Chapter-II

2. Reviews relating to Government companies

2.1 Haryana Agro Industries Corporation Limited

Highlights

Haryana Agro Industries Corporation Limited was incorporated in 1967 with the object to promote agro based industries, provide farmers with agricultural inputs and assist them in farm mechanisation.

(Paragraph 2.1.1)

During 2001-04, five farmers service centres (FSCs) of the Company kept fund between Rs. 0.50 lakh and rupees eight crore in their non-operating current accounts for periods ranging between five and 228 days against the instructions to transfer the fund to main office's account twice a week. Delayed transfer of fund by FSCs from the non-operating current accounts resulted in loss of interest of Rs. 42.05 lakh.

(Paragraph 2.1.9)

The Company procured wheat below the permissible limit of lustre, which was rejected by Food Corporation of India. Resultantly, the Company had to auction the wheat at a loss of Rs. 2.88 crore.

(Paragraph 2.1.12)

Due to improper storage and non-delivery of wheat on 'first in first out' basis, the quality of wheat deteriorated and Food Corporation of India rejected 2,80,063 quintal wheat for crop years 1998-2002. Resultantly, the Company disposed of 24,953 quintal wheat at a loss of Rs. 1.55 crore. Remaining 2,55,110 quintal wheat valuing Rs. 26.95 crore was awaiting disposal.

(Paragraph 2.1.13)

During 2002-04, the Company suffered revenue loss of Rs. 71.98 lakh in four farmers service centres due to non-receipt of incidental charges from Food Corporation of India on the wheat gain in excess of the norms.

(Paragraph 2.1.15)

The Company was required to raise bills immediately on delivery of wheat to Food Corporation of India. Due to delay in raising the bills, the Company lost interest of Rs. 54.07 lakh.

(Paragraph 2.1.16)

The Company did not recover Rs. 2.65 crore towards expenditure incurred during 1998-2003 for transporting paddy to the millers from the mandis within distance of eight Kms and beyond, which was recoverable from the millers (Rs. 93.24 lakh) and Food Corporation of India (Rs. 1.72 crore) as per agreement with the millers and Government of India's instructions respectively.

(Paragraph 2.1.20)

The capacity utilisation of pesticide and insecticide plant, Shahabad, cattle feed plant, Jind and agro engineering workshop, Nilokheri was very low due to inadequate marketing infrastructure and dependence on Government orders.

(Paragraph 2.1.23)

Excess purchase of pesticide and its subsequent disposal at reduced rate resulted in loss of Rs. 30. 54 lakh.

(Paragraph 2.1.28)

Introduction

2.1.1 Haryana Agro Industries Corporation Limited (Company) was incorporated in 1967 under the Companies Act, 1956 as a joint venture of the State Government and Government of India (GOI) with the object to promote agro based industries, provide farmers with agricultural inputs and assist them in farm mechanisation.

Objectives

2.1.2 The main objects of the Company, as envisaged in its Memorandum of Association, are to:

- undertake, assist, aid, finance and promote agro industries such as poultry, dairy, land development, seed and other agro based industries;
- manufacture agricultural implements, agricultural machinery and equipments required for these industries;

- acquire, purchase, give or sell implements, machinery, equipments, appliances, tools etc; and
- transact and carry on all kinds of agency business of any other concern.

Present activities

2.1.3 The Company was running four plants* for manufacturing cattle feed, agricultural implements, chemicals and food and beverages. Food and beverages plant at Murthal was closed in April 1998. The Company was also trading in fertilisers, tractors and other agricultural implements through its network of 18 farmers service centres (FSCs) and 12 sale centres in the State. In addition to the Company's normal activities, the State Government under rehabilitation plan for the Company restored the activity of procurement of wheat and paddy for the Central Pool to the Company from 1988 and 1997, respectively.

Organisational set up

2.1.4 The management of the Company is vested in a Board of Directors (BOD) consisting of not less than two and not more than twelve directors including a Chairman and a Managing Director (MD). As on 31 March 2003, there were eleven directors (eight officials and three non-officials). Out of eight official directors, two directors were nominees of the GOI and the remaining six were ex-officio nominees of the State Government including the MD. The MD was the Chief Executive of the Company and was assisted in day-to-day work by three Deputy General Managers, a Chief Accounts Officer and a Company Secretary.

During 1999 to 2004, the State Government appointed five MDs including three MDs whose tenure ranged between three and eight months thereby impeding the pursuit of a firm, stable and consistent approach in management.

Scope of Audit

2.1.5 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1997-98 (Commercial) Government of Haryana.

The Committee on Public Undertakings (COPU) discussed the review and their recommendations are contained in 48th Report presented to the State

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* At Jind, Murthal, Nilokheri and Shahbad.

Legislature on 15 March 2001. The Company furnished (September 2003) action taken notes on the recommendations to the COPU.

The present review conducted during October 2003 to February 2004 covers the performance of the Company for the last five years ending March 2004.

Audit findings as a result of test check of the records of head office, all four plants and nine* out of 18 FSCs and eight** out of 12 sale centres were referred to the Government/Company in May 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that viewpoint of Government/management was taken into account before finalising the review. The meeting of ARCPSE was held on 29 June 2004, which was attended by Financial Commissioner and Principal Secretary, Agriculture Department and Managing Director of the Company.

Funding

Share capital

2.1.6 The authorised capital of the Company was Rs. 10 crore. Against this the paid-up capital as on 31 March 2003 was Rs. 4.14 crore, subscribed by the State Government (Rs. 2.54 crore) and GOI (Rs. 1.60 crore).

Borrowings

2.1.7 To meet its working capital requirements, the Company obtained loans/deposits from the State Government, banks and Haryana Agro Research and Development Centre. As on 31 March 2003, loans/deposits of Rs. 130.89 crore were outstanding. The Company also availed of cash credit facility from banks for procurement of wheat, paddy and fertilizers. Rs. 438.66 crore was outstanding against cash credit, as on 31 March 2003.

Financial position and working results

2.1.8 The financial position and working results of the Company for the last five years ending March 2003 are given in **Annexure 7**.

Review of the working results revealed that sale of wheat and paddy to total sales during the last five years ending March 2003 ranged between 61.02 and 91.42 *per cent*. The profit during 1999-2000 and 2000-01 was attributable to receipt of final incidentals on wheat relating to 1997-98 and 1998-99. The

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* Ambala, Fatehabad, Hisar, Jind, Kaithal, Karnal, Kurukshetra, Palwal and Sirsa.

** Ballabhgarh, Hansi, Kurukshetra, Ladwa, Naraingarh, Nilokheri, Shahabad and Tohana.

Company's profit of Rs. 21.71 lakh for the year 2000-01 turned into loss of Rs.1.12 crore in 2001-02 due to non-receipt of final incidentals on wheat during that year.

The reserves and surplus of Rs.19 crore as on 31 March 2003, need to be seen in the light of non-provisions for estimated loss of Rs.3.12 crore due to damaged condition of stock of wheat, not accepted by FCI[#], deferred tax liability of Rs.1.04[@] crore as required under Accounting Standard 22 and doubtful investment of Rs.5.56[$] crore.

Loss of interest due to delayed transfer of fund

2.1.9 The Company is maintaining cash credit account with Union Bank of India and State Bank of India at Chandigarh besides current accounts in Punjab National Bank, Central Bank of India and Haryana State Co-operative Bank. The field offices are maintaining current accounts with branches of these banks.

As per the Company's instructions (February 1994, reiterated in December 2003) to banks, the fund was to be transferred from the branches of the banks in the field units to their banks at Chandigarh twice a week if exceeding Rs. 0.50 lakh or once a week in case of lesser amount. Field offices were required to pursue the banks for transfer of fund to minimise interest payment.

Delay in transfer of fund by five FSCs resulted in loss of interest of Rs. 42.05 lakh.

Scrutiny of bank statements of five[*] FSCs for the period 2001-04 revealed that FSCs kept fund between Rs. 0.50 lakh and rupees eight crore in the non-operating current accounts for the period ranging between five and 228 days whereas there were heavy outstanding in cash credit accounts of the Company. This resulted in loss of interest of Rs. 42.05[**] lakh to the Company.

The management stated (June 2004) that there was no balance in the banks as per cash book but in the bank statements amounts were lying in credit, as the cheques issued to *arthias* were not presented to the banks.

The reply was not tenable as the amount of delayed transfer of fund and loss of interest was worked out on the basis of bank balances as reflected in the cash book of non-operating current accounts (collection accounts) and cheques issued by the Company were not to be encashed from these accounts. During deliberations in the ARCPSE meeting, MD of the Company assured to take corrective measures.

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\# Note I(IX) of notes on accounts.

@ Note 18 and 20 of notes on accounts.

$ Note B-5 of Statutory Auditors' report.

* Fatehabad, Hisar, Jind, Palwal and Sirsa.

