Chapter-III

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

Government companies

Haryana Power Generation Corporation Limited

3.1 Extra expenditure in the payment of insurance premium

Failure of the Company to ascertain from BHEL the time required for commissioning the Unit-VI after January 2001 resulted in payment of premium on monthly basis instead of quarterly basis thereby entailing extra expenditure of Rs. 51.98 lakh.

The erstwhile Haryana State Electricity Board obtained a comprehensive marine-cum-erection (MCE) insurance policy for Rs. 264.94 crore from Oriental Insurance Company from February 1991 to March 1996 to cover transit, storage, erection and commissioning of 210 MW boiler, turbo generator and their auxiliaries to be supplied by BHEL for Unit-VI of Panipat Thermal Power Station (PTPS).

Due to paucity of funds, the erection works of the unit could not be completed as per schedule and the Company in consultation with the insurer assessed (October 2000) the value of policy de-novo at Rs. 350.97 crore. The policy was extended up to 26 March 2001 so as to synchronise with revised scheduled date of commissioning (March 2001) as fixed in joint co-ordination meeting (September 2000) with the Central Electricity Authority. Accordingly, the additional insurance premium of Rs. 0.59 crore was deposited up to March 2001. The unit was synchronised (31 March 2001) on oil and was scheduled to be fired on coal on 15 June 2001. As the period of MCE policy was to be got extended till full load/commercial operation of the unit (15 June 2001), the insurer, on being approached (January 2001) by the Company, intimated (February 2001) that premium for three months, four months and six months would be Rs. 29.20 lakh, Rs. 46.60 lakh and Rs. 46.80 lakh respectively.

The insurance policy was got extended (March 2001) for three months up to 26 June 2001 by depositing premium of Rs. 29.20 lakh. The unit could not be synchronised on coal as scheduled (15 June 2001) due to supply of unproven/untested coal mill equipments by BHEL. Certain equipment couplings etc. damaged during their initial operation and girth gear/driving pinion were sent (January 2001) to Gaziabad by BHEL for rectification.

It was seen in audit (March 2003) that without inquiring from BHEL, about the time to be taken for commissioning the Unit, the Company got extended the insurance policy each month at monthly premium of Rs. 27.06 lakh for three months up to 26 September 2001 instead of getting it extended for three months at the premium of Rs. 29.20 lakh in June 2001 itself. Since the Company was not aware of the likely date of receipt of equipment back from BHEL, it should have used financial prudence and taken a safer route of going in for three months premium in their own interest.

Failure to get the Unit-VI of PTPS insured on quarterly basis instead of monthly basis resulted in extra expenditure of Rs. 51.98 lakh.

Thus, failure of the Company to ascertain the time required for commissioning the Unit-VI after January 2001 from BHEL resulted in payment of premium on monthly basis instead of quarterly basis thereby entailing extra expenditure of Rs. 51.98 lakh (Rs. 81.18 lakh minus Rs. 29.20 lakh).

The matter was referred to the Government and the Company in May 2003; their replies had not been received (September 2003).

3.2 Loss due to delay in payment of principal and interest

Failure of the Company to repay the principal and interest resulted in loss of Rs. 19.39 lakh.

The Company availed of loans from Power Finance Corporation (PFC) for environmental upgradation of Panipat Thermal Power Station (PTPS) (Unit-VI), R&M activities of Faridabad Thermal Power Station and Western Yamuna Canal (Stage-II) Hydro-Electric Project, etc. The terms and conditions of the loans, *inter alia*, included that in case the Company failed to repay the principal or interest/interest tax in time, penal interest ranging from 2 to 2.75 *per cent* over and above the normal rate of interest would be charged.

It was noticed (September 2002) in audit that in case of 10 loans availed (during 1998 to 2001) by the Company, the instalments of principal (Rs. 49.95 crore) and interest (Rs. 48.56 crore) were deposited after a delay ranging between six and 75 days. The PFC levied penal interest of Rs. 19.39 lakh for delay in payment of principal (Rs. 9.11 lakh) and interest (Rs. 10.28 lakh).

While admitting the facts the management stated (February 2003) that the funds released by the Haryana Vidyut Prasaran Nigam Limited (HVPNL) for sale of power were inadequate and there was default in release of subsidy to the extent of Rs. 474 crore by the State Government during 2000-01. This reply of the Company was endorsed (August 2003) by the Government. The reply was not tenable as it was the liability of the Company to arrange

sufficient funds to ensure timely repayment of principal and interest to avoid penal interest. Further, State Government released Rs. 372.27 crore against equity and subsidy of Rs. 847.13 crore due to the Company during 2000-01. The Company failed to persuade the State Government to release its dues in time even though the State Government had undertaken to make available adequate funds for repayment of interest and loan due to institutional creditors.

Thus, due to delayed payment of principal and interest, the Company had suffered a loss of Rs. 19.39 lakh on account of penal interest.

3.3 Avoidable expenditure for not availing the benefit of lower rates

The Company did not avail of the benefit of lower rates for capital overhauling of boiler and auxiliaries of Unit-II of Faridabad Thermal Power Station, which entailed extra expenditure of Rs. 15.18 lakh.

In order to undertake capital overhauling of boiler and auxiliaries of Unit-II of Faridabad Thermal Power Station in the month of July 2000, an estimate for 27 items amounting to Rs. 65.78 lakh was prepared (May 2000). Abazan Constructions Private Limited was found to be the lowest at negotiated rate of Rs. 52.67 lakh and validity of the offer was extended up to November 2001. The capital overhauling of Unit-II was not undertaken because in the meantime, breakdown of a generator occurred (August 2000) in Unit-III and it was shut down to carry out repairs. Consequently, the management did not shut down Unit-II for which tenders had been invited (June 2000) but preferred to shut down Unit-I during April to June 2001. Accordingly, overhauling of Unit-II was postponed up to November 2001 for which validity of the offer of the firm had to be extended.

