Chapter-III

3. Transaction audit observations relating to Government companies and Statutory corporations

Important audit findings noticed as a result of test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

Government companies

Haryana State Industrial Development Corporation Limited

3.1 Non-recovery of loan

The Company's decision to permit the unit to replace the original collateral security with highly inflated collateral security resulted in doubtful recovery of Rs. 49.82 lakh.

The Company sanctioned (January 1996) a bridge loan of Rs. 30 lakh to Jind Textiles Limited (unit) for a period of six months against subsidy to be received from the State Government. The loan could be extended for six months each time subject to maximum of two years. The unit was to provide collateral security of Rs. 33.17 lakh. The unit offered a shop valued at Rs. 30 lakh at auto market, Hisar as collateral security. The Company's approved valuer assessed its value at Rs. 27.64 lakh. The Company disbursed (February 1996) loan of Rs. 25 lakh and cancelled the balance loan.

The Government did not release (November 1998) the subsidy. The Company extended (December 1998) the currency of loan to five years or the period till the subsidy was released by the State Government, whichever was earlier. Due to default in repayment of bridge loan, the Company took over (February 2001) the possession of collateral security. On unit's request (February 2001), the Company handed back (April 2001) the possession of collateral security after receiving the payment of interest (Rs. 8.84 lakh).

The unit requested (July 2001) for replacement of the existing collateral security with ten shops at Uchana Mandi, which were purchased by the unit in the previous month (June 2001) for Rs. 2.84 lakh. The Company accepted (July 2001) the value of these shops at Rs. 25 lakh assessed by the valuer without taking cognizance of the fact that it was purchased (June 2001) for Rs. 2.84 lakh only.

The Company took five post-dated cheques of Rs. 27.12 lakh payable from June 2001 to February 2002. Of these, only one cheque of Rs. 1.13 lakh was honoured (July 2001). The Company took over (March 2002) the possession of the shops due to dishonouring of the cheques and put the collateral security to auction (May 2002) but no bidder came forward. The Company estimated (May 2002) the realisable value of the shops at rupees three lakh as against the assessed value of Rs. 25 lakh, which was yet to be disposed of (July 2004).

The Company accepted the valuation of replaced collateral security (ten shops) at Rs. 25 lakh which was unrealistic as there was implication of nine times increase in market value in just one month. This indicated utter failure of the Company resulting in unjustified replacement of original collateral security (Rs. 30 lakh) with highly inflated collateral security. This resulted in doubtful recovery of Rs. 49.82 lakh including interest of Rs. 27.17 lakh as of March 2004.

The management stated (June 2004) that the concerned officer who had evaluated the property unrealistically was being charge sheeted and possibility of booking the promoter as well as valuer for cheating the Company was being explored. Further developments were awaited in audit (July 2004).

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

3.2 Excess payment of employers' contribution

The Company suffered loss of Rs. 39.95 lakh due to 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 an employee exceeds Rs. 5,000, the contribution payable by the employer shall be limited to the amounts payable on a monthly pay of Rs. 5,000 (increased to Rs. 6,500 w.e.f. June 2001). Para 29(2) of the Scheme further provides 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.

Audit observed (April 2003) that the Company contributed its share at the rate of 12 *per cent* towards the fund during 2001-03 without limiting the monthly pay to Rs. 6,500 (Rs. 5,000 up to May 2001) in contravention of the provisions of Employees' Provident Funds Scheme, 1952. Resultantly, the Company made excess contribution of Rs. 39.95 lakh.

The management and the Government stated (May 2004 and September 2004) that this issue was discussed (January 2004) with the Haryana Bureau of

Public Enterprises and final decision in this regard was awaited (September 2004).

3.3 Undue favour to a Society

Injudicious decision to transfer land free of cost for setting up a memorial in violation of objectives of the Company resulted in an undue benefit of Rs. 1.56 crore to a Society.

The State Government decided (December 2000) to develop 560 acres land belonging to Haryana State Agricultural Marketing Board at Rai (district Sonepat) for small and medium industries to cater to the demand of the industries shifting from Delhi. So the Company took (January 2001) possession of the land for Rs. 27.38 crore.

The Company handed over (October 2001) the possession of land measuring 8,000 sq. yards valuing Rs.1.56 crore to Badh Khalsa Memorial Society (Society) for construction of the memorial in the village Badh Malik and retained ownership with itself.

Audit observed that the Company allotted the plot, earmarked for open space and green belt, to the Society. This has not only violated the objectives of the Company but also resulted in undue benefit of Rs. 1.56 crore to the Society.

The management stated (July 2004) that the Company had not incurred any financial loss, as the land transferred to the memorial was non-saleable area. The reply was not tenable as the other allottees were deprived of the common facilities viz. open space and green belt out of which the plot for the Society was carved out.

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

Haryana Roadways Engineering Corporation Limited

3.4 Payment of excess Sales Tax

The Company made excess payment of Sales Tax of Rs. 1.09 crore on purchase of bus chassis and therefore suffered loss of interest of Rs. 42.51 lakh.

The Company is a registered dealer under Haryana General Sales Tax Act, 1973 that empowers it to pay Sales Tax at the prescribed rate on goods leviable at the stage of first sale. The Sales Tax was payable at the rate of five *per cent* up to 30 March 2001 and four *per cent* thereafter. The normal rate of Sales Tax on all type of motor vehicles was 12 *per cent*.

The Company purchased (July 2000 to March 2001) 256 chassis from two* suppliers for onward sale to State Transport Department after fabrication of bus bodies. Both the suppliers erroneously raised invoices for Sales Tax at 12 *per cent* as against the applicable rate of five/four *per cent*. The Company failed to detect the error and released the payment (Rs. 1.64 crore) of Sales Tax to the suppliers at 12 *per cent* against the due amount of Rs. 55 lakh. The excess payment worked out to Rs. 1.09 crore.

The Company approached (July/September 2001 and September 2002) the suppliers for refund of Rs. 1.09 crore being excess payment of Sales Tax. The suppliers informed (July 2001 and January 2004) that their claims were lying pending with the Sales Tax Authorities and promised to refund the same to the Company as and when decided by the Sales Tax Authorities. Refund of excess Sales Tax paid had not been received (April 2004).

Thus, failure of the Company to examine the bills before payment resulted in excess payment of Sales Tax of Rs. 1.09 crore besides causing loss of interest of Rs. 42.51 lakh# up to March 2004.

The management stated (May 2004) that the matter regarding payment of Sales Tax at the rate of four or 12 *per cent* would be decided only when the Sales Tax Department finalises the assessment of the sales effected by the manufacturers and the Company during the relevant year.

The reply was not tenable as the Excise and Taxation Department refused to refund the excess Sales Tax and the Company had been making payment of Sales Tax at the rate of four *per cent* with effect from April 2001.

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

Haryana Land Reclamation and Development Corporation Limited

3.5 Fraudulent sale of fertiliser

Assistant Manager, Stores committed fraud of Rs. 16.10 lakh by sale of fertiliser, contrary to the terms of the standard agreement.

Standard agreement with the dealers for sale of fertiliser, *inter alia*, provided that the Company on the basis of dealer's monthly requirement would allocate the quantity of fertiliser. The Company would deliver fertiliser to a dealer only after getting the payment for the same.

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* TELCO (151 chassis) and Ashoka Leyland (105 chassis).

