal. The Company filed a complaint (January 2000) with National Consumers Dispute Redressal Commission, New Delhi against the bank and prayed for issue of directions to the bank to release the FDRs. The commission dismissed (September 2000) the complaint of the Company with remarks that dispute raised in the petition should be decided before a Civil court. The Company, however, filed (July 2001) a civil suit against Nainital Bank Limited and Shri T N Aggarwal for release of FDRs. Further, progress of the case was awaited (April 2002).

The management in reply to preliminary memo stated (June 2001) that although there was no condition in the agreement for obtaining collateral security, yet it took the FDRs from promoters to safeguard its interests. Reply was not tenable as obtaining defective collateral security of FDRs did not serve the desired purpose and led to doubtful recovery of Rs 30 lakh.

The matter was referred to the Company and the Government in May 2002; their replies had not been received (September 2002).

3A.6 Haryana State Electronics Development Corporation Limited

3A.6.1 Injudicious planning

Injudicious decision of the Company to purchase bigger plot of land without making financial arrangement resulted in blockade of Rs 5.03 crore besides avoidable payment of interest of Rs 1.34 crore.

The Company acquired 6.5 acres of land valuing Rs 4.34 crore for IT complex at Gurgaon.

For setting up an Information Technology and Communication Complex at Gurgaon, the Company approached (March 1995) Haryana Urban Development Authority (HUDA) for allotment of a plot measuring 2.5 acres. The Company decided (December 1995/March 1996) to approach HUDA for increase in the size of plot to 6.5 acres and requested HUDA accordingly. Accordingly HUDA offered (March 1996) 6.5 acres (26,000 square metres) of land valuing Rs 4.16 crore at the rate of Rs 1,600 per square metres.

As per terms of tentative allotment letter (March 1996), 25 per cent of the cost of land was to be deposited within 35 days and balance 75 per cent in two equated six monthly instalments (September 1996 and March 1997) along with interest @ 15 per cent per annum and penal interest @ 18 per cent per annum for the period of default, if any.

The Company deposited (April 1996) Rs 1.04 crore being 25 per cent of the cost of land. Against the first equated instalment of Rs 1.56 crore plus interest, due on 27 September 1996, the Company deposited only Rs 1.04 crore on the due date. It did not deposit the balance amount of Rs 2.08 crore plus interest by due date (March 1997).

HUDA issued (October 1997) a formal letter of allotment for 27,095.04 square metres of land, valuing Rs 4.34 crore and requested for payment of Rs 2.96 crore (including interest). As per allotment letter, the Company was to start construction within six months from the issue of tentative letter of allotment but the Company did not start construction despite show cause notices issued (November 1998) by HUDA. After depositing rupee one crore (September 1999) as adhoc payment, the Company had not deposited the principal amount of Rs 1.26 crore till June 2001 and transferred (July 2001) one acre of land to Government of India for setting up Earth Station. Accordingly, HUDA asked (February 2002) the Company to deposit balance amount of Rs 1.95 crore inclusive of interest of Rs 1.34 crore up to March 2002 which was deposited in March 2002.

During audit (July 2001), it was observed that the Company's decision to purchase a big industrial plot without making financial arrangements for development of the plot was unwarranted since it could not make full payment by due date i.e., March 1997 to HUDA due to the paucity of funds. After

depositing (September 1999) Rs one crore as ad hoc payment, the Company did not take any action to develop the Complex by arranging the required funds. It was decided (24 December 2001) to undertake this project at a cost of Rs 92.50 crore by raising loan of Rs 36.25 crore from National Capital Region Planning Board, Delhi. But no formal agreement had been signed (February 2002).

The management stated (February 2002) that payment to HUDA could not be made due to non-receipt of share capital from State Government since 1999. Further, the payment of interest to HUDA had been off set by increase in the market price of the land at Gurgaon. The reply of the management was not tenable as payment of land was to be made by March 1997, as such non-receipt of share capital from State Government after 1999 had no relevance. Since the objective of the Company was to promote the growth of electronics units in the State by providing necessary infrastructure, the management's version that payment of interest would be offset by increase in the market price of land was also not justified.

In the absence of definite development plan, the funds to the extent of Rs 5.03 crore remained blocked.

Thus, in the absence of a definite development plan and appropriate decision to accept the land according to resources, the funds to the extent of Rs 5.03 crore remained blocked. Moreover, the Company had to pay penal interest of Rs 1.34 crore on the delayed payments, which otherwise could have been avoided.

The matter was referred to the Government in March 2002; the reply had not been received (September 2002).

3A.7 Haryana Backward Classes & Economically Weaker Section Kalyan Nigam Limited

3A.7.1 Payment of penal interest

The Company paid penal interest amounting to Rs 49.80 lakh to NBCFDC during 2000-01 due to poor recovery of loan and diversion of funds for administrative expenses.