Meanwhile, the management observed (August 2001) that the scope of work of Unit-II had changed and decided (August 2001) to allot the work in three packages on the plea that a single firm would not be able to execute the enhanced work. Accordingly, fresh tenders were invited (September 2001) by including an additional item of air heater tubes (estimated cost: Rs. 8 lakh) and the work was allotted (November 2001) to three firms for Rs. 78.31 lakh including the original firm. The work was completed (9 January 2002) at a cost of Rs. 85.90 lakh.

It was noticed in audit that against the estimate of Rs. 65.78 lakh of May 2000, the fresh estimate for the same 27 items excluding the new item (Rs. 8 lakh) was Rs. 68.24 lakh. Considering the increase of Rs. 2.46 lakh only for 27 items the Company incurred extra expenditure of Rs. 15.18 lakh[*] by allotting the work in three packages ignoring the negotiated rates of Rs. 52.67 lakh as the offer of original firm was valid up to November 2001. For execution of new work of replacement of air heater tubes (estimated cost Rs. 8 lakh), the Company ought to have invited separate tenders and could have synchronised it with the overhauling of Unit-II.

[*] Rs. 15.18 lakh = Rs. 78.31 lakh – Rs. 2.46 lakh – Rs. 8 lakh – Rs. 52.67 lakh.

Thus, injudicious decision of the Company in not availing the benefit of lower rates received in June 2000 and having extended validity period up to November 2001 had resulted in avoidable expenditure of Rs. 15.18 lakh for award of work of overhauling of Unit-II.

The matter was referred to the Government and the Company in May 2003; their replies had not been received (September 2003).

3.4 Non-recovery from the contractors

Failure of the management to ensure compliance of mandatory provisions had resulted in non-recovery of Rs. 17.58 lakh from the contractors.

Under the provisions of the Employee's Provident Fund (EPF) and Miscellaneous Provisions Act, 1952, the principal employer is responsible to ensure that EPF is deducted and deposited with the Provident Fund authorities. It further provides that every contractor would submit a statement showing recoveries of EPF contributions in respect of employees employed by him to principal employer every month within seven days of close of every month.

It was noticed (March 2003) in audit that while releasing payments to the contractors, the management did not ensure that EPF was deducted and deposited with the authorities. The Regional Provident Fund Commissioner, Faridabad (RPFC), assessed (November 1999) non-discharging of liability of Rs. 34.96 lakh on account of EPF by 18 contractors (six working: Rs. 23.31 lakh and 12 non-working: Rs. 11.65 lakh) engaged by the Faridabad Thermal Plant during 1995-96 to 1998-99. Of these, seven contractors (five working and two non-working) having a liability of Rs. 27.12 lakh had produced challans for having deposited EPF of Rs. 17.38 lakh, leaving Rs. 9.74 lakh un-deposited. Out of remaining, 10 non-working contractors (liability: Rs. 7.48 lakh) and one working contractor (liability: Rs. 0.36 lakh) had made no deposits. While seven out of nine non-working contractors (liability: Rs. 6.58 lakh) who deposited nothing and two contractors who partly deposited Rs. 1.56 lakh were untraceable, one working contractor who had deposited Rs. 2.64 lakh disowned (February 2003) the balance liability of Rs. 2.31 lakh on the plea that his account had been cleared by the Factory Manager and Labour Welfare Officer of the Plant. As such, recovery of Rs. 17.58 lakh had become doubtful.

Failure of the management to ensure compliance of mandatory provisions had resulted in non-recovery from contractors to the extent of Rs. 17.58 lakh.

The matter was referred to the Government and the Company in May 2003; their replies had not been received (September 2003).

Dakshin Haryana Bijli Vitran Nigam Limited

3.5 Avoidable loss

Laxity on the part of the Company to enforce the codal provisions for recovery of its dues followed by implementation of a waiver scheme without devising mechanism to ensure that the beneficiaries pay their bills regularly thereafter led to avoidable loss of Rs. 37.37 crore.

Terms and conditions of supply of energy envisaged that the power utility would render bills to the consumer on monthly basis and the payment would be made by the consumer on demand. If the bill is not paid within seven days in case of large supply consumers and 15 days for other category consumers, after the date of presentation, the consumer upon the utility serving him seven days notice in writing of intention of disconnect, shall be liable to have energy to his premises disconnected.

As per projections in the Reforms programme adopted (August 1998) by the erstwhile Haryana State Electricity Board (Board), receivables for sale of power should not be more than three months' sales. Accordingly, the Board while transferring assets to power sector companies in August 1998, decided that receivables should be kept (net after provision for doubtful debts) initially for two months' sales so that by the year end, the transmission companies should not have receivables for more than three months' sales.

It was noticed (March 2003) in audit that the Company did not enforce the above measures resulting in accumulation of dues. The Company failed to achieve the purpose of Reforms programme and its recoverables from the consumers rose constantly from 2.48 months' sales of the net recoverables during 1998-99 (as on 14 August 1998) to 5.13 months' sale in 2001-02. As on 31 March 2002, the total recoverables amounted to Rs. 818.88 crore of which Rs. 154.14 crore were due for more than three years.