\# Worked out at the rate of 13 *per cent* payable on borrowed funds for purchase of bus chassis.

Audit observed (November 2003) that Assistant Manager (AM), Stores of the Company at Palwal without getting monthly requirement and its corresponding allocation, delivered fertiliser worth Rs. 13.37 lakh on credit to one of its dealers Yoginder Brothers, Palwal on 1 and 22 September 2003. Meanwhile, Vishnu & Company, Ateli Mandi, another firm, sent (25 September 2003) three bank drafts for Rs. 16.50 lakh as dealership security (Rs. 0.50 lakh) and supply of fertiliser (Rs. 16 lakh) through courier which were received by the Palwal centre on 26 September 2003. The Palwal centre forwarded (27 September 2003) two drafts of Rs. 16 lakh (Rs. 11 lakh and Rs. 5 lakh) to head office for collection. The AM, Stores Palwal, however, wrongly adjusted (29 September 2003) two drafts worth Rs.16 lakh received from Vishnu & Company, Ateli Mandi against the credit sale made (September 2003) to Yoginder Brothers, Palwal.

On noticing the wrong adjustment, Vishnu & Company brought (29 September 2003) the fact to the notice of the Company and intimated the banker to stop the payment against these bank drafts. The Palwal centre further released (1 October 2003) fertiliser worth Rs. 2.73 lakh to Yoginder Brothers, Palwal, obviously equivalent to the amount of Rs. 16 lakh considered to be deposited by him.

Audit noticed that AM, Stores was working at the Palwal centre since July 1988 and made similar irregularities earlier also, in two cases (November 2001 and November 2002) where the amount received was credited to the party other than the depositor. The Company did not take any action against the delinquent official and allowed him to continue there.

Thus, sale of fertiliser on credit without getting dealers' requirement and its corresponding allocation coupled with posting of an official already involved in such irregularities in the past facilitated the occurrence of a fraud of Rs. 16.10 lakh.

The Government/management stated (July/May 2004) that FIR had been lodged against the dealer (Yoginder Brothers, Palwal) for cheating the Company besides suspending (17 February 2004) the AM Stores, Palwal. The recovery of Rs. 16.10 lakh was awaited (July 2004).

Haryana Vidyut Prasaran Nigam Limited

3.6 Infructuous expenditure on remote controlled load management scheme

Defective remote controlled load management scheme coupled with non-implementation of the scheme as per terms of the contract rendered the expenditure of Rs. 1.42 crore infructuous.

Overloading of distribution network leads to heavy line losses and failure of transformers. The overloading of distribution network was due to switching on combined loads of agricultural pump sets, domestic and commercial consumers, etc.

To overcome this problem, the erstwhile Haryana State Electricity Board (Board) framed (October 1997) Remote Controlled Load Management Scheme (Scheme) by which agriculture loads were to be separated from other loads during peak hours. The Scheme covered two 11KV feeders (Kishangarh and Dhola Majra) being fed through distribution network of 220 KV sub-station Shahabad. Total estimated cost of the scheme was Rs. 2.96 crore. The Central Government sanctioned (October1997) a grant of Rs. 2.37 crore and the balance (Rs. 59.31 lakh) was to be met through loan from Rural Electrification Corporation Limited. The Scheme also envisaged annual savings of Rs 1.67 crore on account of reduction in line losses and damage of transformers.

The Company awarded (April 1999) a contract to CMC Limited, New Delhi for erection and commissioning of the Scheme on turnkey basis at a cost of Rs. 2.88 crore. The entire Scheme including bifurcation of load was to be commissioned within six months from the date of order. Thereafter, the Scheme was to remain in the purview of the supplier for a period of two years (one year each for warranty and maintenance).

The material under the Scheme was received between August 1999 and July 2001. The Central Government released (up to March 2002) grant of Rs. 2.22 crore in two instalments for execution of the Scheme and extended the completion period up to March 2002. CMC installed and commissioned the Scheme on 23 April 2002 and the Company released total payments of Rs. 2.35 crore up to June 2002.

As the Scheme was to be operated by Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL), the Board of Directors of the Company (HVPNL) decided (June 2002) to transfer it to UHBVNL on its book balance. UHBVNL declined (August 2003) to take over the Scheme as the load had not been bifurcated and the farmers continued to get their load connected by bypassing remote controlled system. The remote control system was prone to increase in trippings and breakdowns. The Company/Board did not consider this aspect before venturing into the Scheme. Resultantly, the Scheme remained unimplemented.

Audit observed (March 2004) that the computers, printers and data loading devices (Rs. 26.12 lakh) could be put to alternative use, but remote terminal units (Rs. 68.52 lakh) and special type of transformers Rs. 1.01[#] crore could not be used and the expenditure thereon was rendered infructuous.

In reply to Audit enquiry, the management admitted the facts and stated (April 2004) that CMC had been requested through numerous references to repair/maintain the system as per terms of the turnkey contract, but it was not

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Difference between rates of special transformer (Rs.1.41 crore) and ordinary transformer (Rs.40.29 lakh)

responsive. As a last resort, the Company encashed (April 2004) the bank guarantee of Rs. 27.57 lakh.

Thus, defective remote controlled load management scheme coupled with non-implementation of the scheme as per terms of the contract rendered the expenditure of Rs. 1.42 crore infructuous after adjusting bank guarantee. Besides, the Company was also deprived of envisaged savings of Rs. 3.76 crore up to March 2004.

The matter was referred to the Government and the Company in May 2004; their replies had not been received (September 2004).

3.7 Locking up of fund due to faulty planning

The Company's fund of Rs. 32.14 lakh remained blocked in construction of houses for more than eight years due to faulty planning.

The Company constructed a colony consisting of 17 houses of four categories at 220 KV Sub-station, Industrial Area, Hisar during 1993-94 at a cost of Rs. 32.14 lakh. These houses were handed over to Senior Sub-Station Engineer (SSE), Industrial Area, Hisar in March 1995. The houses were not occupied by the allottees mainly due to non-availability of drinking water. Out of 17 houses, one house was occupied from March 2002 and seven houses from January 2003.

At the time of transfer of these houses in March 1995, the drinking water facility was provided temporarily through a pump fitted in a well. The management did not take steps from April 1995 to September 2001 to overcome the problem of drinking water and test the water of the well though the SSE brought the facts of non-occupation of quarters by staff in the notice of higher authorities from time to time. It was only after the visit of Chief Engineer (Civil) in September 2001 that steps for checking potability of the water were initiated and the water got tested in April 2002 which was found unfit for drinking purpose.

The Company took up the matter with Public Health Department. An estimate of Rs. 2.70 lakh to provide safe drinking water was finalised only in March 2003. The work of laying the pipeline by the Public Health Department was in progress (March 2004).

Thus, the Company's fund of Rs. 32.14 lakh in construction of houses remained blocked due to faulty planning for more than eight years. Apart from non-achievement of the objective of providing housing facilities to its employees, the Company had paid house rent allowance of Rs. 3.17 lakh and could not recover licence fee of Rs. 0.97 lakh.

The matter was referred to the Government and the Company in March 2004; their replies had not been received (September 2004).

Uttar Haryana Bijli Vitran Nigam Limited

3.8 Avoidable loss

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. 88.52 crore.