** Worked out at an average cash credit rate of interest of 11 *per cent* during 2001-04.

Appraisal of activities

2.1.10 The Company had been preparing budgets annually for the manufacturing plants and FSCs.

The table below indicates unit wise* budgeted vis-à-vis actual profit/loss during the last five years ending March 2003:

(Amount: Rupees in lakh)

Name of the unit	1998-99		1999-2000		2000-01		2001-02		2002-03	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Farmers service centres	193.60 (-)	278.49 (-)	199.60 (-)	387.64 (-)	259.60 (-)	61.97	235.40 (-)	3.11	108.50 (-)	150.25 (-)
Cattle feed plant, Jind	0.51	14.44	6.53	19.26 (-)	6.15	33.39	2.40	69.00	2.50	26.84
Haryana agro fertilisers and chemical plant, Shahabad	8.69	33.69 (-)	6.65	6.53 (-)	5.65	1.24 (-)	3.53	16.70	2.00	21.21
Agro engineering workshop, Nilokheri	0.47	20.95 (-)	1.90	16.98 (-)	20.00 (-)	4.18	3.50	11.57	4.00	6.95

Audit observed that there was huge variation in the budgeted and the actual profit/loss and the Company had never analysed the reasons for the same and taken corrective measures.

Wheat procurement

2.1.11 The State Government declared (1988) the Company as one of the agencies for procurement of wheat for the Central Pool under the Minimum Support Price (MSP) Scheme. The Company procures wheat from various mandis allotted by the State Government for Central Pool and delivers it to Food Corporation of India (FCI).

During last five years ending March 2003, the Company procured 2.40, 2.98, 3.91, 6.84 and 5.79 lakh MT wheat respectively.

FCI accepts the wheat of specified quality and makes payment of carry over charges for the period wheat remained in the custody of the Company. The Company failed to maintain the quality of the wheat due to poor storage and also failed to raise the bills of wheat, incidentals and carry over charges and reconcile its accounts with FCI in time.

Loss due to procurement of sub-standard wheat

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* No separate budgets were prepared for wheat, paddy and fertilisers.

Procurement of wheat below permissible limits of lustre resulted in loss of Rs. 2.88 crore.

2.1.12 Due to unexpected rains during marketing season of 2001-02, GOI on the request of the State Government, allowed the Company to procure wheat with permissible lustre lost grains to the maximum extent of 50 *per cent.* FCI rejected 5,080 MT (value: Rs. 5.06 crore) wheat, as the lustre lost grains were more than 50 *per cent*. Resultantly, the Company had to auction the wheat at Rs. 2.18 crore. Thus, violation of the GOI instructions resulted in loss of Rs. 2.88 crore to the Company.

While admitting the audit observation during ARCPSE meeting, the management/Government stated (June 2004) that the matter had been taken up with FCI to reimburse the loss.

Loss due to improper storage of the stocks

2.1.13 Wheat stocks are required to be delivered to FCI on 'first in first out' basis. The Company is required to maintain health of the stock till its delivery to FCI for which it receives carry over charges. FCI rejected 2,80,063 quintal wheat being unfit for human consumption pertaining to the crop years 1998-2002.

Audit observed that wheat got deteriorated owing to improper storage and non-delivery of the wheat on 'first in first out' basis. The Company auctioned 18,983 quintal wheat at a loss of Rs. 1.07* crore in December 2003 and transferred 5,970 quintal wheat during September 2002 and October 2003 to its cattle feed plant at a loss of Rs. 48.30** lakh. Remaining 2,55,110 quintal wheat valuing Rs. 26.95 crore was awaiting disposal (June 2004).

Due to deterioration in quality of wheat the Company suffered loss of Rs. 1.55 crore.

Thus, failure of the Company to deliver wheat to FCI on 'first in first out' basis coupled with improper storage of stock had resulted in loss of Rs. 1.55 crore.

While accepting audit observation, the management stated (July 2004) that the GOI had agreed (May 2004) for reimbursement of loss. Audit observed that the GOI had agreed to compensate the loss to be incurred on the undisposed quantity after ascertaining the reasons for deterioration in quality of wheat and there was no mention of reimbursement of the loss on the wheat already auctioned, as pointed out in the para.

2.1.14 During the crop year 2001-02, the FSC of the Company at Fatehabad purchased 1,40,311 quintal wheat. Out of 1,40,311 quintal wheat, FSC delivered 1,33,207 quintal wheat against the standard weight*** of 1,33,993 quintal wheat. This resulted in shortage of 786 quintal wheat. During 2001-02, FCI relaxed the norm of moisture gain from 700 gm to 350 gm per quintal as moisture content was high at the time of procurement by the Company due to rains during harvesting season (April-May). With this

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* Realisable value: Rs. 2.02 crore – Actual realisation of Rs. 0.95 crore.

** Realisable value: Rs. 63.30 lakh – Actual transfer value of Rs. 15 lakh.

*** Quantity of wheat for which payment was made to the farmers.

norm, the actual shortage worked out to 1255[#] quintal (469 quintal for moisture gain and 786 quintal for shortage in standard weight) valuing Rs.11.04 lakh.

Remaining 6,318 quintal (1,40,311 – 1,33,393 quintal) wheat was rejected by FCI as it was found unfit for human consumption. District Manager reported (November 2002) that the wheat got deteriorated due to improper storage. Out of 6,340[$] quintal (by adding moisture gain of 22 quintal), 4,689 quintal sub-standard wheat was auctioned for Rs. 16.04 lakh against FCI rate of Rs. 46.76 lakh at a loss of Rs. 30.72 lakh, leaving shortage of 1,651 quintal valuing Rs. 16.47 lakh. Thus, the Company suffered loss of Rs. 58.23 lakh (Rs.11.04 lakh + Rs.30.72 lakh + Rs.16.47 lakh) due to poor upkeep and shortage of wheat.

Poor upkeep and shortage of wheat resulted in loss of Rs. 58.23 lakh.

The management, while admitting the loss, stated (June 2004) that matter had been taken up with the GOI/FCI for reimbursement of difference on 4,689 quintal sub-standard wheat. As regards shortage in weight, the management stated that action had been initiated against the defaulting official for recovery of loss. Amount had not been recovered so far (July 2004).

Loss of revenue due to non-receipt of incidental charges

2.1.15 FCI makes payment of the cost of wheat and incidentals at the time of taking delivery. If the wheat procured during the year is taken by FCI after 30 June, the Company gets cost of wheat, incidentals and carry over charges at the specified rates.

Wheat stored after the month of June gains weight due to moisture. State Government had fixed the norm of moisture gain, which ranged between 700 and 1400 gm per quintal depending upon the duration of storage. FCI was making the payments of the cost of wheat and incidentals on the actual quantity received. From the year 2000-01, FCI fixed its own norms of moisture gain. As per these norms, FCI was to take gain of 1000 and 700 gram per quintal on the wheat stored in the covered godowns and open plinths, respectively while taking delivery of wheat from the Company. FCI was to make full payment of incidentals for the quantity gained in weight in excess of standard weight after adjustment of prescribed gain.

The Company suffered revenue loss of Rs. 71.98 lakh in four FSCs due to non-receipt of incidentals from FCI.

Audit observed (December 2003) that in four[*] out of nine FSCs, test checked in audit, FCI was not making payment of incidental charges on the wheat gained in excess of norm of FCI whereas remaining five FSCs[**] were getting the payment. These four FSCs had not raised the matter with FCI. Loss of revenue in these FSCs[*] due to non-receipt of incidental charges on the wheat gained in excess of the norm during 2002-04 was Rs. 71.98 lakh.

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\# 1,33,993 quintals X 350 gram = 469 quintals + 786 quintals = 1255 quintals.

$ (6318 quintals X 350 gram) + 6318 quintals = 6340 quintals

* Fatehabad, Hisar, Kaithal and Kurukshetra.

** Ambala, Jind, Karnal, Palwal and Sirsa.

In ARCPSE meeting the management/Government stated (June 2004) that as per procedure no incidentals were admissible on the gain and FCI mistakenly allowed incidentals on wheat gain in some stations.

The reply was not tenable in view of the fact that head office of the Company circulated minutes of the meeting of Assistant Managers (Accounts) of FCI held in September 2003, wherein it was clearly indicated that incidentals on the gain in addition to the prescribed percentage were to be paid to procuring agencies.

Delay in raising bills

The Company lost interest of Rs. 54.07 lakh due to delay in raising the bills with FCI.

2.1.16 The Company delivers wheat stock on demand to FCI, which reimburses the cost of wheat along with incidentals on receipt of bills. The Company was required to raise bills immediately on delivery of wheat to FCI for expeditious receipt of payments so as to minimise interest on cash credit. In five[$] out of nine FSCs test checked in audit, there were delays ranging between 11 and 103 days in raising the bills. Delayed raising of bills resulted in loss of interest of Rs. 54.07 lakh[@] during April 2002 to November 2003 after allowing margin of ten days for preparing the bills.

While admitting the audit observation during ARCPSE meeting, the management/ Government stated (June 2004) that the delay was due to late receipt of documents from FCI and matter was being taken up with them.

Loss due to shortage of wheat

Short delivery of wheat resulted in loss of Rs. 1.11 crore.

2.1.17 Test check of bills for delivery of wheat to FCI during 2002-03 revealed that the weight of wheat in bags delivered to FCI was less than the standard weight filled at the time of procurement by the Company for which payments had been made to the farmers. The Company delivered 9,66,970 quintal wheat to FCI in 84 consignments from various storage points against the standard weight of 9,79,347 quintal during the above period, resulting in short delivery of 12,377 quintal wheat valuing Rs. 1.11 crore.

The management stated (July 2004) that except Tohana mandi there was no shortage in the standard weight of wheat in any crop year. The reply was not tenable as apart from Tohana mandi, there were shortages in other consignments despatched from various mandis pointed out in the para, which were not to be squared up with other consignments.