The Company had been operating as a State Channelising Agency (SCA) of National Backward Classes Finance & Development Corporation (NBCFDC) for disbursement of term loans to the members of backward classes in the State of Haryana.

The terms of loan agreement, *inter alia*, provided that the NBCFDC would provide financial assistance at the minimum rate of 4.5 per cent per annum with a rebate of 0.5 per cent for loans up to Rs 2 lakh. The SCA would in turn charge interest at the rate of 7 per cent per annum from the beneficiaries, thus, leaving a margin of 3 per cent towards administrative cost of SCA after availing the rebate of 0.5 per cent. The duration of assistance would be 10 years with a moratorium period of 9 months and 3 months for repayment of principal and interest respectively. In case of default in repayments by the

The Company paid penal interest of Rs 49.80 lakh to NBCFDC due to diversion of recoveries towards administrative expenses.

Company, the NBCFDC would charge compound/penal interest. The penal interest was in the form of compound interest at the rate of 4.5 *per cent* on default amount, which was revised (April 2000) upward to 12 *per cent* per annum with quarterly compounding under new lending policy of NBCFDC.

It was noticed (December 2001) in audit that despite steep increase in the rate of penal interest, the Company continued to commit default in repayment of principal/interest and the default amount increased from Rs 4.04 crore in April 2000 to Rs 7.33 crore in March 2002 whereupon, the NBCFDC recovered penal interest of Rs 49.80 lakh for the defaults up to 31 March 2001. It was observed that the default in repayments was attributable to diversion of recovery amount of Rs 4.05 crore for meeting the administrative expenses during six years up to 2001-02 and decreasing trend in recovery of loans which decreased from 75 *per cent* in 1996-97 to 27 *per cent* in 2001-02.

Thus, poor recovery of loans and utilisation of the same for administrative purposes had resulted in payment of penal interest amounting to Rs 49.80 lakh for the defaults upto 2000-01.

The Company while admitting (February 2002) the facts stated that against 12 *per cent* of the total share capital as administrative subsidy to meet its administrative expenses, the State Government had been releasing only 4 *per cent* as administrative subsidy. The reply was, however, not tenable as the steep downward trend in recovery of loans and failure of the Company to keep administrative expenses within the limits were the main reasons for payment of penal interest.

The matter was referred to the Government in January 2002; the reply had not been received (September 2002).

3B. Statutory corporations

3B.1 Haryana Financial Corporation

3B.1.1 Irregular disbursement of financial assistance

Disbursement of working capital/bridge loan to an ineligible unit and acceptance of insufficient collateral security rendered recovery of Rs 3.98 crore doubtful.

The Corporation sanctioned (November 1993) a term loan of Rs 0.62 crore to APT Yarns (P) Limited to set up a unit to manufacture various varieties of yarn. The loan was repayable in 25 quarterly instalments. The loan amounting to Rs 48.23 lakh was disbursed during the period from April 1994 to January 1995 and balance loan of Rs 13.77 lakh was cancelled (June 1995) due to no demand from the unit. The unit approached (December 1994) the Corporation for working capital limit of Rs 25 lakh and the same was sanctioned (December 1994) against hypothecation of stocks and book debts with the condition that loanee would offer collateral security in the shape of

immovable assets equivalent to 50 *per cent* of the loan sanctioned. While the loanee availed only the first installment (17 May 1995) of Rs 6.25 lakh against above sanctioned working capital limit, the Corporation further sanctioned (May 1995) additional working capital limit of Rs 25 lakh in the shape of bridge loan without analysing the reasons for not availing existing limit of Rs 25 lakh. The loanee availed Rs 24.99 lakh (May 1995) against bridge loan and Rs 18.75 lakh (June and July 1995) against the working capital limit sanctioned in December 1994.

Since the unit was in default of term loan, working capital loan and bridge loan since September 1995, the Corporation recalled the entire outstanding loan of Rs 1.20 crore including interest of Rs 21.58 lakh in February 1996 and took over (May 1997) the possession of the unit, whose value was assessed as Rs 32.92 lakh.

During audit, it was observed (December 2001) that the Corporation accepted the land measuring 144 square yards and building thereon valuing Rs 15.44 lakh against the actual measurement of 16 square yards as collateral security in respect of working capital loan without verifying the original documents from the revenue records and relied upon the valuation reports submitted by the valuers. It also did not obtain credit worthiness report from the bankers of the loanee though required as per the sanction letter for enhancement of working capital limits. Further, the Corporation accepted an existing primary security obtained against the term loan as collateral security for release of working capital facilities against the laid down norms. The Board of Directors also desired (May 1995) that bridge loan should be given only to existing well performing units and units should be in operation for four years. But in this case, bridge loan was sanctioned despite the fact that unit was in operation for about 5 months only.