Terms and conditions of supply of energy envisage that the power utility shall render bills to the consumers monthly and the payment would be made by the consumers on demand. If the bill is not paid in full 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 (net of provision for bad and doubtful debts) should be kept initially for two months' sales so that by the year end, the distribution companies should not have receivables for more than three months' sales.

Audit observed (August 2003) that the Company did not enforce the above measures resulting in accumulation of dues. The Company failed to achieve the purpose of Reforms programme. Receivables from the consumers rose constantly from 2.48 months' sale of the net recoverables during 1998-99 (as on 14 August 1998) to 5.52 months' sale in 2001-02. As on 31 March 2002, the total recoverables amounted to Rs. 785.94 crore of which Rs. 165.78 crore were outstanding for more than three years.

On a decision (25 April 2002) taken by the State Chief Minister, the Company issued (26 April 2002) a "Final surcharge waiver scheme" for clearing of outstanding dues. The scheme, *inter alia* provided that:

- the arrears 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 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 a consumer, who had been benefited under the scheme, would pay the bills regularly thereafter. The Company waived dues of Rs. 88.52 crore in respect of 1.07 lakh consumers under the scheme. Details of break-up of the waived amount (Rs. 88.52 crore) into sale of power, surcharge and electricity duty were not supplied to Audit. Analysis in audit revealed that in Kurukshetra circle alone, the Company waived Rs.7.77 crore comprising sale of power (Rs. 6.09 crore) and surcharge (Rs. 1.68 crore).

Implementation of the scheme ended up discouraging consumers who pay their dues regularly and encouraging the defaulters on the pretext of availing benefits under such schemes in future. This was corroborated by the fact that 3,937 consumers in 17* sub-divisions, who had availed the benefit of waiver of Rs. 3.64 crore under the scheme had again become defaulters to the extent of Rs. 1.88 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. 88.52 crore.

The matter was referred to the Government and the Company in May 2004; their replies had not been received (September 2004).

3.9 Extra expenditure due to acceptance of delayed supply of single phase electronic meters

Acceptance of delayed supply of 3,82,500 single phase electronic meters by the Company resulted in extra expenditure of Rs. 6.58 crore as compared to lower prevailing market rate for similar type of meters.

On the basis of tenders finalised on 12 October 2002, the Company placed (24 December 2002) purchase orders on seven firms** for the supply of 6,50,000 single phase electronic meters at a negotiated rate of Rs. 600 per meter (inclusive of meter cupboards (MCBs) at Rs. 130 each). Purchase orders stipulated that the firms were to get drawings/samples approved within two months from the date of receipt of orders and thereafter to supply the ordered quantity in four months in equal monthly lots. As such, the firms were to supply the meters in four equal lots during March - June 2003. Terms

* Jind: 4, Karnal: 5, Kurukshetra: 3, Rohtak circle: 4 and Sonepat: 1.

** 1. Accurate Meters Limited, Delhi 2. Avon Meters, Dera Bassi 3. Bentex Electronics, New Delhi 4. Bentex Linger Switchgear Co., New Delhi 5. Elymer Electronics, New Delhi 6. Modern Instruments, Gaziabad and 7. Semi Conductor Complex Limited, Mohali.

and conditions of the purchase orders provided that the Company had a right to refuse the supplies in case of failure of the supplier to execute supplies within the contractual delivery period.

Audit observed (August 2003) that six firms failed to execute the supplies in equal monthly lots as specified in the purchase orders. First three lots consisting of 1,62,500 meters each due in March, April and May 2003 respectively were actually received during 26 April–13 June 2003 (1,12,500 meters), 20 May–21 June 2003 (1,37,500 meters) and 8–30 June 2003 (1,32,500 meters). The balance 2,09,500 meters were received in time and 58,000 meters were not supplied. While accepting the delayed supplies of 3,82,500 meters at Rs. 470 per meter (Rs. 600 less cost of MCB: Rs. 130), the Company did not ascertain the prevalent market price of the meters.

Audit further observed that Capital Power Systems, Noida which agreed (October 2002) to supply these meters to the Company at Rs. 670 per meter (inclusive of the cost of MCB at Rs.130 each) had offered (March 2003) to supply similar type of meters to Himachal Pradesh State Electricity Board (HPSEB) at Rs. 298 per meter. It is worthwhile to mention that Punjab State Electricity Board had cancelled (May 2003) orders for purchase of 13 lakh meters in view of lower rates finalised by HPSEB.

The management stated (December 2003 and April 2004) that the supplies were accepted within overall delivery period. It was further stated that the meters purchased by the Company had additional tamper proof features unlike the meters of HPSEB. The reply was not tenable because as per conditions of purchase order, the supplier was required to supply the full ordered quantity in four equal monthly lots and in the case of failure, the Company had the right to refuse delayed supplies to avail of the benefit of lower rates in the market. Besides, the meters purchased by HPSEB had also exactly similar specifications relating to tamper proof features.

Thus, acceptance of delayed supply of 3,82,500 single phase electronic meters by the Company at Rs. 470 per meter as compared to the lower prevailing market rate of Rs. 298 per meter resulted in extra expenditure of Rs. 6.58 crore.

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

3.10 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 coupled with acceptance of part payments contrary to the instructions facilitated the consumers to accumulate outstanding dues of Rs. 45.41 lakh.

Terms and conditions of supply of energy envisage that if large supply consumer fails to pay the bill in full within seven days after the date of presentation, he 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. The Sales Manual Instructions (SMI) further provide that where a consumer is billed for some of the dues relating to previous months/years, which were not included in the bills for the relevant period, the benefit of payment in instalments is to be allowed on the express request of the consumer.

During test check of records of Model Town Operation Sub Division, Panipat under Karnal circle of the Company, Audit observed (June 2003) that three large supply consumers of Vardhman group in the name of Vardhman Solvex (Account No. SM^5-2), Vardhman Oil and Allied Industries (Account No. SM^5-24) and Vardhman Overseas Private Limited (Account No. SM^5-21) were getting power supply from the Company. All these consumers defaulted in payment of their regular energy bills from December 1997, February 1998 and June 1999 respectively. The Company instead of taking prompt action to disconnect supply of energy to their premises, allowed to accumulate the outstandings by accepting part payments relating to normal monthly consumption of energy in disregard to SMI of the Company.

As against total energy bills of Rs. 61.07 lakh and Rs. 17. 68 lakh, the Sub Divisional Officer (SDO) accepted part payments of Rs. 47 lakh (between December 1997 and February 1999) and Rs. 11.90 lakh (between February 1998 and February 1999) in respect of Account No. SM^5-2 and SM^5-24 respectively. These two connections were permanently disconnected in April 1999. The outstanding of Rs. 20.29 lakh and Rs. 7.97 lakh (including surcharge) relating to these consumers were transferred to the third connection (SM^5-21) in June 2000 which was already in default since June 1999. SDO also accepted part payments of Rs. 53.54 lakh against energy bills of Rs. 99.67 lakh (including Rs. 28.26 lakh transferred from SM^5-2 and SM^5-24) in this account during July 1999 to October 2001. The connection of the consumer was permanently disconnected in October 2001 when the outstandings amount rose to Rs. 45.41 lakh after adjusting security available with the Company. The Company had not taken action against the SDO for accepting part payments and not disconnecting supply of power to the premises of consumers immediately after first default.