Excess consumption of gunny bags

2.1.18 Wheat bags stored in open are prone to damage due to long storage, which required replacement at the time of delivery of wheat to FCI. The State Government had fixed (January 1987) and reiterated (March 1997) the norm

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$ Fatehabad, Hisar, Jind, Palwal and Sirsa.

@ Calculated at average cash credit interest rate of 11 *per cent* applicable during the period covered under the Report.

for excess consumption of gunny bags at the rate of 1.5 *per cent* of total bags utilised for delivery of wheat to FCI. COPU also recommended (March 2001) that norms for the consumption of gunny bags as fixed by the State Government be adhered to.

Audit scrutiny revealed that during 1999-2003, the Company delivered wheat in 102.73 lakh gunny bags and consumed additional 4.87 lakh gunny bags against which the Company was entitled for only 1.54 lakh additional gunny bags (1.5 *per cent*) to replace the damaged bags. This had resulted in excess consumption of 3.33 lakh bags costing Rs.66.65 lakh.

The management stated (June 2004) that due to long storage of wheat the percentage of consumption was higher. During discussion in ARCPSE meeting the management agreed to take up the matter with the State Government for review of norm.

Paddy procurement

2.1.19 The State Government had allocated nine *per cent* share (of the total paddy procurement by different agencies in the State) in the procurement of paddy to the Company. Procurement during the last five years up to 2002-03 was 0.03, 0.16, 1.33, 1.40 and 1.83 lakh MT respectively. The Company enters into agreements with the millers for timely milling of paddy and delivery of rice to FCI.

Non-recovery of transportation charges

2.1.20 As per directions of the GOI, transportation charges on lifting of paddy and rice for distances beyond eight Kms from procurement/storage point to the rice mills and from rice mills to the delivery point are reimbursable to the procuring agency. Transportation charges within eight Kms are to be borne by the millers.

Accordingly, clause 16 of the agreement executed with the millers stipulated that all expenditure including labour, transportation and any other incidental expenditure etc. incurred in connection with the lifting of paddy from the storage points or any other place and delivery of rice shall be borne by the millers and payable by Government in case paddy is delivered beyond eight Kms. With this in view the State Government instructed the procuring agencies to store the paddy after procurement in the premises of the rice millers who were to mill the paddy.

The Company suffered loss of Rs. 2.65 crore on the transportation of paddy due to non-recovery from millers/FCI.

Scrutiny of the records of nine* FSCs revealed that the Company incurred expenditure of Rs. 2.65 crore during 1998-2003 for transporting paddy to the millers from the mandis within distance of 8 Kms and beyond, which was recoverable from the millers (Rs. 93.24 lakh) and FCI (Rs. 1.72 crore) as per agreement with the millers and GOI's instructions, respectively.

Thus, due to non-recovery of transportation charges from millers and FCI, the Company suffered loss of Rs. 2.65 crore on the transportation of paddy.

The management stated (June 2004) that transportation charges up to eight Kms and beyond eight Kms were to be borne by the millers and FCI respectively only when paddy was to be delivered by the Company from its storage point. The reply was not tenable as clause 16 of the agreement with the millers provided that all expenditure including labour, transportation and other incidental expenditure on lifting of paddy from the storage point or any other place were to be borne by the millers and transportation charges beyond eight Kms were payable by the FCI.

Non-imposing of penalty

2.1.21 As per clause 9 (iii) of the standard agreement with the millers for milling of paddy, the miller was to ensure milling of paddy and delivery of rice as per the predetermined schedule. If the miller failed to adhere to the schedule, he was liable to pay interest at the rate of cash credit of Reserve Bank of India prevailing for the period of default on the price fixed by the GOI from the date it became payable till the date of actual realisation.

Non-invoking of the interest clause of standard agreement for delay in milling resulted in loss of Rs. 63.47 lakh.

Audit observed that five* FSCs did not charge interest of Rs. 63.47 lakh from the millers for not milling the paddy as per schedule during 1998-2003. The management stated (June 2004) that since the date for acceptance of rice was extended by the GOI, interest was not charged from the millers. The reply was not tenable as the interest was to be charged from the millers for delayed milling as per agreement with them.

Farmers service centres

2.1.22 As on 31 March 2003, the Company was having 18 farmers service centres (FSCs) at district headquarters of the State for sale of fertilisers, tractors, pesticides and agricultural inputs.

The table below indicates the activity wise budgeted turnover and profit/loss of FSCs vis-à-vis actual performance there against during 1998-2003:

(Rupees in crore)

Particulars	1998-99		1999-2000		2000-01		2001-02		2002-03	
	Budget-ed	Actual	Budget-ed	Actual	Budget-ed	Actual	Budget-ed	Actual	Budget-ed	Actual

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* Ambala, Fatehabad, Hisar, Jind, Kaithal, Karnal, Kurukshetra, Palwal and Sirsa.

* Fatehabad, Jind, Kaithal, Palwal and Sirsa.

Particulars	1998-99		1999-2000		2000-01		2001-02		2002-03	
	Budget-ed	Actual	Budget-ed	Actual	Budget-ed	Actual	Budget-ed	Actual	Budget-ed	Actual
Sale of fertilisers	44.55	26.55 (60)	37.60	25.35 (67)	41.30	43.72 (106)	52.84	27.76 (53)	51.75	44.33 (86)
Sale of tractors	17.50	11.45 (65)	15.00	6.51 (43)	15.13	3.35 (22)	12.50	1.31 (10)	8.50	2.00 (24)
Sale of agriculture inputs	10.00	9.75 (98)	10.50	11.78 (112)	12.15	12.17 (100)	14.95	11.88 (79)	15.00	14.01 (93)
Profit (+)/ loss (-)	1.94 (-)	2.78 (-)	2.00 (-)	3.88 (-)	2.60 (-)	0.62	2.35 (-)	0.03	1.09 (-)	1.50 (-)

Note:- Figures in brackets are percentage of actual sale to budgeted sale.

It would be observed from the above that the actual sale of tractors came down from Rs. 11.45 crore in 1998-99 to rupees two crore in 2002-03.

The management attributed (June 2004) low sale of tractors to non-receipt of subsidy from State Government. The Company sustained losses from activities of FSCs during 1998-2003. It showed profit during 2000-01 and 2001-02 due to allocation of salary expenses to head office.

Manufacturing plants

2.1.23 The table below indicates the capacity utilisation of the manufacturing plants during the last five years up to 2002-03:

Sl. No	Name of unit	Installed capacity	Year wise production				
			1998-99	1999-2000	2000-01	2001-02	2002-03
1	Pesticide and insecticide plant, Shahabad	Liquid formulation (litres) 6,00,000	66,779 (11.13)	88,924 (14.82)	53,731 (8.96)	1,10,090 (18.35)	44,462 (7.41)
		Powder (MT) 5,960	59 (0.99)	352 (5.91)	83 (1.39)	85 (1.43)	30 (0.50)
2	Cattle feed plant, Jind	(MT) 30,000	8,745 (29.15)	8,113 (27.04)	6,266 (20.89)	8,593 (28.64)	7,984 (26.61)
3	Agro engineering workshop, Nilokheri	Jobs worth Rs.150 lakh per annum	Rs.9 lakh (6)	Rs.42 lakh (28)	Rs.33 lakh (22)	Rs.57 lakh (38)	Rs.116 lakh (77)

Note: Figures in brackets indicate percentage of utilisation.

Capacity utilisation of the plants was very low during all the years. Audit observed that the plants were dependent on the patronage of the State Government for supply of its products. Even after more than three decades, the Company had not developed market for its products to compete in the open market. Performance of individual plants is discussed hereunder:

- **Pesticide and insecticide plant, Shahabad:** Despite low capacity utilisation, the plant earned profit during 2001-02 and 2002-03. Audit observed that profit was due to income of godowns constructed in the plant. Regarding low capacity utilisation the management stated (June 2004) that with the coming of multinational companies, the demand for its products had declined. The reply was not tenable as absence of an organised marketing wing and outdated plant and machinery contributed to low capacity utilisation.

- **Cattle feed plant, Jind:** The capacity utilisation of the plant ranged between 21 and 29 *per cent* during the last five years ending March 2003. Regarding low capacity utilisation, the management stated (June 2004) that feed was produced as per demand, which was poor due to existence of large number of small units in private sector. Audit observed that poor quality of feed and lack of organised market were the main reasons for poor capacity utilisation.

- **Agro engineering workshop, Nilokheri:** The capacity of workshop was fixed in 1968-69 to undertake jobs such as manufacturing agriculture implements, fabricate water tankers, trucks and bus bodies worth Rs. 1.50 crore per annum. The workshop, however, confined itself to undertake jobs under the subsidy schemes of the State Government. The management admitted (June 2004) that low capacity utilisation was due to dependence on Government orders under various subsidy schemes.

Murthal plant

2.1.24 The Company had a plant at Murthal for processing food and beverages. As it was running in losses the State Government decided (September 1997) to sell the plant. The Company instead of selling the running plant, closed (April 1998) it by getting the electric connection permanently disconnected and transferred surplus staff to other units.

The Company got assessed (August 1998) the value of plant and machinery at Rs. 44.47 lakh. Instead of selling the plant and machinery, the Company started exploring various options to run the plant, which did not materialise. In May 2002 the Company constituted a committee to reassess the value of plant and machinery. The committee assessed (September 2002) the value at Rs. 15.03 lakh. The Company had not been able to dispose of plant and machinery even at the depleted value of Rs. 15.03 lakh so far (June 2004) as it had become obsolete.