On a decision taken by the State Chief Minister (25 April 2002), the Company issued (27 April 2002) a 'final surcharge waiver scheme' for clearing of outstanding dues. The scheme, *inter alia*, provided that:

- the arrear of electricity bills of defaulting domestic, non-domestic and agricultural consumers in the rural areas, who were defaulters as on 31 March 2001 and had continued to do so up to 30 April 2002 would be eligible for the scheme;

- seventy-five *per cent* of outstanding amount as on 30 April 2002 would be waived of for those consumers who opt to clear the outstanding in one go provided the payment was made by 15 May 2002 (extended up to 31 May 2002).

Before implementing the scheme, the Company did not ensure that once a consumer had been benefited under the scheme, would pay the bills regularly thereafter. The Company waived dues of Rs. 59 crore comprising sale of power (Rs 37.37 crore), surcharge (Rs 20.47 crore) and electricity duty (Rs 1.16 crore) in respect of 0.87 lakh consumers under the scheme.

The scheme would discourage consumers who pay their dues regularly and encourage the defaulters on the pretext of availing benefits under such schemes in future. This was corroborated by the fact as revealed during random check that 3,179 consumers (Bhiwani circle: 2,845 and Sirsa circle: 334) who had availed the benefit of waiver of Rs. 6.63 crore had again become defaulters to the extent of Rs. 2.19 crore up to July 2003.

Thus, laxity on the part of the Company to enforce the codal provisions for recovery of its dues followed by implementation of the waiver scheme without devising mechanism to ensure that the beneficiaries would be regular in payments thereafter, led to avoidable loss of Rs. 37.37 crore.

The matter was referred to the Government and the Company in August 2003; their replies had not been received (September 2003).

3.6 Non-pursuance of dues on account of executing the deposit work

Execution of deposit work relating to HUDA without getting advance deposit coupled with subsequent non-pursuance resulted in non-recovery of Rs. 1.78 crore.

Departmental Financial Rules adopted by the erstwhile Haryana State Electricity Board (Board) provided for recovery of estimated expenditure in lump sum, or in instalments before starting the execution of deposit work and limiting the expenditure on deposit work to the amount of deposits received. For any excess expenditure, action was required to be taken at once to recover the same from the concerned party. The Board decided (September 1983) that in case the works were executed without getting sufficient deposit, the loss would be recovered from both, the Sub-divisional Officer and the Executive Engineer concerned on *pro-rata* basis. Further, as per sales circular issued (September 1992) by the Board, cost of sub-station/additional transformer required exclusively for meeting the power requirement of a colonizer was to be recovered from him.

It was noticed (February 2003) in audit that for electrification of Electronic City, Sector 18, Gurgaon, being developed by Haryana Urban Development Authority (HUDA), the Board asked (September 1995) HUDA to deposit Rs. 1.78 crore towards share of cost of new sub-station (Rs 1.65 crore) in Sector 23 of Gurgaon at the rate of Rs. 15 lakh per MVA for 11 MVAs from where the electronic center was to be electrified, operation and maintenance charges (Rs 12.29 lakh) for five years and inspection charges (Rs 0.74 lakh). Without ensuring the deposit, the Board completed the work in November 1995 and asked HUDA to deposit the amount. The matter was not pursued with HUDA after November 1995 due to the fact that the case relating to

Taking up the deposit work without getting the amount deposited from HUDA and non-pursuance thereof resulted in non-recovery of Rs. 1.78 crore.

recovery of Rs. 1.78 crore was not entered in the accounting records of the Division such as Works Register/Schedule of deposit works/Recovery Register to ensure timely recovery or follow up action for effecting such recovery. On being pointed out (5 February 2003) in audit, the Company reminded (27 February 2003) HUDA for payment of Rs. 1.78 crore. Non-pursuance had also entailed loss of interest of Rs. 1.58 crore, from September 1995 to March 2003 worked out at 13 *per cent*, being the rate applicable on World Bank loan.

Taking up the work without getting the amount deposited in disregard to the rules coupled with subsequent non-pursuance resulted in non-recovery of Rs. 1.78 crore since November 1995.

The matter was referred to the Government and the Company in May 2003; their replies had not been received (September 2003).

3.7 Non-recovery of outstanding dues on account of energy bills

Failure of the Company to enforce the penal measures for non-payment of energy bills facilitated the consumers to accumulate outstanding dues of Rs. 29.11 lakh.

Terms and conditions of supply of energy envisaged that if the bill is not paid in full within seven days in case of large supply consumers and 15 days in case of other category consumers, after the date of presentation, the consumer, upon the utility serving him seven days notice in writing of intention to disconnect, shall be liable to have energy to his premises disconnected without prejudice to utility's right to recover the amount of the bill as arrears of land revenue. In case where the consumer does not provide access to his premises, the portion of service line outside the consumers premises should be dismantled.

Test-check of records of Badshahpur sub-division of Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) revealed (February 2003) that seven[*] electric connections (domestic: one, agriculture pump: four and LT industrial :two) stood released in different names in the premises of Bharat Yatra Kendra Trust, Bhondsi. The owners of two industrial connections[#] released in August/September 1993, did not pay the energy bills from November 1993 to July 1999 and the defaulted amount accumulated to Rs. 20.37 lakh in July 1999. These two industrial connections were got disconnected in July 1999 by the consumers themselves.