Thus, failure of the Company to enforce the penal measures coupled with acceptance of part payments in disregard to the SMI, facilitated the consumers to accumulate outstanding dues of Rs. 45.41 lakh. Further action to recover the amount was awaited (July 2004).

While admitting the facts, the management stated (September 2004) that the case was being processed for recovery as arrears of land revenue. Further developments were awaited (September 2004).

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

3.11 Inordinate delay in raising the energy bills

Inordinate delay in raising the arrears of energy bills to agricultural consumers resulted in locking up of revenue of Rs. 81.82 lakh besides loss of interest of Rs. 38.79 lakh.

Haryana Vidyut Prasaran Nigam Limited (HVPNL) introduced (May 1998) concessional tariff applicable with effect from (w.e.f.) 1 May 1998 for agricultural pumping supply consumers based on the average depth of tubewells taking block (cluster of villages) as a unit. In order to make true representation of tubewell depth, HVPNL decided (January 1999) that the average depth of the tubewells for the purpose of concessional tariff should be based on a patwar circle instead of block. HVPNL while forwarding the details of patwar circle-wise depth of tubewells, directed (January 1999) its field officers to deliver the revised bills to the affected consumers by 15 February 1999 positively.

Average depth of tubewells in 18 villages of Nilokheri block under Nilokheri sub-division of the Uttar Haryana Bijli Vitran Nigam Limited (Company) was in the depth zone of 100 feet instead of 101 to 150 feet. So higher tariff of Rs. 65 per Brake Horse Power (BHP) w.e.f. May 1998 (revised to Rs. 104 per BHP w.e.f. January 2001) was to be charged. Audit observed (May 2003) that the sub-division did not raise the revised energy bills by 15 February 1999 and continued to charge Rs. 50 per BHP (revised to Rs. 78 w.e.f. January 2001) for depth zone 101 to 150 feet in respect of 1,932 consumers of 18 villages. The sub-division, charged the revised tariff from August 2002 and raised (December 2002) the arrears of energy bills of Rs. 92.32 lakh for May 1998 to July 2002 on these consumers after the delay of 45 months (March 1999 to November 2002). This had caused loss of interest of Rs. 38.79 lakh[*] from April 1999 to July 2004 on outstanding dues of these bills.

Admitting the facts, the management stated (December 2003) that disciplinary proceeding against the five officers/officials had been initiated (January to September 2003) and recovery of Rs. 10.50 lakh (part payment of Rs. 6.59 lakh from 148 consumers and full payment of Rs. 3.91 lakh from 46 consumers) had been made during May - November 2003. The fact, however, remained that the Company had already been put to loss of interest due to inordinate delay in raising the energy bills, besides non-recovery of balance amount of Rs. 81.82 lakh so far (July 2004). Action against the defaulting officers/officials was yet to be finalised (July 2004).

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

***** Worked out at 13 *per cent* being the rate applicable to World Bank loan.

Dakshin Haryana Bijli Vitran Nigam Limited

3.12 Avoidable loss due to improper storage

Non implementation of the safety measures recommended by the Chief Engineer and improper storage of highly inflammable material caused avoidable loss of Rs. 1.93 crore due to fire in transformer repair workshop, Hisar.

After a fire incident (September 1997) in transformer repair workshop (TRW), Hisar due to short circuiting in LT cable/switch board, the Chief Engineer

(Operation Zone III), Hisar of the erstwhile Haryana State Electricity Board (now Company), *inter alia*, recommended (November 1997) concealed electrical wiring installation of highly sensitive miniature and LT breakers, provision of adequate fire fighting equipments and smoke detectors at strategic points in the TRW. The Chief Engineer also recommended that no oil soaked insulating paper/boards packing be allowed to remain in the TRW.

Audit observed (November 2003) that the management did not take adequate remedial measures to guard against such eventualities in future in the light of the recommendations of the Chief Engineer. On the night of 9-10 July 2003, another fire broke out resulting in complete burning of 26,539 single phase electronic meters valuing Rs. 1.73 crore and 2,944 meter cup boards (MCBs) valuing Rs. 7.36 lakh. The fire incidence also resulted in loss of Rs. 13.04 lakh due to damage of civil and electrical material in workshop.

Investigation Committee (Committee) consisting of the Controller of Stores and Director (Projects) of the Company attributed (July 2003) incidence of fire to electric short circuit and spreading of fire due to presence of transformer oil. The Committee observed that wiring system in the workshop did not conform to specifications required for industrial establishment and fire fighting equipment needed updation. The Committee suggested the storage of such highly inflammable material in a separate store other than workshops or stores with pucca partitions. The Company could not lodge any claim as the material was not insured in view of heavy premium. Responsibility of the officer/officials at fault was not fixed despite exhaustive guidelines issued by the Chief Engineer in November 1997.

Thus, inaction of the management to implement the recommendations of November 1997, followed by storage of highly inflammable materials in workshop caused an avoidable loss of Rs. 1.93 crore on account of damaged material (meters and MCBs: Rs. 1.80 crore and other material: Rs. 13.04 lakh).

The management stated (May 2004) that remedial measures including installation of conduit pipes and highly sensitive miniature breakers and provision of proper fire extinguishers were taken. The reply was not acceptable in view of the aforesaid report (July 2003) of the Investigation Committee.

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

3.13 Undue benefit to a consumer

Settlement of an energy theft case in violation of the Company's out of court settlement scheme resulted in undue benefit of Rs. 24.65 lakh to a consumer.

The Company introduced (October 2002) a scheme for out of court settlement of cases for consumers whose disputes were pending as on 31 July 2002. The Company clarified (May 2003) that the scheme was not applicable in the cases, which were decided by any court/arbitrator in favour of the Company.

Audit observed (February 2004) that the Company imposed (August 1998) penalty of Rs. 37.79 lakh on Rajgarhia Oil Mills (the consumer) under Model Town sub-division, Hisar for committing theft of energy.

Instead of paying the penalty, the consumer filed (September 1998) a civil suit in a lower court at Hisar, which was decided (October 2001) in favour of the Company. Appeal filed (November 2001) with the District Sessions Judge, Hisar by the consumer was dismissed in June 2002. On an appeal (July 2002) by the consumer, the Punjab and Haryana High Court dismissed (August 2002) the case. The consumer filed (October 2002) revision application in the High Court, which was pending.

On the representation (31 December 2002) of the consumer for out of court settlement of the case, the Company settled (July 2003) the case for Rs. 16.20 lakh (received in August 2003 against the recoverable amount of Rs. 40.85 lakh including surcharge) thereby forgoing Rs. 24.65 lakh over looking the facts that the consumer had already lost the case up to the level of the High Court.

Thus, settlement of an energy theft case in violation of the instructions for out of court settlement scheme, resulted in undue benefit of Rs. 24.65 lakh to the consumer.

The matter was referred to the Government and the Company in May 2004; their replies had not been received (September 2004).

Haryana Power Generation Corporation Limited

3.14 Loss due to non-commissioning of fire protection system

Failure of the Company to synchronise the installation of fire protection system with the commissioning of Unit-VI at Tau Devi Lal Thermal Power Station, Panipat resulted in loss of Rs. 80.36 lakh.