Thus, due to indecision on the part of the management, the condition and value of the plant had deteriorated.

Purchases

2.1.25 The Company has no purchase manual. The Company procures gunny bags and fertilisers through Director Supply and Disposal (DS&D) Haryana/Director General Supplies and Disposal (DGS&D) and other raw materials for its plants through various purchase committees.

Excess purchase of gunny bales

2.1.26 The Government of Haryana decided (October 2002) to float open tenders for purchase through DS&D, Haryana for Rabi-2003 crop. The Company assessed the requirement of 19,800 bales of 50 Kg for the estimated procurement of 4.95 lakh MT wheat. The Company placed (October 2002) an indent with DS&D, Haryana through Director Food and Supply (DF&S), Haryana for 18,000 gunny bales. The balance quantity was to be arranged locally. The indent was revised from 18,000 to 23,840 and to 28,000 bales in November and December 2002, respectively at the instance of State Government. After finalising the rate, DS&D Haryana placed (December 2002) supply order with Aditya Translink Private Limited, Kolkata. The Company got the entire delivery of 28,000 gunny bales up to April 2003 at a cost of Rs. 23.81 crore.

During Rabi-2003, the Company procured 4.87 lakh MT wheat and used 19,480 gunny bales. Audit observed that average procurement of wheat based on the last four years' procurement worked out to 4.88 lakh MT and the original assessment of gunny bales was realistic.

Thus, upward revision of indent in November and December 2002 was unrealistic which resulted in excess purchase of 8,200 bales valuing Rs. 6.98 crore. Resultantly, the Company suffered loss of interest of Rs. 38.38 lakh[*] on the blocked amount for six months.

Loss due to delay in reconciliation of accounts

2.1.27 The Company procures gunny bales from DGS&D through DF&S Haryana by sending indent along with full payment in advance for each crop year based on provisional rates subject to their subsequent adjustment. Since the advance payment is released for each crop on provisional basis, reconciliation of accounts at the end of each crop would help the Company to adjust the excess payments towards advance payment for next crop.

Audit observed that the Company was not reconciling its accounts before releasing advance payment from Rabi 1997 to Kharif 2001. Delay in reconciliation resulted in excess advance payment each year, which increased from Rs. 48.99 lakh in 1997 to Rs. 2.37 crore in Kharif 2000. The Company lost interest of Rs. 47.17 lakh[$] on the excess advance payments.

The management stated (July 2004) that the reconciliation was completed up to Kharif 2002 and it was in progress for the remaining period.

Loss due to excess purchase

2.1.28 In view of long storage of wheat, the State Government in consultation with FCI and State procuring agencies decided (June 2002) to use

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* Computed at the average cash credit interest rate of 11 *per cent* during the period of Audit Report.

$ Computed at the average cash credit interest rate of 11 *per cent* during the period of Audit Report.

Deltamethrin (pesticide), which was more effective and economical. Its specified dose was to be sprayed quarterly in July, October, January and April each year. Accordingly, the High Powered Purchase Committee approved the proposal of DS&D for rate contract for one year from 19 June 2002 to 18 June 2003 with Aventis Corp. Science India Limited, New Delhi at the rate of Rs. 885 per Kg inclusive of all taxes.

The Company was having stocks of wheat of 11.03 lakh MT in July 2002. As per prescribed dose the annual requirement for four sprays on this quantity was assessed at 8.310 MT despite the fact that spray period for first dose was already over.

The Company placed (August 2002) the order for 10 MT pesticide valuing Rs. 88.50 lakh and got delivery of entire quantity by September 2002. It consumed only 1.82 MT up to May 2003 leaving a balance of 8.18 MT valuing Rs. 72.39 lakh. The Company decided (May 2003) to sell five MT to other procuring agencies at the prevailing rate. All the procuring agencies were requested (May 2003) to lift this pesticide from the Company as shelf life was up to June 2004. In the meantime rate contract for the year 2003-04 was finalised (October 2003) at Rs. 525 per Kg and the Company had to sell (December 2003) 5.5 MT to other wheat procuring agencies at the reduced rate resulting in loss of Rs. 20.91 lakh.

Excess purchase of pesticide resulted in loss of Rs. 30.54 lakh.

Further, the Company lost Rs. 9.63 lakh on the self-consumed quantity (2.68 MT) during 2003-04 in comparison with the prevailing market rates. Thus, excess purchase resulted in loss of Rs. 30.54 lakh.

The management stated (June 2004) that purchase of 10 MT of pesticide was based on past experience and there was only one supplier and it could not utilise the pesticide as per schedule. The management further stated that it was taking action against the staff for not complying with the instructions and causing loss to the Company. Further outcome was awaited (July 2004).

Internal audit and internal control

2.1.29 The State Government issued (May 1981) instructions for introduction of uniform internal audit system in all State Public Sector Undertakings (PSUs). In 2002, the State Government formulated and circulated guidelines for conducting internal audit.

As per instructions, the work of internal audit in PSUs, where Internal Audit cell did not exist, was to be entrusted to a firm of Chartered Accountants (CAs) clearly defining the scope of work. The report of internal auditors was to be placed before the BODs.

The internal audit of the Company was conducted by various firms of CAs up to 2001-02.

Audit observed the following:

- Appointment letters issued to the firm of CAs did not specify duties and scope of internal audit.
- The Company did not place the reports of CAs before BODs.
- The internal audit of the Company for the year 2002-03 was not conducted.
- The Company was not having any audit and accounts manual specifying duties/responsibilities at each level.
- In field offices, despite large number of financial transactions, the system of cash management was not effective.
- All the monetary transactions viz. raising of bills, recovery of dues, writing the cash book and deposit in the banks were assigned to assistant accountants without adequate supervision.
- Internal control procedures were not commensurate with the size and activities of the Company as per Statutory Auditors report for the year 2002-03.

The management stated (June 2004) that the preparation of accounts manual was under process.

Conclusion

The Company was incorporated for promoting agro based industries and rendering services to the farmers. Sale of wheat and paddy constituted major component of its turnover. The Company could not maintain proper health of the wheat stock, raise bills in time and reconcile accounts with FCI resulting in huge losses. Its manufacturing plants were grossly under-utilised. Even after 37 years of its incorporation, the Company has failed to develop an independent market for its products and was depending upon the patronage of the State Government. The Company was not having accounts manual specifying duties/responsibilities at each level and its system of cash management was weak.

The Company needs to make concerted efforts to improve its marketing strategy so as to maintain its existence, provide adequate storage and strengthen its internal control mechanism.

The matter was referred to the Government in May 2004; the reply had not been received (September 2004).

2.2 Haryana Vidyut Prasaran Nigam Limited

Erection, augmentation and maintenance of high tension lines and sub-stations

Highlights

The main function of Haryana Vidyut Prasaran Nigam Limited was to transmit power purchased from Haryana Power Generation Corporation Limited and Central Pool to distribution companies through its transmission network consisting of high tension lines and sub-stations.

(Paragraph 2.2.1)

The State Government did not initiate action to promote private sector participation in power sector companies, as envisaged in the reforms programme. As such the dependence of the Company on borrowed funds to finance its transmission works had increased interest burden from Rs. 201.79 crore in 1999-2000 to Rs. 277.61 crore in 2002-03.

(Paragraph 2.2.7)

Of the 28 transmission schemes got financed from financial institutions during 1999-2004, 23 schemes involving creation/augmentation of 51 sub-stations and related link lines were scheduled for completion up to March 2004. Only 12 schemes could be completed by March 2004, which not only increased interest burden during construction but also resulted in non-accrual of envisaged financial benefits of Rs. 89.76 crore per annum on account of reduction in transmission losses.

(Paragraph 2.2.8)

Construction of 132 KV sub-station at Sector 27-28, Hisar without assessing its actual requirement led to blocking of funds of Rs. 75.55 lakh on civil works and Rs. 1.20 crore on electrical works, which resulted in loss of interest of Rs. 78.94 lakh.

(Paragraph 2.2.10)

Shortfall of shunt capacitors in the system during 1999-2004 resulted in non-reduction of transmission losses to the extent of 1,122.85 million units valued at Rs. 224.57 crore. The Company also had to pay Rs. 4.22 crore as penalty on account of excess drawal of reactive power from the power grid during April-September 2003.

(Paragraph 2.2.16)

Inadequate and non-operational protection systems at sub-stations put the costly equipments at a greater risk of damage.

(Paragraph 2.2.20)

Due to failure of the protection system, one power transformer (100 mega volt ampere) was damaged at 220 kilo volt sub-station, Madanpur, which resulted in estimated loss of Rs. 2.19 crore.

(Paragraph 2.2.24)

Introduction

2.2.1 On unbundling of the erstwhile Haryana State Electricity Board (HSEB) on 14 August 1998, generation of power in the State of Haryana was entrusted to Haryana Power Generation Corporation Limited (HPGCL) and its transmission and distribution to Haryana Vidyut Prasaran Nigam Limited (Company). The distribution function was subsequently transferred (July 1999) to two distribution companies viz. Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL).

The main function of Haryana Vidyut Prasaran Nigam Limited (Company) was to transmit power purchased from HPGCL and Central Pool, apart from its own generation from shared projects, to distribution companies through its transmission network consisting of HT lines and sub-stations having design voltage of 220, 132 and 66 KV.