Even after disconnection, the consumers shifted the load of these two industrial connections to the three[**] tubewell connections as the connected load was found to be 84.1 KW against the sanctioned load of 11.190 KW. Supply to these three tubewell connections was not allowed to be disconnected on the pretext of security of the VVIP. These three agricultural consumers also defaulted in payment of energy bills from September 2000. On the orders

[*] BD-692, BAP-709, BAP-710, BAP-711, TAP-283, BSP-425, BMS-3.
[#] BSP-425 and BMS-3.
[**] BAP-709, BAP-710 and BAP-711.

of the Supreme Court, possession of some portion of land of the Trust on which three tubewells were installed was transferred to Gram Panchayat Bhondsi and defaulted dues (Rs 3.53 lakh) in two connections were cleared by the Panchayat in May 2002. The defaulting amount against the third tubewell connection transferred to the Gram Panchayat Bhondsi, which was disconnected in June 2002, worked out to Rs. 6.88 lakh. Consumer of the fourth tubewell connection also defaulted (January 2001) in payment of energy bills and the outstanding amount worked out to Rs. 0.72 lakh on the date of temporary disconnection (May 2002). As regards the domestic[$] connection, it also committed default in payment of energy bills since May 2000 and the defaulted amount worked out to Rs. 1.14 lakh when the connection was permanently disconnected on 11 March 2002. Total outstanding amount as of April 2003, thus, worked out to Rs. 29.11 lakh[*] in respect of five connections. It was noticed in audit (February 2003) that the erstwhile Board had not enforced the penal measures, which facilitated accumulation of outstandings to the extent of Rs. 29.11 lakh.

Non-enforcement of penal measures for non-payment of energy bills facilitated the consumers to accumulate outstanding dues of Rs. 29.11 lakh.

Admitting the facts, the management stated (July 2003) that it was not possible to initiate case under Land Revenue Act due to VVIP status of the consumer. It was further stated that the matter had been take up with the State Government for withholding the amount in case, any financial settlement was arrived at between the State Government and the Trust.

The matter was referred to the Government in April 2003; the reply had not been received (September 2003).

3.8 Incorrect application of final surcharge waiver scheme

Delay in implementing the decision of January 1999 coupled with incorrect application of Final Surcharge Waiver Scheme, resulted in a loss of Rs. 11.73 lakh.

The Haryana Vidyut Prasaran Nigam Limited (HVPNL) introduced (May 1998) concessional tariff applicable w.e.f. 1 May 1998 for agricultural pump (AP) supply consumers based on the average depth of tubewells as per data compiled by the State Agriculture Department with block as a unit. In order to make true representation of tubewell depth, HVPNL, after obtaining (October 1998) data from the Agriculture Department, decided (January 1999) that the average depth of tubewells for the purpose of concessional tariff should be based on a patwar circle instead of a block. Simultaneously, forwarding the details of patwar circle-wise depth of tubewells, HVPNL directed its field offices to deliver the revised bills to the affected consumers by 15 February 1999 positively.

[$] BD-692.

[*] Rs. 29.11 lakh = Rs. 20.37 + Rs. 6.88 + Rs. 0.72 + Rs. 1.14.

As per the data, average depth of tubewells under Majra patwar circle and Bighar patwar circle falling under Fatehabad sub-urban sub-division of Dakshin Haryana Bijli Vitran Nigam Limited (Company) ranged between 101 and 150 ft and zero and 100 ft, respectively. Tariff for tubewells having depth between zero to 100 ft and 101 to 150 ft was fixed from May 1998 at Rs. 65 and Rs. 50 per BHP (revised to Rs. 104 and Rs. 78 per BHP w.e.f. January 2001).

It was noticed (March 2003) in audit that the sub-division did not implement the decision of January 1999 in February 1999. The sub-division continued to charge Rs. 30 per BHP (for depth zone above 200 ft) for Majra and Bighar patwar circles instead of the chargeable tariffs for respective depth zones. The sub-division implemented this decision belatedly and charged arrears of Rs. 15.63 lakh (Rs 10.07 lakh: 76 consumers of Majra circle and Rs. 5.56 lakh: 34 consumers of Bighar circle) from May 1998 to May 2001 only in June 2001. These consumers did not make the payment of arrears and thus became defaulters in June 2001.

It was further observed that the sub-division waived (May 2002) Rs. 11.73 lakh (75 *per cent* of Rs. 15.63 lakh) by accepting payment of Rs. 3.90 lakh under the "Final Surcharge Waiver Scheme", floated by the Company in April 2002 for clearing the outstanding dues by domestic, non-domestic and AP consumers. The scheme, *inter alia*, provided for writing off 75 *per cent* of outstanding dues (as on 30 April 2002) of the consumers who opted to clear the outstandings in one go. Such consumers who were defaulters on 31 March 2001 and continued to be so up to 31 March 2002 were eligible for the scheme. As the consumers of Majra and Bighar circles were not defaulters on 31 March 2001, they did not fall within the ambit of this scheme.

Thus, delayed implementation of the decision of January 1999 coupled with incorrect application of Final Surcharge Waiver Scheme resulted in a loss of Rs. 11.73 lakh.

The matter was referred to the Government and the Company in May 2003; their replies had not been received (September 2003).

Haryana Vidyut Prasaran Nigam Limited

3.9 Non-recovery of share cost of grid sub-station

Failure of the management to enter into agreement as envisaged in the Company's instructions for recovery of cost of grid sub-station resulted in non-recovery of Rs. 1.41 crore from HUDA.