The Company, based on the technical specifications prepared by Tata Consulting Engineers (TCE) placed (March 1999) a purchase order on Bhartiya Caccialanza Fire System, Noida for fire protection and fire alarm system (fire protection system) for Unit-VI at Tau Devi Lal Thermal Power Station at a cost of Rs 2.03 crore. The Company could extend the scope of work to the extent of 20 *per cent* of the contract price. The terms and conditions of purchase order provided that the Company/TCE would supply the base drawings for preparing final design and engineering by the firm. The work was to be completed by January 2000. On completion of fire protection system, the Company was entitled to claim discount of 7.5 *per cent* per annum of the insurance premium.

Detailed design and drawings, which were to be supplied to the supplier up to 27 April 1999, were actually supplied by the TCE in piecemeal during March 1999 to October 2001. The Company/TCE did not assess the requirement of material by preparing detailed drawings. The firm started the work in March 1999 on the basis of tendered drawings. Based on the final drawings, the scope of work* increased from Rs 2.03 crore to Rs 2.92 crore (44 *per cent*).

The firm stopped (June 2001) the work due to non release of payments beyond additional 20 *per cent* of the contract value. The Company commissioned the Unit-VI in September 2001 without commissioning the fire protection system. Payment of Rs 2.38 crore was made to the firm up to February 2002. The work had not been completed so far (July 2004).

Audit observed (May 2003) that:

- In the absence of penalty clause in the agreement, the Company could not penalise the TCE for delay (May 1999 to October 2001) in supply of design and drawings.
- Though the scope of the work had increased beyond 20 *per cent* in October 2001, the Company enhanced the scope of work after a delay of more than two years in November 2003.
- Due to non-commissioning of the fire protection system the entire payment of Rs.2.38 crore remained blocked since February 2002 resulting in interest loss of Rs.66.64# lakh.
- The Company could not avail discount of Rs. 13.72** lakh on insurance premium due to non-commissioning of the fire protection system.

***** On the basis of approved billing schedule by TCE in April 2002.

\# Worked out on Rs.2.38 crore for April 2002 to July 2004 at the rate of 12 *per cent* on loans raised from State Government.

****** Discount on premium of Rs. 58.99 lakh, Rs. 59.28 lakh and Rs. 54.37 lakh at 7.5 *per cent plus* service tax for three years ended September 2004.

Thus, failure of the Company to synchronise installation of fire protection system with the commissioning of unit VI resulted in loss of Rs.80.36 lakh, besides exposing the unit to the disasters of fire.

The matter was referred to the Government and the Company in August 2004; their replies had not been received (September 2004).

3.15 Deficiencies in implementation of Internal control and internal audit system in power sector companies

Internal control

3.15.1 Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and adequate manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure the accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties and review of the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Erstwhile Haryana State Electricity Board (HSEB) was unbundled (August 1998) by transferring generation function to Haryana Power Generation Corporation Limited (HPGCL) and transmission and distribution functions to Haryana Vidyut Prasaran Nigam Limited (HVPNL). The distribution function was further transferred (July 1999) to Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL), both subsidiaries of HVPNL.

Apart from the procedure laid down in commercial accounting system to ensure efficient and effective internal control, HSEB/companies had also issued instructions in this regard from time to time.

Audit observed the following deficiencies in the implementation of internal control.

Embezzlement of sales proceeds

3.15.2 Instructions issued (November 1986) by the erstwhile HSEB provided that Commercial Assistant (CA) should reconcile the cash realisation statements received from the computer centre with the cash collection receipt (CCR) books and sign the statement in token of correctness.

Internal Audit observed (November 2001) that due to non exercising of the prescribed checks by the CAs, the cashiers and other staff of four[#] sub-divisions and one sub-division (Kheri) in Gurgaon and Faridabad operation circles respectively, mis-appropriated Rs. 11.18 lakh by undercasting the totals in cash collection register (Rs. 0.40 lakh), issue of fake stubs[♣] to computer centres for posting in consumer accounts (Rs. 10.55 lakh) and non posting of receipts in the cash book (Rs. 0.23 lakh) during June 1999 to October 2001. Of this, Rs. 2.40 lakh only had been recovered from the delinquents. The Company had registered a case with the police authorities against concerned officials. Further developments were awaited (June 2004). Had the prescribed checks been exercised by the functional authorities, the misappropriation of cash could have been avoided.

Excess/irregular expenditure

3.15.3 Para 2.89 of Public Works Department Code followed by the companies provides that no work can be executed unless detailed technical estimates are got sanctioned by the competent authority. In case the actual expenditure against the sanctioned estimates exceeds the limit of 5 *per cent*, the same is required to be got regularised from the competent authority.

Audit observed that expenditure of Rs. 9.20 crore on 79 works (HVPNL: 43, UHBVNL: 27 and DHBVNL: nine) was incurred in excess of sanctioned estimates. Expenditure of Rs. 75.93 lakh was incurred on 43 works (HVPNL: eight and UHBVNL: 35) without obtaining the sanction for their estimates from the competent authority.

Non rendering of material at site accounts

3.15.4 The erstwhile HSEB issued (September 1996) instructions which, *inter alia*, provided that no material at site account was to be allowed to go into arrear for more than three months from the due date and in fourth month, the pay of the technical subordinates (Junior Engineers/Foremen/Assistant Foremen) was not to be disbursed unless the accounts were rendered.

Audit observed that though material valuing Rs. 1.65 crore was consumed on 45[*] works completed up to 31 March 2003, neither the accounts of material were submitted (July 2004) by the concerned technical subordinates nor any action was taken against them.

Audit Committee

Badshahpur, Farukhnagar, Manesar and Sohna.

♣ Counterfoils of energy bills.

* HVPNL (three works): Rs. 33.56 lakh, UHBVNL (two works): Rs. 3.96 lakh, DHBVNL (40 works): Rs. 127.71 lakh.

3.15.5 In terms of Section 292A of the Companies Act, 1956, each company had constituted a Committee of Directors known as Audit Committee in February/March 2001.

Audit Committee of each company held six meetings (DHBVNL held only two meetings) up to 31 March 2004 wherein no specific recommendations were made to improve/strengthen the internal control in the companies. Audit Committee of HVPNL, however, decided (February 2002) to review the adequacy of the internal control system in vogue and strengthen the system through a core group constituted in April 2002. HVPNL stated (July 2004) that report of the core group was under preparation. Audit Committees of other companies had not taken such action. In their reports under section 619 (3) (a) of the Companies Act, 1956, the Statutory Auditors of UHBVNL (2001-02) and DHBVNL (2002-03) had opined that the functioning of Audit Committees needed to be effective along with strengthening of Internal Audit. They also recommended introduction of a good system for recovery of large dues from consumers.

Comments of Statutory Auditors

3.15.6 The Statutory Auditors in their reports on annual accounts had pointed out that the internal control procedures for the purchase of stores, components, machinery or spare parts needed strengthening to make them commensurate with the size of the companies and nature of their business. The reports also pointed out inadequacy of internal control as follows:

- pending reconciliation of cash and bank balances and inter unit transfers (UHBVNL and DHBVNL 2002-03);

- inadequacies in sale of power as reflected by high distribution losses, high percentage of unmetered consumption and defective/worn out meters, high element of cross subsidisation, poor collection efficiency, inadequate security deposits and recoverables from untraceable consumers (DHBVNL : 2001-03); and

- purchase of stores as the purchase procedure was not followed in some of the divisions/branches (HVPNL: 2001-03).