Organisational set up

2.2.2 The management of the Company is vested in a Board of Directors (BOD) comprising a Chairman, a Managing Director (MD), two whole time directors and five part time directors. The MD is the Chief Executive of the Company. The transmission works in the Company are planned by Chief Engineer (Planning). Construction, operation and maintenance of lines and sub-stations are supervised by two Chief Engineers (Construction, Operation and Maintenance), Panchkula and Hisar under the control of Director (Technical). They are assisted by six Superintending Engineers at circle level. The procurement of material for transmission works and award of contracts for their execution on turnkey basis is looked after by the Chief Engineer (Design and Procurement), under the control of Director (Projects).

As on 31 March 2004, the Company had 21 divisional offices under six circle offices for construction and maintenance of works at the field level besides one power transformer repair workshop at Ballabhgarh and one steel structure workshop at Panipat. There were 208 sub-stations having transformation capacity of 12,014 MVA and 5,961.51 circuit kilometers (kms) of lines under the control of the Company.

Scope of Audit

2.2.3 Construction of transmission lines and sub-stations in the erstwhile HSEB was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1985-86 (Commercial), Government of Haryana. Recommendations of the Committee on Public Undertakings are contained in its 34th Report presented to the State Legislature on 12 March 1993.

The present review, conducted during October 2003 to March 2004, covers construction and maintenance of sub-stations and high tension (HT) lines of the Company for the last five years ending March 2004.

Audit findings as a result of test check of records of Chief Engineer (Planning) and Chief Engineer (Design and Procurement) at the Company's head office and two Chief Engineers (Construction, Operation and Maintenance) along with three* (11 divisional offices) out of six circle offices in the field for 1999-2004, were reported (May 2004) to the Government/Company with a specific request for attending the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the viewpoint of the Government/management was taken into account before finalising the review. The meeting of ARCPSE was held on 20 August 2004 which was attended by the Financial Commissioner and Principal Secretary to Government of Haryana, Power Department and the MD of the Company.

Transmission network

2.2.4 The Company has two sources of power viz. own generation in shared projects and purchase from HPGCL/Central Pool. Power generated by HPGCL at Tau Devi Lal Thermal Power Station (TDLTPS), Panipat is transmitted through 220 KV lines, while power generated at Faridabad Thermal Power Station and Yamunanagar Hydel Power Station is injected in the system through 66 KV lines of the Company. Power purchased from central pool and own generation from shared projects is pumped into the State through 400/220 KV inter-state lines and sub-stations of Power Grid Corporation of India Limited (PGCIL) and Bhakra Beas Management Board (BBMB). PGCIL has three 400 KV sub-stations in the State at Abdullapur, Hisar and Samaypur. BBMB has two 400 KV sub-stations at Bhiwani and Panipat, besides eight 220 KV sub-stations at other locations in the State.

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* Hisar, Karnal and Panchkula.

The Company transmits power so received through its network of 220, 132 and 66 KV sub-stations to the distribution companies (UHBVNL and DHBVNL) for distribution to end consumers. A map showing transmission network of the Company (220 KV and above) is shown at **Annexure 8**.

Growth of transmission system

2.2.5 The table below indicates the transmission system built up vis-à-vis power availability during 1999-2004:

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04 (Provisional)
Generation/purchase (MUs)					
Own generation*	3,648.57	3,200.99	3,038.42	3,350.62	3,700.89
Purchase	11,957.86	13,654.43	14,808.80	16,088.77	17,062.35
Total energy available for sale (MUs)	**15,606.43**	**16,855.42**	**17,847.22**	**19,439.39**	**20,763.24**
Energy sold	13,086.97	15,712.39	16,566.85	18,336.96	19,813.06
Transmission losses	2,519.46	1,143.03	1,280.37	1,102.43	950.18
Percentage of losses	16.14**	6.78	7.17	5.67	4.58
Transmission lines (circuit kms) (At the end of each year)	5,029.3	5,153.5	5,313.6	5,459.7	5,961.51
Transformation capacity (MVA***)					
132 & 66KV	5,635	5,850	6,097	6,504	7,104
220 KV	3,260	3,310	3,510	4,010	4,910

The transmission losses during years 2000-04 ranged between 4.58 and 7.17 *per cent.* As the losses were above the norm of 2 to 4 *per cent* fixed by Central Electricity Authority (CEA), the Company suffered loss of Rs. 281.68 crore on account of energy loss of 1,479.79 MUs (in excess of four *per cent*) in these years. Due to strengthening of transmission system by addition of 132 and 66 KV sub-stations, the Company was able to reduce transmission losses to the level of 4.58 *per cent* during 2003-04.

Targets and actuals

Physical targets and achievements

The Company could not achieve targets for laying transmission lines and addition in transformation capacity.

2.2.6 The Company had been drawing up transmission programme by fixing the physical targets for erection of new sub-stations and lines besides augmentation of existing sub-stations and lines. The programme of erection/augmentation was approved on the basis of feasibility reports formulated after receiving the techno-economic justification from the distribution companies. The targets and achievements in physical terms during 1999-2004 are given in **Annexure 9**.

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* Own generation represents the Company's share in BBMB and Inderprastha Power Generation Company Limited.

** Includes distribution losses up to June 1999.

*** Mega Volt Ampere (MVA).

It would be seen from the **Annexure 9** that the Company had not achieved the targets for laying of transmission lines and addition in transformation capacity in any of the five years. The percentage of shortfall ranged between four and 62 in respect of transformation capacity and between 62 and 85 in respect of transmission lines. The shortfall was due to delay in execution of works.

The management stated (June 2004) that only need-based works were executed keeping in view the system requirements and availability of fund. The reply was not tenable in view of the fact that transmission programme was based on techno-economic justification given by the distribution companies and fund sanctioned by financial institutions could not be utilised as per schedule due to delay in execution of works. During ARCPSE meeting (August 2004), the management attributed the non-achievement of targets to the problem of 'right of way' and assured that more realistic and achievable targets would be fixed in future.

Financial outlay and actual expenditure

2.2.7 The Company prepared annual budget for capital expenditure for execution of various works including transmission depending upon the physical targets fixed in the annual plans formulated by the Company.

The table below indicates the budgeted (original/revised estimates) and actual expenditure on transmission works during 1999-2004:

(Rupees in crore)

Year	Budgeted estimates				Total revised estimates (allocation) (3+5)	Actual expendi-ture	Variation with reference to revised estimates (*per cent*) (7-6)
	Plan *		Non-plan **				
	Original estimates	Revised estimates/ (allocation)	Original estimates	Revised estimates/ (allocation)			
1	2	3	4	5	6	7	8
1999-2000	212.20	222.65 (184.99)	4.00	19.35 (19.00)	242.00 (203.99)	102.92	(-) 139.08 (57.47)
2000-01	289.55	104.61 (84.77)	19.40	19.40 (33.23)	124.01 (118.00)	91.06	(-) 32.95 (26.57)
2001-02	199.32	10.75 (15.29)	40.00	81.59 (46.83)	92.34 (62.12)	109.13	(+) 16.79 (18.18)
2002-03	12.00	2.10 (0)	190.04	199.01 (153.80)	201.11 (153.80)	207.97	(+) 6.86 (3.41)
2003-04	11.50	2.00 (2.00)	290.29	236.39 (106.21)	238.39 (108.21)	147.01	(-)91.38 (38.33)

It could be seen from the above table that:

- actual expenditure was low ranging from 26.57 to 57.47 *per cent* as compared to the revised estimates during 1999-2001 and 2003-04. Audit analysis revealed that this was mainly due to delay in execution of works as discussed in succeeding paragraphs (2.2.8, 2.2.9, 2.2.14 and 2.2.15);

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* In the form of equity capital/World Bank loan.

** In the form of loans from financial institutions.

- budget estimates were unrealistic as the actual expenditure compared to revised estimates varied from (+) 18.18 to (-) 57.47 *per cent* during 1999-2004.

Over dependence on borrowings for funding transmission works increased interest burden.

- as a sequel to power sector reform programme, the State Government reduced contribution for funding the transmission projects. But it did not initiate action to promote private sector participation in power sector companies, as envisaged in the reform programme. As such, large investment programme to rehabilitate and expand the transmission and distribution system did not take place. The Company was left with no other option except resorting to borrowing from financial institutions to finance its transmission projects. The loan drawal for transmission works increased from Rs. 19 crore in 1999-2000 to Rs. 106.21 crore in 2003-04. This resulted in increased interest burden on the Company from Rs. 201.79 crore in 1999-2000 to Rs. 277.61 crore in 2002-03.

During ARCPSE meeting (August 2004), management stated that more realistic budget would be prepared in future.

Transmission schemes

2.2.8 During 1999-2004, the Company got financed 28 transmission schemes from PFC*, REC** and NABARD***. Of these, 23 schemes involving erection/ augmentation of 51 sub-stations (43 new sub-stations and augmentation of eight sub-stations) along with related link lines were slated to be completed during September 2001 to March 2004. Targets and achievements under these schemes are detailed below:

Source of finance (Number of schemes)	Estimated cost	Loan sanctioned	Loan drawn	Number of sub-stations covered under the scheme (capacity in MVA)					
				220 KV		132 KV		66 KV	
(Rupees in crore)				Target	Actual	Target	Actual	Target	Actual
PFC (12)	359.52	251.63	217.30	10 (1,500)	9 (1,150)	20 (526)	14 (362)	6 (96)	4 (52)
REC (8)	38.06	35.25	30.13	Nil	Nil	3 (48)	2 (32)	5 (80)	4 (56)
NABARD (3)	27.31	21.93	15.70	1 (100)	1 (100)	3 (48)	2 (32)	3 (48)	1 (16)
Total (23)	424.89	308.81	263.13	11 (1,600)	10 (1,250)	26 (622)	18 (426)	14 (224)	9 (124)

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* Power Finance Corporation Limited.
** Rural Electrification Corporation.
*** National Bank for Agriculture and Rural Development.