Disbursement of financial assistance to an ineligible unit and acceptance of invalid collateral security rendered recovery of Rs 3.98 crore as doubtful.

The unit was disposed of (June 1998) for Rs 35 lakh. After adjusting the sale proceeds, the Corporation tried (July 1999) to take over the possession of collateral security, in order to recover the balance amount of Rs 1.97 crore. The Corporation could not take over the possession of collateral security (January 2002) as the property was not in the name of the promoter. Thus, disbursement of working capital/bridge loan to an ineligible unit and acceptance of invalid collateral security had rendered recovery of Rs 3.98 crore (May 2002) as doubtful.

The Corporation in its reply (May 2002) stated that collateral security was accepted after examining the title of the property. The reply was not tenable, as the Corporation could not take possession of the collateral security, as the property was not in the name of promoter. The Corporation, however, admitted that it accepted existing primary security as collateral security towards working capital facilities against the requirement of separate collateral security.

The matter was referred to the Government in March 2002; the reply had not been received (September 2002).

3B.1.2 Irregular sanction/disbursement of working capital assistance

Irregular sanction/disbursement of working capital assistance led to doubtful recovery of Rs 0.66 crore.

The working capital assistance scheme of the Corporation, *inter alia*, provided that in case an applicant was not an existing borrower unit, the unit would mortgage its primary security, hypothecate its current assets and furnish immovable property equivalent to 50 *per cent* of the proposed working capital assistance as collateral security. The collateral security would be distinct from the primary security. The disbursement would be made only after the completion of the requisite formalities.

Faridabad Weaving Factory Pvt. Ltd., Faridabad applied (February 1995) for working capital limit of Rs 25 lakh and offered its existing plant and machinery as primary security besides corporate guarantee of East India Cotton Mfg. Co. Ltd., Faridabad. While forwarding (February 1995) the case to Head Office, the Faridabad branch pointed out that value of existing machinery was Rs 0.55 lakh only. Pending sanction, the unit applied (March 1995) for enhanced limit of Rs 0.80 crore. The Corporation sanctioned (29 March 1995) the limit of Rs 0.65 crore subject to the condition that loanee would furnish corporate guarantee of Rs 44.75 lakh and collateral security of Rs 29 lakh besides hypothecation of current assets. The limit of Rs 0.65 crore included cash credit: Rs 36 lakh, clean bill discounting: Rs 20 lakh and letter of credit: Rs 9 lakh. However, the condition of collateral security of Rs 29 lakh was not included in the sanction letter issued on 29 March 1995.

The Corporation disbursed loan to a unit which was being run in rented premises and without proper guarantee resulting in doubtful recovery of Rs 0.66 crore.

The Corporation disbursed Rs 30.11 lakh against cash credit (Rs 17.88 lakh) and discounted bills (Rs 12.23 lakh) during December 1995 to February 1996 despite the fact that the Corporation knew (May 1995) that the unit was being run in rented premises along with five other units in the same shed and there was every possibility of shifting the material from one unit to another unit. Further, the corporate guarantee obtained was not sufficient in view of other loans raised by the guarantor. The unit cleared (September 1996) the amount of bill discounting.

When the unit failed to repay the instalments, the Corporation decided (July 1996) to take the possession of the unit. But the same could not be taken because of the operation of 7-8 similar identical units in the same premises. Recovery certificate issued (February 1999) against directors/guarantors was received back (October 1999) with the remarks that unit was lying closed and amount could be recovered by the sale of primary and other properties first. Meanwhile, one corporate guarantor obtained stay against the recovery certificate. Further outcome thereof was awaited (June 2002). The Corporation could not take over the possession of the unit resulting in doubtful recovery of Rs 0.66 crore (principal: Rs 17.88 lakh, interest and other expenses: Rs 48.30 lakh).

The management replied (January 2002) that corporate guarantee of East India Cotton Mfg. Co. Ltd. was considered insufficient and it was decided to release working capital on pro-rata basis on available existing security. The reply was not tenable because as per policy, the collateral security was to be taken in the shape of immovable fixed assets, whereas the Corporation accepted the machinery and corporate guarantee as collateral security. Further, the Corporation accepted the reassessed value of an existing plant and machinery (Rs 33.72 lakh) having depreciated value of Rs 0.55 lakh as additional collateral security.

Thus, irregular sanction/disbursement of working capital assistance led to doubtful recovery (April 2002) of Rs 0.66 crore to the Corporation. No responsibility had been fixed so far (March 2002).

The matter was referred to the Government in May 2002, the reply had not been received (September 2002).

Chandigarh

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Dated

Countersigned

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

Dated