Internal audit

3.15.7 Internal audit is a part of internal control which is used to detect irregularities, fraud, manipulation and embezzlement etc. and to see whether rules, instructions issued from time to time are being followed or not. In pursuance of instructions (May 1981) of State Government, all the four companies had set up their own Internal Audit Wing headed by the Chief Auditors/Chief Accounts Officer under direct control of Managing Director.

Audit observed that there was shortage of staff in Internal Audit Wing of all the companies ranging between 25 and 67 *per cent* during 1999-2004. The Statutory Auditors in their reports for 2002-03 had termed that the internal audit of the companies was not commensurate with their size and nature of

business. Despite being pointed out by Statutory Auditors in their reports on the accounts of UHBVNL (2001-02) and HVPNL (2002-03), companies had not strengthened internal audit. None of the companies had imparted training to internal audit staff to equip them with the latest skills and professional expertise relevant to operation of power utilities.

HVPNL in its reply, endorsed by the Government, stated (August 2004) that Internal Audit Wing would be strengthened by filling up the vacant posts with the approval of the State Government. The proposal for the same had since been sent to the State Government.

Scope of internal audit

3.15.8 The erstwhile HSEB/companies had not prepared Internal Audit Manual. Annual programmes for conducting audit were prepared in the beginning of the year. The quantum for internal audit was fixed as per the nature of operation of auditee units. Internal audit reports were of routine nature and did not contain appraisals of various operations of the companies.

A gist of major findings of internal audit is as follows:

- Under assessment of revenue due to wrong application of tariff, wrong calculation/totaling, non-issue of bills, non-levy of surcharge, incorrect rentals, irregular refunds, unauthorised extension, theft of energy etc.;
- Shortages of missing/broken parts of damaged transformers;
- Deposit work carried out in excess over estimates; and
- Non-recovery of amounts placed in the Public Works Miscellaneous Advances of the employees.

Statutory auditors of UHBVNL in their reports on annual accounts also mentioned that internal audit system did not cover all the areas of audit and the examination and scrutiny was confined only to revenue collection area.

Performance of internal audit

3.15.9 Internal audit of UHBVNL pointed out under assessment of revenue of Rs. 9.47 crore during 2003-04, of which Rs. 8.22 crore was recovered. Similarly, internal audit of DHBVNL pointed out under assessment of revenue of Rs. 13.49 crore during 2002-03, of which Rs. 9.92 crore was recovered.

Delay in issue of inspection reports and inadequate follow-up

3.15.10 Inspection Reports (IRs) approved by the Chief Auditors of the respective companies are to be issued within 30 days of the completion of

audit as per norms fixed by the companies. Audit observed that IRs were not issued within the prescribed period. A test check of 124[#] files relating to internal audit conducted during September 1999 to 31 March 2004 revealed that 44 IRs were issued after a delay ranging from one to 501 days.

Deferment of internal audit

3.15.11 The internal audit of the following units of HPGCL was deferred (August 2001) due to shortage of staff by the management.

Sl. No.	Name of Unit	Period of deferred audit
1.	Tau Devi Lal Thermal Power Station, Panipat	April 1989 to March 1990 April 1991 to March 2000
2.	Faridabad Thermal Power Station, Faridabad	April 1988 to March 2000
3.	Hydel Project, Yamuna Nagar	April 1995 to March 2000
4.	Thermal Design, Panchkula	August 1998 to March 2000

The deferred audit had not been planned so far (June 2004). Prolonged deferment of audit had defeated the very purpose of internal audit.

Arrears of internal audit

3.15.12 The audit of revenue transactions (relating to operation sub-divisions of distribution companies) was to be conducted on month-to-month basis and works audit on yearly basis. Audit observed that as on 31 March 2004, out of 150[$] units, works audit of 109[@] units was in arrears for the period ranging between one and four years. Average arrears of revenue audit, as on 31 March 2004 worked out to 25.06 months. The management attributed accumulation of arrears to shortage of staff.

Delay in submission of reply to Internal Audit Reports

3.15.13 The auditee units were to submit the first reply within six weeks of the issue of IRs. Audit observed that out of 139[*] IRs issued between September 2000 and March 2004, first reply to 55[**] IRs were received (up to 31 March 2004) after a delay of one to 108[&] weeks. No reply was furnished to the remaining 84[&&] IRs. Audit further observed that 1,121 audit observations pertaining to 139 IRs were still outstanding as on 31 March 2004.

#	HPGCL: three, HVPNL: 59, UHBVNL: 28, DHBVNL: 34.
$	HPGCL: seven, HVPNL: 37, UHBVNL: 45 and DHBVNL: 61.
@	HPGCL: six, HVPNL: one, UHBVNL: 45 and DHBVNL: 57.
*	HPGCL: three, HVPNL: 72, UHBVNL: 30 and DHBVNL: 34.
**	HVPNL: 30, UHBVNL: 4, and DHBVNL: 21.
&	HVPNL: one to 72 weeks, UHBVNL: seven to 85 weeks, and DHBVNL: 10 to 108 weeks.
&&	HPGCL: three, UHBVNL: 26, HVPNL: 42 and DHBVNL: 13.

This indicates that there was poor response from auditee units for compliance of audit observations. The companies had not formulated any monitoring system to review the position of outstanding paras.

The matter was referred to the Government and companies in June 2004; reply had only been received from HVPNL (endorsed by the Government) in August 2004. Reply from other companies was still awaited (September 2004).

Statutory corporations

Haryana Financial Corporation

3.16 Non-recovery of loan

Disbursement of loan against inflated collateral security led to non-recovery of Rs. 1.89 crore.

The Corporation sanctioned (January 1996) a term loan of Rs. 66 lakh to Amar Pushp Aqua Private Limited (unit), for setting up a mineral water unit at Roz-ka-meo, Gurgaon with the stipulation that the unit would provide a collateral security of Rs. 19.80 lakh (30 *per cent* of term loan). The unit offered (March 1996) collateral security of a plot (measuring 111.11 square yards at village Kot Khalsa, Amritsar) with an assessed value of Rs. 20 lakh, assessed (March 1996) by the valuer on the panel of the Corporation. To confirm the valuation, Branch Manager (BM) of the Corporation, Gurgaon, visited the site and asked (June 1996) the unit for an additional security in view of downward trend in the value of property. So, the unit offered an adjoining plot (measuring 111.11 square yards) in addition to the already offered plot as collateral security. The BM assessed (June 1996) value of both the plots at Rs. 22.22 lakh without considering the prevalent market price. The Corporation disbursed Rs. 65.18 lakh between August 1996 and September 1997.

Due to default in repayment of loan and interest (Rs. 36.02 lakh), the Corporation recalled (October 1999) the entire outstanding loan of Rs. 84.11 lakh (principal: Rs. 62.75 lakh and interest: Rs. 21.36 lakh). The Corporation took over (January 2000) the possession of the unit under Section 29 of State Financial Corporations Act, 1951. The valuer assessed (February 2000) value of the unit at Rs. 33.75 lakh. The Corporation sold (June 2001) primary security through auction for Rs. 17.76 lakh leaving an unrecoverable balance of Rs. 73.44 lakh. To make up the shortfall, the Corporation obtained (December 2001) the deemed possession of the above two plots and assessed (February 2002) their value at Rs. 2.22 lakh. These plots could not be sold so far (January 2004) because no offer was received

despite being put to auction nine times between September 2002 and October 2003.