Out of 23 transmission schemes, the Company could complete only 12 within the target date and could create additional transformation capacity of 1,800 MVA (74 *per cent*) against the target of 2,446 MVA.

The Company could utilise only 85 *per cent* of the available loan fund although the completion period was over. Only 12 out of the 23 schemes had been completed up to March 2004. Due to delay in completion of schemes, projected reduction in transmission losses, which would have resulted in financial benefits of Rs. 89.76 crore per annum, could not be achieved. Due to slow pace of work, the Company could erect 30 against the target of 43 new sub-stations and augment seven against the target of eight sub-stations. As a result, 1,800 MVA (74 *per cent)* additional transformation capacity (against the target of 2,446 MVA) could be created. The Company could erect 821 circuit kms (57 *per cent*) of transmission lines against target of 1,433 circuit kms of lines.

In one of the schemes, PFC sanctioned (November 2001) a loan of Rs. 26.67 crore for completion of 220 KV sub-station at Jorian (Yamunanagar) and erection of two new 66 KV sub-stations at Gulab Nagar and Talakaur, besides augmentation of 66 KV sub-stations at Bilaspur and Sadhaura. The Company was to execute these works departmentally. Audit observed that although first and second 100 MVA 220/66 KV transformers were energised at 220 KV sub-station, Yamunanagar in July 2002 and January 2003 respectively, yet the erection of new 66 KV sub-stations as well as envisaged transmission lines were not completed (June 2004). Delay in completion of subsidiary works had, thus, postponed the accrual of projected financial benefits. Besides, this has also resulted in under utilisation of 220 KV sub-station valuing Rs. 17.90 crore.

Delay in execution of turnkey projects

2.2.9 The Company awarded 30 turnkey contracts valuing Rs. 198.54 crore during March 2001 to February 2002 for supply, erection and commissioning of 29 sub-stations and associated lines in eight[*] districts. These transmission works, scheduled to be completed in 15/18 months i.e. by June 2003, were aimed at improving the quality and availability of power in these areas.

No turnkey contract was completed within scheduled time.

Audit noticed that no turnkey contract was completed within the scheduled time. As of March 2004, while works under only four schemes were completed with delay ranging from three to 11 months, the remaining four schemes were behind schedule with delay ranging between 10 and 17 months.

The management attributed (June 2004) the delay in completion of projects to lengthy procedure for acquisition of land, difficulty in handing over clear site to contractors on time, delay in obtaining forest clearance, shifting of existing HT/low tension (LT) lines, railway clearance etc. The reply was not convincing because the management failed to utilise the period of seven to 11 months available between sanction of schemes and award of contracts. A few such instances are given below where the Company initiated action only after the award of contracts:

- land at Fatehabad was made available after 10 months;
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* Ambala, Bhiwani, Fatehabad, Kaithal, Mohindergarh, Rohtak, Sirsa and Sonepat.

- the Company shifted its own structures and lines at Mohindergarh after a period of 10 months;
- part of land at Rania was made available to the contractor after nine months;
- land at Cheeka was acquired after 14 months and at Maharishi Dayanand University, Rohtak, land was made available after 12 months; and
- the Company shifted 11 KV lines at 66 KV sub-station Dukheri after a period of seven months.

Thus, the Company was deprived of projected financial benefits of Rs. 105.13 crore on account of non-reduction in line losses due to delayed completion of works. Besides, consumers of these areas suffered on account of low voltage and poor availability of power for longer periods.

Erection and augmentation of sub-stations

132 KV sub-station at Hisar

2.2.10 With a view to meet growing demand of electricity and to supply quality power to industrial consumers of Hisar, HSEB approved (December 1992) a proposal to create a 132 KV sub-station in Sector 27-28 Industrial Estate, Hisar with one transformer of 10/16 MVA capacity having 132/11 KV rating. Civil works at the proposed sub-station were completed during 1993-94 for Rs. 31.20 lakh. Payment of Rs. 44.35 lakh towards cost of land was made in March/June 1998. The electrical works commenced in 1994-95 were scheduled to be completed by March 1995, which were not completed due to change of priority of the sub-station.

After a gap of five years, the Company decided (July 1999) to install one transformer of 10/16 MVA capacity having 132/33 KV rating (instead of 132/11 KV) transformer to feed the load of proposed 33 KV sub-stations at Mangali and Haryana Urban Development Authority (HUDA) complex, Hisar. Remaining electrical works at the sub-station were completed and the transformer was commissioned (August 2001) at the sub-station at a total electrical cost of Rs. 1.20 crore.

Audit observed that since the date of its commissioning (August 2001), the transformer remained energised on “no load” and the installed capacity of the sub-station remained untapped till 26 February 2004, when 6.3 MVA load of 33 KV sub-station, Mangali was put on the transformer.

Construction of sub-station without assessing its actual requirement resulted in blocking of fund of Rs. 1.96 crore and loss of interest of Rs. 78.94 lakh.

Thus, construction of sub-station without assessing its actual requirement resulted in blocking of Rs. 31.20 lakh from March 1995 on civil works, Rs. 44.35 lakh from June 1998 on cost of land, and Rs.1.20 crore on electrical works from August 2001, which resulted in loss of interest of Rs.78.94* lakh up to January 2004.

The management stated (June 2004) that the priority for the sub-station was lowered due to closure of steel industry (prospective consumers from the sub-station) owing to decontrol of steel. The contention of the management was not tenable as the proposal to create sub-station was meant for all industries located in the vicinity.

132 KV sub-station at Matlauda

2.2.11 The planning wing of the Company observed (January 2000) that upgradation of 33 KV sub-station to 132 KV level at Matlauda was not possible until a 220 KV sub-station was created at Safidon as the existing 132 KV TDLTPS-Safidon line was already over loaded.

Accordingly, the scheme for construction of 220 KV sub-station at Safidon and its associate transmission works, which, *inter alia*, included erection of 132 KV sub-station at Matlauda with two transformers (132/11 and 132/33 KV) was prepared and submitted (August 2001) to PFC. The Company, however, decided (May 2002) to take up construction of the 132 KV sub-station at Matlauda departmentally by delinking it from other works under the scheme. The sub-station was energised with one 132/11 KV transformer in July 2003 by making LILO* of 132 KV TDLTPS-Safidon line for feeding this sub-station. An expenditure of Rs. 3.23 crore was incurred on the erection of the sub-station including LILO arrangement (cost Rs. 90.38 lakh). The scheme including 132 KV sub-station at Matlauda was scheduled for completion by September 2004.

Audit observed that 132/11 KV transformer installed at the sub-station could not be fully loaded as only three (out of six) 11 KV feeders were being operated and that too in groups (alternately) due to feeding constraints. Remaining three 11 KV feeders were being fed from existing 33 KV sub-station which was to be dismantled after upgradation of this sub-station.

Injudicious decision to prepone erection of sub-station resulted in only partial utilisation of sub-station costing Rs.3.23 crore.

Thus, injudicious decision to prepone the construction of 132 KV sub-station at Matlauda by overlooking the feeding constraints had resulted in only partial# utilisation of the sub-station (costing Rs. 3.23 crore).

The management stated (June 2004) that due to heavy load demand and low voltage problems in the area there was great resentment among agricultural consumers and in order to remove this resentment, the Company decided to go ahead with the construction of the sub-station, which resulted in saving in line losses and better voltage. Reply was not tenable in view of the fact that only three out of six feeders were being fed from the newly created sub-station and

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* Worked out at 10 *per cent* i.e. minimum borrowing rate from financial institutions.

* Loop in loop out (It is an arrangement for feeding a new sub-station from an existing transmission line).

\# Average utilisation was 39 *per cent* during August 2003 to January 2004.

other three feeders were being fed from existing 33 KV sub-station. As such the claim regarding saving in line losses did not hold good.

132 KV sub-station at Assakhera

2.2.12 A 33 KV sub-station at Assakhera (with installed capacity of one transformer of 5 MVA capacity having 33/11 KV rating) was being fed from 132 KV sub-station Dabwali over a 40 Km long Dabwali – Ganga - Assakhera line. Planning wing of the Company observed (April 2002) that the sub-station at Assakhera faced problem of low voltage due to its lengthy feeding line. The low voltage could be controlled by erecting a separate 33 KV Dabwali-Assakhera line (23 Kms) at an estimated cost of Rs. 60.49 lakh, yet the Company decided (April 2002) to control the low voltage by upgrading the sub-station to 132 KV level at an estimated cost of Rs. 4.61 crore.

The Company adopted uneconomical option to overcome the problem of low voltage at Assakhera and incurred extra expenditure of rupees four crore.

For this, a scheme involving construction of 132 KV sub-station Assakhera with one transformer of 16/20 MVA capacity having 132/33 KV rating, 132 KV single circuit Dabwali-Assakhera line and one 132 KV bay at Dabwali sub-station was got sanctioned (September 2003) from NABARD for loan assistance of Rs. 4.14 crore. The works scheduled to be completed by September 2005 were under progress (June 2004). Thus, uneconomical manner of solving the problem of low voltage resulted in additional investment of rupees four crore.