On the basis of detailed deliberations (April 1998) with Haryana Urban Development Authority (HUDA) and the State Government, the Board (now a

Company), issued (4 August 1998) instructions for sharing of cost of construction of new grid sub-stations for long-term requirement of sectors developed by Haryana Urban Development Authority (HUDA). The instructions, *inter alia*, envisaged that cost of new grid sub-stations would be shared by the Board and HUDA in the ratio of 20:80. These instructions were duly endorsed to HUDA and the State Government in Power and Town & Country departments. The Company, however, in order to make these instructions legally enforceable and to spell out the modus operandi to recover the cost of grid sub-station from HUDA, did not enter into an agreement with it.

The Company failed to enforce recovery of Rs. 1.41 crore on account of cost of sub-station from HUDA in the absence of an agreement.

The Company purchased (October 1998) from HUDA land for construction of grid sub-station for sector 23-A, Gurgaon developed by HUDA at a cost of Rs. 41.76 lakh. Without obtaining 80 *per cent* share from HUDA, the Company took up construction of sub-station and commissioned it in September 1999 at the cost of Rs. 1.77 crore. The payment of Rs. 1.41 crore (80 *per cent* share) had not so far been received (July 2003) though a period of three years and 10 months had already elapsed. Non-recovery had also entailed loss of interest of Rs. 70.26 lakh (worked out at 13 *per cent* being the rate charged by World Bank on its loans). The Company stated (December 2002) that HUDA had conveyed (January 2001) that it would bear the cost of new grid station from its own resources in future and the land would be provided free of cost after October 1999. The fact, however, remained that the Company could not enforce recovery in the absence of agreement. This has resulted in non-recovery of Rs. 1.41 crore from HUDA.

The matter was referred to the Government in March 2003; the reply had not been received (September 2003).

3.10 Avoidable payment of excise duty

Due to delay in finalisation of the contract, the Company incurred avoidable expenditure of Rs. 17.76 lakh on account of excise duty and CST thereon.

Under a loan agreement entered in January 1999 between Government of India and World Bank for Haryana Power Restructuring Project, the Company invited (June 1999) tenders for procurement of 125 sets of 33 KV Current Transformers (CTs) and Potential Transformers (PTs) for inter-utility energy meters with 0.2 accuracy among other items under package 'A'. Only two bids were received which were rejected (October 1999) for non-fulfillment of qualification requirements/technical specifications. After relaxing (October 1999) qualification requirements for the tenderers, the Company re-invited (January 2000) tenders which were opened on 30 March 2000. Universal Magnoflux (P) Limited, Indore - the only bidder offered to supply 118 sets and 7 spare sets of 33 KV CTs/PTs at ex-works rate of Rs. 1.27 lakh and Rs. 1.26 lakh per set respectively. As the material was to be procured under the loan assistance from World Bank, excise duty was not payable.

According to terms and conditions of bidding documents, delivery of material was to commence after three months from the date of release of 10 *per cent* advance payment and to be completed in three months thereafter. The offer of the firm was accepted on 22 August 2000 and contract agreement was signed on 11 September 2000. After release of 10 *per cent* advance of Rs. 54.93 lakh (including advance for other items of package A) on 2 November 2000, the Company worked out the schedule for completion of supplies upto 6 April 2001. In the meantime, the World Bank loan expired on 31 December 2000.

It was observed (September 2002) in audit that after supplying 41 sets of CTs and PTs during March-May 2001, the firm demanded (October 2001) payment of excise duty at 16 *per cent* as supplies were being made after World Bank loan lapsed on 31 December 2000. Accordingly, on the balance supply of 84 sets (including 7 spare sets) received from 29 November 2001 to 16 January 2002, the Company paid 16 *per cent* excise duty and CST thereon which worked out to Rs. 17.76 lakh.

Thus, due to non-preparation of qualification requirements for the bidders judiciously in the first instance and subsequent delay in finalisation of the contract, by taking about 16 months (June 1999 to September 2000) and thereafter accepting delivery schedule commencing after expiry of the World Bank loan resulted in avoidable expenditure of Rs. 17.76 lakh on account of excise duty and CST thereon besides losing the benefit of the loan facility.

In reply, endorsed by the Government in May 2003, the Company stated (April 2003) that qualification requirements were changed as the equipment of the original specifications was not in the routine manufacturing range of most of the suppliers in the country. Further, it was expected that the validity of the loan would be extended beyond 31 December 2000. The reply was not tenable as requisite ground work should have been done before finalising the bid documents as the World Bank loan was sanctioned in January 1999, and there was enough time before issue of first tender in June 1999.

Uttar Haryana Bijli Vitran Nigam Limited

3.11 Loss of revenue due to injudicious decision

Injudicious decision of the Company to grant exemption to BHEL on account of Service Connection Charges resulted in loss of revenue of Rs. 17.68 lakh.

The Haryana Power Generation Corporation Limited (HPGCL) engaged (March 2002) Bharat Heavy Electricals Limited (BHEL) for construction of 7^{th} and 8^{th} units at Panipat Thermal Power Plant on turnkey basis at a total cost of Rs. 1,438.70 crore. The terms of agreement, *inter alia*, provided that HPGCL would arrange power for setting up these units at the required voltage at mutually agreed points. The charges towards consumption of power would be payable by BHEL on concessional tariff as would be applicable to HPGCL for its own use for similar works.

In order to make power available at site, HPGCL/the Company completed the work relating to sub-station/line, civil works and equipments etc., at a cost of Rs. 32 lakh. BHEL was required to deposit Service Connection Charges (SCC) before release of temporary connection. The Board of Directors of the Company decided (July 2002) to exempt Rs. 56.58 lakh on account of Advanced Consumption Deposit (ACD) (Rs 6.90 lakh), cost of sub-station/line (Rs 32 lakh) and SCC (Rs 17.68 lakh) as a goodwill gesture to its sister concern i.e., HPGCL. The Company released (October 2002) temporary connection of 2250 KW to BHEL on 11 KV line of 1100 meters under non-domestic supply category without recovery of cost of sub-station/line as well as SCC and ACD.