Audit observed (October 2003) that value of the plots accepted (June 1996) as collateral security had come down from Rs. 22.22 lakh to Rs. 2.22 lakh in February 2002. Thus, acceptance of inflated collateral security rendered (June 2004) the recovery of Rs.1.89 crore (including interest of Rs. 1.26 crore) doubtful.

The management stated (April 2004) that the value of the property assessed was based on the market value and not on the rate fixed by the revenue authorities as per prevailing practice at that time. The reply is not tenable as management had failed to ensure a foolproof system of valuation of collateral security which had led to acceptance of collateral security at a highly inflated value.

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

3.17 Injudicious disbursement of loan

Irregular disbursement of loan due to relaxation of condition of obtaining 200 *per cent* collateral security of the term loan had put the Corporation to a loss of Rs. 80 lakh.

Destination Family Entertainment (India) Private Limited (unit) applied (November 1997) for sanction of a term loan of Rs. 1.85 crore for setting up sports-cum-entertainment complex at Faridabad on leasehold premises. The Board of Directors (BOD) considered (December 1997) the proposal and decided that the unit should produce lease deed with a minimum period of 20 years and offer collateral security equivalent to 150 *per cent* of term loan. When the promoters showed their inability to mortgage the lessee rights, BOD increased the collateral security to 200 *per cent* and sanctioned (February 1998) loan of Rs. 1.85 crore.

The unit offered (March 1998) collateral security of a farmland (measuring 81 kanals and 18 marlas in village Dhankot, Gurgaon) valuing Rs. 60 lakh (assessed by the Branch Manager of the Corporation) and two sheds at Kishangarh Mehrauli. The Corporation accepted farmland as collateral security and released (May 1998) Rs.13.83 lakh against *pro rata* eligibility of Rs. 29.98 lakh. The Managing Director (MD) of the Corporation relaxed (7 May 1998) the condition of obtaining 200 *per cent* collateral security and released (19 May 1998) Rs. 44.65 lakh on the request of the unit for making payment of custom duty. The Corporation did not accept (June 1998) sheds at Kishangarh Mehrauli as collateral security since the sheds were acquired on power of attorney. The Corporation did not disburse the balance loan.

The unit started committing default in repayment since November 1999. The Corporation recalled (June 2000) the loan and issued (September 2000) notice under Section 29 of the State Financial Corporations Act, 1951 to take over the possession. During physical verification of the primary security (accepted value of Rs. 99.31 lakh), the Corporation found (28 October 2002) some

machinery not available and lodged (4 July 2003) FIR for missing machinery (accepted value Rs. 18.05 lakh). As such, the Corporation did not take possession of the primary security. It took over (5 September 2002) the deemed possession of the collateral security and put to auction the same in October and November 2002 but the property could not be sold (June 2004), as the highest bid was less than the accepted value. As against the outstanding amount of Rs.1.49 crore (principal: Rs.58.48 lakh and interest: Rs. 90.57 lakh) as on November 2003, the Corporation settled (December 2003) the account for Rs.69.16 lakh.

Thus, irregular disbursement of loan at first stage and settlement of loan account arbitrarily had put the Corporation to a loss of Rs. 80 lakh.

While admitting the loss, the management stated (May 2004) that the Corporation offered the unit to avail facility under the scheme of Compromise Settlement of Chronic Non-Performing Assets and settled the loan account for Rs. 69.16 lakh equivalent to assessed value of collateral security.

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

3.18 Disbursement of loan against fake documents of collateral security

Faulty appraisal procedure caused acceptance of false collateral security not having marketable title, resulting in non-recovery of Rs. 1.25 crore.

The Corporation sanctioned (August 1994 and January 1996) working capital term loan (WCTL) of Rs. 7.90 lakh and additional term loan (ATL) of

Rs. 13.25 lakh to Ashoka Rubber Udyog (unit) for tube manufacturing unit in village Tikri Kheva (district Faridabad). WCTL and ATL were sanctioned despite the unit having committed default in repayment of earlier loan disbursed in December 1991 to June 1992. The terms and conditions of sanctions, *inter alia,* provided that the unit would offer collateral security of land valuing Rs. 18 lakh against WCTL and additional collateral security equivalent to 100 *per cent* of the term loan sanctioned against ATL.

The Corporation accepted land valuing Rs.32.65 lakh in district Amritsar, Punjab as collateral security belonging to the promoter of the unit on the basis of search reports (September 1994 and January 1996) of an advocate of Amritsar. The Corporation disbursed Rs. 11.59 lakh (WCTL: Rs. 7.50 lakh and ATL: Rs. 4.09 lakh) during November 1994 to September 1997 to the unit. Due to persistent default, the Corporation took over (December 1997) the unit under Section 29 of State Financial Corporations Act, 1951 and auctioned (February 2002) it for Rs. 4.95 lakh. During the process of balance recovery of loan, the Corporation discovered (September 2002) that land accepted as collateral security did not exist in the name of the promoter and the advocate on whose search report collateral security was accepted did not exist. The Corporation could not recover overdues from the collateral security in the absence of marketable title to the property.

The facts regarding false and fake collateral security established that the appraisal procedure of the Corporation was faulty as the documents of collateral security were not verified and inspected at the time of sanctioning the loan. Thus, sanction/release of financial assistance to the unit on the basis of fake search reports led to non-recovery of Rs. 1.25 crore (including interest of Rs. 1.03 crore) as on June 2003.

The management admitted (July 2004) that it had started (July 2003) verifying the documents submitted by the borrower in respect of primary and collateral security to avoid such frauds in future.

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

Haryana Warehousing Corporation

3.19 Loss due to damage of wheat

The Corporation failed to supply preservative material in time and took abnormal time for granting permission for segregating/blending of stocks. This led to loss of Rs. 35.47 lakh on auction of damaged wheat.

The Corporation procures wheat from various mandis in the State allotted by the State Government for Central Pool under the minimum support price scheme and delivers it to Food Corporation of India (FCI). FCI issues instructions to the Corporation either to deliver stocks direct from mandis under linkage plan or to keep the same in its godowns till subsequent instructions. It is the sole responsibility of the Corporation to maintain proper health of wheat till it is delivered to FCI.

The District Manager (DM), Kaithal stored 10,435.39 MT wheat at Pundri centre during Rabi 2000 of which 5,070 MT stock was stored (April and May 2000) in open in 40 stacks. As on 30 May 2000, against the requirement of 40 polythene covers only 25 covers were available. It was only on the arrival of rain, the Manager, Pundri requested (7 June 2000) head office to supply new polythene covers for stocks stored in open, which were received (10 June 2000) at Pundri.

Audit observed (February 2004) that the rainwater and delayed supply of fumigants had damaged the wheat stock. These stocks were inspected by the Assistant Manager (Quality Control), Ambala at the instance of head office in August 2000 and technical staff of DM Kaithal in February 2001. They reported that stocks stored in open were found in atta formation and water affected. The DM, Kaithal reiterated his request for segregation and blending of stock in July 2002. The Corporation granted the permission only in August 2002. The Pundri centre delivered 9,590.05 MT stock (including 2,843.89 MT after reconditioning/ segregation) to FCI between September 2000 and June 2003. The remaining stock of 845.34 MT wheat was auctioned (August 2003) at a loss of Rs. 35.47 lakh.