The management stated (June 2004) that with the construction of 132 KV sub-station at Assakhera, the existing line losses of 10.88 lakh units (LUs) per annum would be reduced to 1.53 LUs per annum. In case direct 33 KV line from Dabwali to Assakhera was constructed, the line losses would be reduced to 5.93 LUs per annum and that upgradation of 33 KV sub-station to 132 KV level was a long term solution to cater to increase in load demand.

The reply was not tenable because additional saving in line losses of 4.40 LUs (5.93–1.53) per annum (value Rs 9.11 lakh) by constructing 132 KV sub-station instead of direct 33 KV line was not adequate to meet interest burden of Rs. 32 lakh per annum on extra investment of rupees four crore leaving aside operation and maintenance expenses and depreciation. Further maximum demand recorded at 33 KV sub-station during 2001-02 was four MVA (against installed capacity of five MVA) and load growth in the area was 4.5 *per cent* per annum. According to planning criteria adopted by the Company, upgradation from 33 to 132 KV level was considered only when the load exceeded 12.5 MVA.

Non recovery of cost of sub-stations from HUDA

2.2.13 The Company issued (November 2000) instructions which, *inter alia*, required that HUDA and other Government agencies would provide land free of cost for new sub-stations and pay expenditure incurred on erection of sub-stations and lines to the Company for electrification of urban/industrial estates developed by them.

Audit observed that the Company constructed two 66 KV sub-stations (Sector 34 and Sector 56) at Gurgaon in HUDA urban estate at a cost of Rs. 6.57 crore during 2001-02. Against this, the Company recovered Rs. 80 lakh by December 2001. Balance Rs. 5.77 crore along with cost of switch house building and allied civil works and feeding line (not intimated by the Company) had not been recovered so far (June 2004) from HUDA. The 66 KV sub-station at Sector 34, Gurgaon was further augmented during 2002-03 by providing one additional transformer at a cost of Rs. 1.20 crore, which had also not been recovered (June 2004). Non-recovery of Rs. 6.97 crore had resulted in interest loss of Rs. 1.27* crore up to March 2004 and recurring interest loss of Rs 69.70** lakh per annum.

On being pointed out in audit, the management took up (June 2004) the matter with HUDA for depositing the cost. The recovery was still awaited (July 2004).

Erection of transmission lines

Delay in completion of lines

2.2.14 In order to evacuate and transfer power from the gas based power plant, Faridabad to Rewari/Dadri areas and for providing relief to heavily loaded Samaypur-Badshahpur line, the Company awarded (March 2000) the work for construction of 220 KV double circuit Palli - Badshahpur line to Tata Projects Limited on supply-cum-erection basis (cost Rs. 4.22 crore) with loan assistance from PFC. The Company was to supply towers for the line. As per terms and conditions of the contract, erection work was to be completed within 15 months (June 2001) of placement of order subject to the condition that the Company would make available towers as and when required by the contractor.

Audit observed that although the scheduled completion period expired in June 2001, yet the line had not been commissioned so far (June 2004). Reasons for delay in completion of the work were as under:

- of the 84 towers required for construction of the line, the Company could supply 50 towers (cost Rs. 1.01 crore) to the contractor during March-August 2001 by procuring from BBMB. The contractor was paid Rs. 4.13 crore during the period from April 2000 to January 2002 for erection of 50 towers and stub setting at 80 locations. The remaining 34 towers could not be supplied by the Company as galvanising plant of its own workshop was closed in February 2000. Due to non-supply of balance towers, the work on the line remained suspended during January 2002 - May 2003. Though the process of

*Calculated at 10 *per cent* being the minimum borrowing rate of interest from financial institutions on Rs.5.77 crore for 2002-04 (Rs. 1.15 crore) and on Rs. 1.20 crore for 2003-04 (Rs.12 lakh).

** Calculated at 10 *per cent* on Rs.6.97 crore for one year.

selecting the contractor for galvanising could be completed within a reasonable period of six months, the Company took two and a half years in selecting the contractor. The contract for galvanisation was awarded in October 2002 and remaining towers were supplied during June-December 2003; and

- though land under tower location No. 63 to 66 had already been acquired (January 1999) by the State Government for construction of Jail complex, this aspect was not kept in view while finalising (September 2000) the route plan of the line. The route of the line from these towers had to be revised (June 2003) and the Company incurred extra expenditure of Rs. 38.03 lakh on dismantling of already erected towers and their relocation at alternate sites.

Failure of the Company to supply towers resulted in blocking of funds of Rs. 5.14 crore and loss of interest of Rs. 1.50 crore.

The management stated (June 2004) that the line was almost complete and it was likely to be commissioned shortly.

Thus, delay in completion of the line resulted in extra burden of interest of Rs.1.50[#] crore during construction up to March 2004. The delay had also resulted in non-accrual of projected financial benefits of Rs. 1.81 crore per annum by savings in line losses.

2.2.15 With a view to feed 132 KV sub-stations at Chandoli and Chhajpur from TDLTPS (presently fed from BBMB Sewah sub-station), the erstwhile HSEB proposed (1994-95) to erect a 14.8 Km long 132 KV double circuit line at an estimated cost of rupees two crore from TDLTPS to Chandoli which was scheduled for completion during 1995-96. Another estimate for making double bus bar arrangement with bays at 132 KV sub-station Chandoli (estimated cost: Rs. 1.09 crore) was sanctioned (May 1997) by the Chief Engineer (Construction and O&M) Panchkula with scheduled completion within three months (August 1997). The bus bar was required for energisation of the line.

Audit observed that TDLTPS- Chandoli line could not be completed and energised so far (September 2004) despite incurring expenditure of Rs. 4.24 crore on it during December 1995 to December 2003, although bus bar arrangement at 132 KV sub-station Chandoli was completed (September 2002) at a cost of Rs. 2.67 crore. Reasons for delay in completion of the line, as identified in audit, were as under:

- detailed route plan approved (April 1992) by the erstwhile HSEB had to be revised time and again (October 1993, May 1995, July 1997 and May 1998) due to disputes over route of the line; and

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Calculated on the blocked funds of Rs. 5.14 crore (Rs.1.01 crore + Rs.4.13 crore) during April 2000 to January 2002 at 13 *per cent* rate of interest.

- problematic areas en-route the line were not identified during survey of the line. As a result, some land owners of Khukhrana village obstructed (December 2001) erection of six towers and erection work could be resumed (May 2003) after acquiring about one acre patch of additional land.

Delay in completion of line and bays resulted in cost over run of Rs. 3.82 crore besides loss of interest of Rs. 40.05 lakh on blocked funds.

Delay in completion of the line (eight years) and bus bar (five years) resulted in cost overrun of Rs. 2.24 crore and Rs. 1.58 crore respectively. Besides, Rs. 2.67 crore incurred on erection of 132 KV bus bar with bays was lying blocked since September 2002 due to non-completion of TDLTPS–Chandoli line, resulting in loss of interest of Rs. 40.05 lakh (calculated at 10 *per cent* per annum for 18 months from October 2002 to March 2004).

The management stated (June 2004) that the route of line had to be revised as HUDA and railway authorities planned their works later on and some affected land owners requested to review the route. Accordingly, alternative route plan was prepared.

Deficiency in addition of shunt capacitors

2.2.16 Haryana being an agricultural State, bulk portion of power is supplied to agricultural sector and agro based industries. These loads are highly inductive in nature i.e. consume more reactive[@] power due to which voltage level remains quite low. The low voltage causes over loading of transmission lines and transformers and results in increase in system losses. To minimise the reactive power flow in the system, Northern Region Electricity Board[@@] (NREB) had been emphasising on installation of shunt capacitor banks in the transmission system.

The table below indicates the availability vis-à-vis requirement of shunt capacitors based on studies conducted by NREB at the end of the year during 1999-2004:

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
	(Capacity in MVAR[*])				
Requirement	2,520	3,080	3,080[#]	2,992	3,111
Capacitors installed at the year end	1,470	1,830	2,547	2,880	3,269
Addition since previous year	-	360	717	333	389
Capacitors available[**]	1,250	1,555	2,165	2,448	2,779

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@ Reactive power is part of current flow in the system to be used by electro-magnetic circuits of motors, transformers etc.

@@ A body to control and regulate the Northern grid.

* Mega Volt Ampere Rating.

\# As no study was carried out by NREB, requirement of last year has been taken as requirement for the year.

** 85 *per cent* of capacitors installed are treated as available as per norms of NREB.

Shortfall	1,270	1,525	915	544	332

Shortfall in installation of shunt capacitors resulted in non-reduction of transmission loses to the extent of 1,122.85 MUs valued at Rs. 224.57 crore.

It would be seen from the table that shortfall in the available shunt capacitors ranged between 332 and 1,525 MVAR during 1999-2004. This resulted in non-reduction of transmission losses to the extent of 1,122.85 MUs valued at Rs. 224.57 crore. Audit observed that these losses could have been avoided by spending Rs. 22.79 crore on installation of shunt capacitors in the year of requirement. Besides, the Company had to pay Rs. 4.22 crore as penalty to NREB for excess drawal of reactive power from the power grid during April-September 2003.