The Company decided not to recover the cost of sub-station/line amounting to Rs. 32 lakh as the HPGCL was required to provide power at the site. As regards the deposits of SCC of Rs. 17.68 lakh was concerned, this was recoverable from BHEL in terms of agreement as well as the instructions of the Company for sale of power.

Thus, injudicious decision of the Company to grant exemption to BHEL on account of SCC resulted in loss of revenue of Rs. 17.68 lakh.

The matter was referred to the Government and the Company in June 2003; the reply had not been received (September 2003).

3.12 Unjustified payment of project allowance

Failure of the distribution companies to discontinue the project allowance even after July 1999 resulted in unjustified payment of project allowance of Rs. 12.47 lakh.

Prior to unbundling of the erstwhile Haryana State Electricity Board in August 1998, the staff working in its Planning and Construction (P&C) wing was getting project allowance in view of the arduous nature of duties. Project allowance was also allowed to the staff working in workshop organisation on the grounds that their administrative control vested with the Chief Engineer (P&C).

It was noticed (August 2002) in audit that consequent upon the unbundling of the erstwhile Board and commencement of business by two[*] distribution companies from July 1999, the workshop organisation was placed under the administrative control of the Chief Engineer (Material Management). The distribution companies, however, continued to make the payment of project allowance to the staff posted in Workshop Organisation.

Thus, failure of the distribution companies to discontinue project allowance even after July 1999 resulted in unjustified payment of project allowance of Rs. 12.47 lakh (Rs 9.16 lakh UHBVNL and Rs. 3.31 lakh DHBVNL) during July 1999 to March 2003.

[*] Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited.

The matter was referred to the Government and the Company in May 2003; their replies had not been received (September 2003).

Haryana Forest Development Corporation Limited

3.13 Loss due to investment of surplus funds at lower rate of interest

The Company suffered loss of interest of Rs. 47.96 lakh due to investment of its surplus funds at lower rate of interest.

The State Government issued (June 1997) guidelines to all Public Sector Undertakings (PSUs) to make investment of their surplus funds in any of the notified bank including debt instruments floated by Haryana State Industrial Development Corporation Limited (HSIDC). The guidelines further envisaged that a transparent procedure be followed while making the investments. The guiding principle for investment could be financial institution's involvement in financing various development programmes of the State Government.

Investment of surplus funds at lower rate of interest resulted in loss of Rs. 47.96 lakh.

During audit (May 2002) it was noticed that the Company invested Rs. 10.97 crore in FDRs in eight banks for a period from one to three years at interest rates ranging between eight and 10.25 *per cent* during May 1999 to April 2002 after making verbal enquiry from banks. The Company did not compare interest rates with that of HSIDC, which were one to three *per cent* higher during the same period than the rates offered by banks and resultantly could not earn an additional interest income of Rs. 47.96 lakh.

The Company in its reply (December 2002) stated that as per Reserve Bank of India's guidelines the investment of surplus fund should be made in debt instruments with maximum safety whereas the deposits with HSIDC being a Non-Banking Financial Company were neither secured nor guaranteed. The reply was not tenable since the Company had not considered the rates of HSIDC, a premier financial and development institution of Haryana Government and no transparent procedure was followed while making investment decisions. Moreover, funds deposited with HSIDC were fully secured, as it was a wholly owned State Government Undertaking.

The matter was referred to the Government in February 2003; the reply had not been received (September 2003).

Haryana State Industrial Development Corporation Limited

3.14 Loss of interest

Failure of the Company to nominate the trustee for operation of bank account of the trust resulted in loss of interest of Rs. 16.24 lakh.

The Company opted (April 1984) for group gratuity scheme of Life Insurance Corporation of India (LIC) for its employees. To operate the scheme, the Company created a trust and nominated (April 1984) four trustees of which two trustees were authorised to operate the saving bank account of the trust. As per the practice being followed in the Company, gratuity was paid to the outgoing employees from the Company's funds to avoid delay in the payment and funds received from LIC were credited to bank account of the trust and afterwards transferred to the Company's account.

One of the trustees authorised to operate the account retired in July 1998. The outgoing trustee was not replaced and as such the trust could not operate its saving account. Resultantly, the funds received from LIC remained in saving account of the trust and the Company continued to release gratuity to the extent of Rs. 82.05 lakh to its outgoing employees during January 1999 to October 2002 from its own borrowed funds. The nomination of the trustee in place of the retired trustee was made only in October 2002.

Failure to nominate trustees for operation of bank account of the trust resulted in loss of interest of Rs. 16.24 lakh.

Thus, failure of the Company to nominate the trustee for operation of bank account of the trust resulted in loss of interest of Rs. 16.24 lakh from January 1999 to October 2002 (worked out at the rate of 13[*] *per cent* per annum) after allowing the interest received in the saving account of the trust.

In reply, endorsed by the Government in August 2003 the Company stated (July 2003) that the Company had always met its establishment expenditure from its internal accruals/generations and further stated that had the amount lying in saving account been transferred to the current account it would have not fetched even a simple interest at the rate of 5 *per cent* per annum. Reply was not tenable as the timely transfer of funds to the Company's account could have reduced the borrowings to that extent and a benefit of 5 *per cent* interest had been given while working out the loss.

[*] Refinancing rate of SIDBI.