The management stated (June 2004) that time available between declaration of requirement and target date of commissioning was insufficient to carry out activities involving identification of rating, location, arrangement of funds, purchase of equipments and testing and commissioning.

The reply was not tenable as installation of shunt capacitors was a continuous process and the Company should have made efforts in advance without waiting for directions of NREB keeping in view the cost-benefit analysis.

Utilisation of lines

Idle transmission lines

Healthy towers valuing Rs. 81.70 lakh on idle line had not been dismantled.

2.2.17 Dadri-Bhiwani 132 KV line became idle after commissioning of 220 KV sub-station at Bhiwani in the year 1990. This line had 121 towers (estimated cost Rs. 81.70 lakh) along with relevant accessories in good condition. The Company did not take any action to dismantle towers and use them on ongoing works though a number of 132 KV lines were erected by the Company. It was only in June 2003 that the Company decided that the material of Dadri-Bhiwani line after dismantling would be used in erecting 132 KV Dabwali-Assakhera single circuit line. However, it subsequently decided (September 2003) to use new towers for this line. Thus, healthy towers of 132 KV Dadri-Bhiwani line valuing Rs. 81.70 lakh remained erected till date (June 2004) without any utility. During ARCPSE meeting (August 2004) the management assured to issue instructions for use of material of redundant lines within the shortest possible time.

2.2.18 Similarly, Khera-Yamunanagar (15 Kms) portion of 66 KV Khera-Ladwa line became (August 2002) idle after feeding arrangement of 66 KV sub-station Ladwa was made from newly created 220 KV sub-station at Yamunanagar. No action had been taken so far (June 2004) to dismantle the idle line valuing Rs. 17.43 lakh.

The management stated (June 2004) that the line had been retained for emergency use. The reply was not tenable as decision of the competent authority to this effect was not made available to Audit.

Maintenance of sub-stations and lines

Poor maintenance of sub-stations and lines

2.2.19 The Company issued (June 1999) guidelines for preventive maintenance of sub-station equipments and associated protection and control system. Under these guidelines, the staff deployed at sub-stations and lines is required to exercise periodical checks for healthy maintenance of transmission system. The position of maintenance carried out was recorded in the maintenance register placed at respective sub-stations.

The Metering and Protection (M&P) wing of the Company conducted maintenance audit of each sub-station on yearly basis and pointed out the deficiencies to Sub Station Engineer (SSE) and Executive Engineer concerned who were required to comply with the observations immediately.

A test check of records revealed that in 66 sub-stations checked by M&P in north zone during March 2003 to January 2004, 394 observations pointed out in previous checkings were not attended to by the Operation and Maintenance (O&M) wing even after a lapse of one year.

Similarly in south zone, 77 out of 106 observations of serious nature were not attended to and their pendency ranged between one and 13 months.

Non rectification of deficiencies rendered the costly equipments to a greater risk of damage.

Further analysis revealed that such observations included low insulation resistance value of transformers, dehydration of transformer oil/on load tap changer (OLTC) required, change of high set elements/relays required, OLTC panel not operating, lightening arresters to be provided/repaired, sluggish/old oil circuit breakers requiring replacement, etc. Non rectification of deficiencies rendered the costly equipments to a greater risk of damage.

The management stated (June 2004) that observations pointed out by M&P wing were attended on priority and wherever required, the matter was referred to concerned authority for compliance. The fact, however, remained that there was abnormal delay in rectification of deficiencies of high risk nature for more than one year.

Inadequate protection system

2.2.20 For proper and efficient running of transmission system, it is necessary that all the systems including protection system are functional which could save the costly equipments from damage in case of any fault in the system. The Company conducted (May 2003) a survey on the protection system in the north zone and the results thereof are tabulated below:

Name of equipment	Number of cases checked	Non-operational/ absence of equipment	Equipment in operation	Percentage of equipment in operation
Distance protection schemes	192	131	61	32
Bus bar protection schemes	19	17	2	11

Bus couplers	33	30	3	9

Inadequate and non-operational protection system at sub-stations put the costly equipments at a greater risk of damage.

It is evident that position of protection system at sub-stations of the Company was far from satisfactory and had put the costly equipments at a greater risk of damage.

The Company stated (June 2004) that efforts were being made to rectify/replace the defective protection equipments.

Damage to power transformers

2.2.21 The table below indicates the power transformers installed in the system and damaged during 1999-2004:

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Transformers in the system at the beginning of year (220, 132 and 66 KV rating)	374	399	410	426	449
Transformers damaged during the year (220, 132 and 66 KV rating)	14	16	8	13	11

The Company constituted (February 1999) a committee of three officers to investigate cases of damage to power transformers and report to the management within a fortnight of the date of damage. The committee was reconstituted (January 2000) into two different committees for 220 KV and 132/66 KV rating transformers. These committees were again reconstituted (June 2000) and two committees for north and south zones were formed. The Company also formed (December 2000) special committees for investigation of damage to 100 MVA transformers. The reports of the committees were to be submitted to the Director (Technical) for consideration and corrective action.

The Committee investigated only 29 out of 62 cases where damage of transformers had occurred.

Audit noticed that in 21 out of 29 cases the investigation reports were submitted after delay of four to 418 days. In 33 out of 62 cases where damage had occurred during 1999-2004, investigation was not carried out at all.

Thus, the delayed/non-investigation of causes of damage to transformers defeated the very purpose of constitution of committees and top management was deprived of valuable information on this count for taking corrective action.

The management attributed (June 2004) the delayed/non-investigation to non-receipt of required documents/information from the concerned field units; this indicated poor control and monitoring over field offices. During ARCPSE meting (August 2004), the management stated that in 50 *per cent* cases, faults occurred due to over straining of the system and analysis would be carried out for taking remedial action.

2.2.22 Analysis of all the 29 investigation reports revealed that damage of transformers was due to repeated trippings and breakdowns on the outgoing feeders (15 cases), development of internal fault owing to internal design and manufacturing defects (eight cases), lack of maintenance and upkeep of equipment (four cases) and human fault (two cases). As damage in most of the cases was caused due to tripping/breakdowns on the outgoing feeders, the Company had not asked the distribution companies to make good the loss caused due to their fault.

Audit observed that the Company incurred Rs. 5.18 crore on replacement of 16 damaged transformers in three circles test checked in audit and incurred Rs. 1.98 crore on repair of 27 damaged transformers during 1999-2004.

2.2.23 One 10/16 MVA, 132/11 KV transformer at 132 KV sub-station Nangal Chaudhary was damaged on 15 January 2003 due to severe fault on 11 KV SBD* feeder near to the sub-station. The investigation report revealed that the operational staff of DHBVNL gave wrong clearance certificate of the line after tripping though conductors of the feeder were found inter-mingled in one span, which resulted in damage of transformer when switched on again. The Company had to spend Rs. 22.52 lakh for replacement and Rs. 13.68 lakh for repair of the damaged transformer. The investigation report alleged negligence on the part of operational staff of DHBVNL. Thus, the Company had to suffer a loss of Rs. 36.20 lakh. The Company had not taken up the matter with DHBVNL for recovery of loss.

The management stated (June 2004) that matter had been taken up with DHBVNL for fixing responsibility of the official (s) at fault. No action had been taken so far (June 2004).

2.2.24 One 220/66 KV, 100 MVA power transformer was damaged at 220 KV sub-station Madanpur (Panchkula) on 24 December 2002 due to fire. The investigating Committee identified main reasons for damage of transformer as under:

- non-operation of 220 KV breaker due to blowing of fuse on the direct current circuit, which remained unnoticed till the date of accident;
- bus-bar protection, though installed at the sub-station, was not connected;
- bus coupler breakers on 220 KV and 66 KV sides were defective due to poor supervision of O&M supervisory staff;
- the trip alarm bell placed in the transformer relay alarm circuit was lying damaged since 16 December 2002;
- circuit breakers controlling Shahbad-Panchkula line did not operate; and
- periodical inspection and technical audit of the sub-station conducted by M&P team on 5 September 2002 was casual and not in detail as required under the instructions.

One 100 MVA transformer got damaged due to failure of protection system at a sub-station which resulted in estimated loss of Rs. 2.19 crore.

The Company decided (June 2003) to shift the transformer to power transformer repair workshop, Ballabhgarh for carrying out detailed inspection of core, coils and residual life analysis. The transformer was, however, not shifted till date

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* Sahibajpur distributory.

(June 2004). Replacement cost of the transformer was estimated at Rs. 2.19 crore.

During ARCPSE meeting (August 2004), the management stated that the detailed investigation of damaged transformer would be made and appropriate action would be taken thereafter.

Conclusion

The main function of the Company was to transmit power to distribution companies through its transmission network. The Company could not achieve its targets for laying transmission lines and addition in transformation capacity. Delay in implementation of transmission schemes/works resulted in cost overruns and non-accrual of envisaged benefits to be achieved through reduction in transmission losses. Inadequacy in installation of shunt capacitors contributed towards non-reduction of transmission losses. Construction of sub-stations without assessing actual requirement resulted in blocking of investment. The maintenance and upkeep of the system was marred by deficiencies, which rendered the costly equipments susceptible to a greater risk of damage.

In order to make optimum use of borrowed funds, project planning and their execution need to be improved to implement the transmission schemes within scheduled time. The maintenance and upkeep of the transmission system need to be strengthened in order to avoid damage of costly equipments and to ensure availability of quality power to consumers.

The matter was referred to the Government in May 2004; the reply had not been received (September 2004).