Haryana State Electronics Development Corporation Limited

3.15 Excess payment of employers' contribution

The Company suffered loss of Rs. 26.65 lakh due to payment of contribution to employees provident fund in excess of the limits prescribed under the Employees' Provident Funds Scheme, 1952.

The Employees' Provident Funds Scheme, 1952, provides that the contribution payable by the employer under the scheme shall be 12 *per cent* of the basic wages, dearness allowance and retaining allowance payable to each employee. Under Para 26(A)(2) of the Scheme, where the monthly pay of such a member exceeds Rs. 5000, the contribution payable by the employer shall be limited to the amounts payable on a monthly pay of Rs. 5000 (increased to Rs. 6500 w.e.f. June 2001). It has been further provided under Para 29(2) that in respect of any employee to whom the scheme applies, the contribution payable by him may, if he so desires, be an amount exceeding 12 *per cent* of his basic wages, dearness allowance and retaining allowance subject to the condition that employer shall not be under obligation to pay contribution over and above his contribution payable under the Scheme.

It was observed in audit (August 2001) that the Company contributed its share at the rate of 12 *per cent* towards the fund during 2000-02 without limiting the monthly pay to the prescribed limits as per provisions of Employees' Provident Funds Scheme, 1952. Resultantly, the Company made excess contribution of Rs. 26.65 lakh.

The Company stated (December 2002) that it had adopted the service bye-laws of Haryana State Industrial Development Corporation from which its employees were taken at the time of its incorporation. Reply was not tenable as the bye-laws of any Company could not be violative of statutory provisions.

The matter was referred to the Government in February 2003; the reply had not been received (September 2003).

Statutory corporations

Haryana Financial Corporation

3.16 Non-recovery of loan

Disbursement of loan against fraudulently inflated collateral security led to non-recovery of Rs. 1.67 crore.

The Corporation sanctioned (October 1998) a term loan of Rs. 1.12 crore to Cyclo International (Pvt.) Ltd. (unit) for setting up cycle parts manufacturing unit at village Batour, district Panchkula, subject to the stipulation that unit would offer collateral security equivalent to 50 *per cent* of the term loan which would be assessed by the Branch Manager for its value.

The unit offered collateral security of a plot (measuring 500 square yards at Friends Colony, Ludhiana) with realisable value of Rs. 60 lakh assessed (14 December 1998) by the valuer on the panel of the Company. The Branch Manager, Panchkula, too confirmed (18 January 1999) the valuation and recommended for acceptance of collateral security. The Corporation accordingly disbursed Rs. 96.77 lakh between February and August 1999. The balance unavailed loan of Rs. 15.23 lakh was cancelled (June 2000) as the unit could not provide for enhanced collateral security.

The unit did not commence commercial production due to rift among the directors and committed default in repayment of first instalment due in November 2000. The Corporation recalled (December 2000) the loan and took over (March 2001) possession of the unit under Section 29 of the State Financial Corporations Act, 1951. The valuer assessed (March 2001) value of the unit at Rs. 74.09 lakh and the unit was put to auction, ten times between May 2001 and June 2002 but no bid was received. So, the Corporation took over (May 2002) deemed possession of the collateral security with assessed value of Rs. 3.00 lakh. The property was disposed of (October 2002) by the Corporation after making three attempts for Rs. 2.50 lakh.

Disbursement of loan against fraudulently inflated collateral security led to non-recovery of Rs. 1.67 crore.

It was noticed (September 2002) in audit that the plot at Friends Colony, Ludhiana was purchased by one of the promoters for Rs. 8.00 lakh on 7 December 1998 and was accepted as collateral security at appreciated value of Rs. 60 lakh within seven days only. As such, possible connivance of the valuer and Branch Manager of the Corporation with the promoters could not be ruled out. This facilitated inflating the value of collateral security and rendered the recovery of Rs. 1.67 crore (principal: Rs. 97.91 lakh) doubtful. The Corporation had not fixed any responsibility for inflation in value of collateral security in this case as of February 2003.

The Corporation while admitting the facts, stated (April 2003) that the concerned valuer had been blacklisted w.e.f. 20th November 2001 and disciplinary action against delinquent officer had been initiated.

The matter was referred to the Government in March 2003; the reply had not been received (September 2003).

3.17 Loss due to insufficient security

Irregular disbursement of loan due to acceptance of grossly unrealistic value of collateral security (114 times of its purchase price) resulted in non-recovery of Rs. 47.29 lakh.

The Corporation sanctioned (June 1995) a term loan of Rs. 60 lakh to M/s Anu Poultries, Panchkula (unit) for setting up a poultry farm at a cost of Rs. 90 lakh with a stipulation that the unit would provide collateral security equivalent to 50 *per cent* in the form of immovable assets having clear and marketable title before disbursement of loan amount.

The unit offered (June 1995) land measuring 25 bighas and 9 biswas valued at Rs. 45.81 lakh by an approved valuer* on the panel of the Corporation. The Corporation without taking cognizance of the fact that the promoter of the unit purchased (September 1993) this land for Rs. 0.40 lakh only, accepted it as collateral security and released Rs. 56.82 lakh between July 1995 and September 1996. The balance loan of Rs. 3.18 lakh was cancelled (February 1997). Due to default in repayment of loan (February 1997), the Corporation recalled (June 1998) the outstanding loan of Rs. 56.82 lakh and took over (July 1999) the possession of the unit. The unit was sold (November 1999) for Rs. 41.87 lakh leaving an unrecoverable balance of Rs. 25.48 lakh (including interest of Rs. 13.19 lakh).

To make up the shortfall, the Corporation obtained (March 2000) deemed possession of the collateral security and assessed (April 2000) its value at Rs. 6.36 lakh. The Corporation disposed of (May 2002) the same for Rs. 2.01 lakh.

Irregular disbursement of loan due to acceptance of exaggerated assessment certificate resulted in non-recovery of Rs. 47.29 lakh.

The Corporation accepted the valuation done by the valuer at Rs. 45.81 lakh which tantamount to grossly unrealistic (114 times) appreciation in market value in just two years. This indicated utter failure of the disbursement wing and resulted in doubtful recovery of Rs. 47.29 lakh (principal: Rs. 12.29 lakh and interest: Rs. 35 lakh as of November 2002). The Corporation had not fixed responsibility (May 2003).

The management stated (April 2003) that the valuer was blacklisted in November 2001 and an independent investigation had been initiated to rule out the possible connivance of the disbursement wing with the loanee and valuer.

The matter was referred to the Government in March 2003; the reply had not been received (September 2003).

* Lt. Col. A K Suri

3.18 Avoidable payment of interest

Avoidable expenditure of Rs. 36 lakh on account of payment of interest at higher rates.

Section 8(1) of the State Financial Corporations Act, 1951, empowers the Financial Corporation, to accept from the State Government, or with the prior approval of the Reserve Bank, from a local authority or any other person, deposits repayable after the expiry of a period which shall not be less than 12 months from the date of the making of the deposits and on such other terms as the Corporation thinks fit.

The Corporation had a deposit of Rs. 18 crore from the Haryana Rural Development Fund Administration Board (Board) for one year ending 31 March 1997 at the interest rate of 14.5 *per cent*. This deposit was renewed at the interest rate of 14.5 *per cent* during 1997-98 (up to 10 June 1997) and thereafter at 13 *per cent* from 11 June 1997 in view of downward trend in interest rate. The deposit was renewed in 1998-99 and 1999-2000 at interest rate of 13 and 12 *per cent*, respectively. Out of the above, Rs. 8 crore were withdrawn by the Board and remaining Rs. 10 crore were renewed by the Corporation during 2000-01, 2001-02 and 2002-03 at interest rate of 11.6, 10.5 and 9.5 *per cent* respectively.

It was noticed in audit (July 2002) that the Corporation did not adopt clear cut policy to fix the rate of interest as it co-related the same neither with the prevailing rate of interest of other financial institutions/banks nor with the rates of its sister concern Haryana State Industrial Development Corporation Limited (HSIDC). Rate of interest allowed by HSIDC during 1998-99 to 2002-03 was 12, 11, 11.6, 10.5 and 9.5 *per cent* against 13, 12, 11.6, 10.5 and 9.5 *per cent*, respectively allowed by the Corporation.

Thus, failure of the management to co-relate interest rate with the rate of its sister concern resulted in extra expenditure of Rs. 36 lakh during 1998-2000.

The Corporation and Government stated (May and June 2003) that rates of financial institutions could not be identical in present free economy and financial institutions use due prudence in such financial dealings in view of size, period of deposit and funds requirement. The reply was not tenable as financial institutions should take cognizance of rates being paid by other sister financial institutions to safeguard its own financial interests.

Haryana Warehousing Corporation

3.19 Misappropriation of paddy and gunny bales

Failure of the Corporation to obtain bank guarantee and adequate security from the miller resulted in loss of Rs. 23.71 lakh.

The Corporation procures paddy for central pool and provides the same to millers, who deliver rice to the Food Corporation of India (FCI) after milling. The milling agreement entered (February 2002) with Star Industries Private

Limited, Pehowa, *inter alia*, provided that the miller would take delivery of paddy for milling purposes either against the bank guarantee or delivery of advance rice to FCI equivalent to the cost of paddy handed over to miller. The miller should be responsible for safe custody of paddy till delivery of rice and submit fortnightly reports indicating stock position of milled/unmilled paddy. The miller was required to provide security at the rate of Rs. 0.50 lakh per tonne capacity and Rs. 0.25 lakh for every additional tonne of capacity subject to maximum of Rs. 3 lakh. In the event of default in delivery of rice, the miller was liable to pay the price of undelivered rice at the rates fixed by Government of India plus interest at cash credit rate.

During scrutiny of records (January 2003), it was noticed that the Corporation, without obtaining bank guarantee or ensuring advance delivery of rice to FCI under the terms of agreement, allowed the miller to take delivery of paddy. The Corporation delivered 40,082 quintal of paddy to the miller who in turn delivered 25,169.64 quintal of rice to FCI during October 2001 to May 2003 against 26,854.94 quintal of rice due leaving undelivered balance of 1,685.30 quintal rice valuing Rs. 16.61 lakh. The miller also did not deposit Rs. 7.60 lakh being the cost of gunny bags recoverable from him. The miller neither supplied fortnightly reports nor the management stressed upon for the same. On physical verification conducted by the Corporation (June 2002) neither paddy nor rice was found in the premises of the miller. The amount recoverable from miller after adjusting security of Rs. 0.50 lakh as per milling agreement was Rs. 23.71 lakh (May 2003). As the Corporation could not recover the amount of Rs. 23.71 lakh in the absence of bank guarantee, it had to refer (September 2002) the case to the Arbitrator for recovery of dues, whose award was awaited (January 2003).

The Company and Government stated (June 2003) that in order to make good the loss, it had filed FIR against the miller and manager of the warehouse.

Chandigarh

Dated

(Ashwini Attri)
Accountant General (Audit) Haryana

Countersigned

New Delhi

Dated

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