The management while admitting the loss stated (August 2004) that the quality of stock deteriorated not due to non-availability of preservation material but due to negligence of technical staff and disciplinary action had been initiated against the concerned officials.

The reply was not tenable as the delay in providing preservation material and granting permission for segregating/blending of damaged wheat also contributed to deterioration in quality of stocks.

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

General

3.20 Delay in finalisation of accounts by working PSUs

Statutory provisions for finalisation of accounts

3.20.1 According to the provisions of Section 210(3) read with Section 166 of the Companies Act, 1956, audited accounts of a company should be approved and placed in the Annual General Meeting (AGM) of the shareholders within six months of the close of its financial year. Further, as per provisions of Section 619 A (3) of the Act, ibid, the State Government should place an Annual Report on the working and affairs of each State Government company together with a copy of the Audit Report and comments thereon made by the Comptroller and Auditor General of India (CAG) before the State Legislature within three months of its AGM. In case of Statutory corporations, their accounts are to be finalised, audited and presented to the State Legislature as per the provisions of their respective Acts.

Management's/Government's responsibility for preparation of accounts

3.20.2 Under the provisions of Section 210(1) read with Section 216 and 218 of the Companies Act, 1956, the Board of Directors (BOD) of a company is required to lay in every AGM an audited copy of the annual accounts i.e. balance sheet and profit and loss account for the financial year along with the Auditors Report and other specified annexures. In case of Statutory corporations the accounts are to be prepared as per provisions of their respective Acts.

Therefore, it was the responsibility of the management of respective PSUs to finalise the accounts in time. The Administrative Departments concerned have also to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period.

Procedure for finalisation of accounts

3.20.3 The annual accounts prepared by the companies are approved by its BOD and are audited by the Statutory Auditors appointed by the CAG. As per provisions of Section 619(4) of the Companies Act, 1956, the CAG conducts supplementary audit of the accounts of the Companies. Such accounts along with the comments of the CAG and report of the Statutory Auditors are placed before the AGM of the companies for adoption.

Risk involved due to delay in finalisation of accounts

3.20.4 The finalised accounts of the public sector undertakings (PSUs) reflect their overall financial health and efficiency to conduct their business. If PSUs fail to finalise the accounts in time, CAG cannot conduct the supplementary audit of the accounts of the PSUs and thus Government's investments remain outside the scrutiny of the State Legislature. Besides, delay also opens the system to risk of fraud and leakage of public money.

Extent of arrears

3.20.5 As on 31 March 2004, there were 27 Government companies (19 working companies and eight non-working companies) and two Statutory corporations (all working). Out of 19 working Government companies and two Statutory corporations, only five companies and one Statutory corporation had finalised their accounts for the year 2003-04 as on 30 September 2004. The accounts of remaining 14 working Government companies and one Statutory corporation were in arrears for one to six years as on 30 September 2004.

Out of eight non-working companies, two companies are under liquidation. None of the remaining six non-working companies had finalised their accounts for the year 2003-04 and were in arrears for one to four years as on 30 September 2004.

Comparative position of clearance of arrears

3.20.6 The table given below indicates the position of number of accounts in arrear and clearance thereof (up to September in each year) during the last five years ending 2003-04.

Year	Total number of accounts due		Number of accounts cleared		Closing balance of accounts in arrear		Percentage of accounts cleared to accounts due	
	Companies	Corporations	Companies	Corporations	Companies	Corporations	Companies	Corporations
1999-2000	66	5	23	2	43	3	35	40
2000-01	65	5	26	3	39	2	40	60
2001-02	61	4	25	2	36	2	41	50
2002-03	55	4	23	2	32	2	42	50
2003-04	51	4	17	2	34	2	33	50

The above table reveals that the percentage of clearance of arrears of accounts ranged between 33 and 42 *per cent* for Government companies and between 40 and 60 *per cent* for Statutory corporations.

The accounts of four companies were in arrears for four years and above as on 30 September 2004.

The detailed position of delay in finalisation of accounts by six PSUs (test checked in audit) and holding of AGM is detailed in **Annexure 10**.

The position of delay indicated in **Annexure 10** is summarised below:

Name of the Company	No. of accounts finalised during 1999-2004	No. of accounts in arrear	Range of delay in months	
			Finalisation of accounts	Holding of AGM
Haryana Forest Development Corporation Limited	3	6	50-66	55-71
Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited	5	5	29-44	39-57
Haryana Tourism Corporation Limited	3	4	41-44	46-48
Haryana Scheduled Castes Finance and Development Corporation Limited	5	4	30-45	34-43
Haryana Power Generation Corporation Limited	4	2	7-18	18-23
Haryana Financial Corporation	4	2	4-21	-

Factors responsible for delay/arrears

The management attributed the delay in finalisaiton of accounts to:

- Shortage of experienced and qualified staff (Haryana Forest Development Corporation Limited and Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited).

- Delayed certification of accounts by Statutory Auditors for 1998-99 (Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited) and 1999-2000 (Haryana Financial Corporation).

- Dispute with Statutory Auditors for 1997-98 leading to cancellation of their appointment (Haryana Tourism Corporation Limited).

- Large volume of work involved (Haryana Scheduled Castes Finance and Development Corporation Limited).

- Non-reconciliation of figures of inventory and schedules appearing in the books of accounts of thermal power stations (Haryana Power Generation Corporation Limited) for the year 2001-02.

- Delayed appointment and change of Statutory Auditors (Haryana Financial Corporation) for the year 2001-02.

Weakness in accounting management set up and functions

Accounts system

3.20.7 Accounts Manual contains guidelines and instructions for maintenance and preparation of accounts and acts as a vital document in guiding the efforts of the organisational units towards timely preparation of accounts in a uniform reporting format.

Audit observed that out of six PSUs test checked in audit, four* PSUs had not initiated any action for preparation of Accounts Manual. Two@ PSUs, though prepared Accounts Manual 15 years ago, had not updated the same thereafter.

Absence of trained staff

3.20.8 Though Haryana Forest Development Corporation Limited and Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited attributed the delay in compilation of accounts to lack of trained staff, yet no efforts were made to provide any training to overcome the deficiency.

System of supervision

3.20.9 In accounting functions, supervision of work of maintenance of books of accounts and other related work is a necessary control mechanism to ensure timeliness and quality of the work. None of the above PSUs test checked in audit had prescribed any time schedule at various levels for timely preparation of the accounts.

Steps taken by the State Government

3.20.10 The State Government exercises its control over the PSUs through the concerned Administrative/Finance Department. In terms of the Memorandum and Articles of Association of the companies, the Government had the power to issue directives in the interest of companies. Besides, most of directors of the PSUs are nominees of the State Government. So, in case of failure of the PSUs to finalise their accounts, the Government was expected to take concrete steps to ensure that the accounts of the PSUs are finalised in time. Despite the position of arrears being pointed out by the Audit regularly to the Administrative departments, State Government had not taken concrete steps to liquidate the arrears in accounts.

Assistance provided by audit for liquidation of arrears

***** Haryana Forest Development Corporation Limited, Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited, Haryana Scheduled Castes Finance and Development Corporation Limited and Haryana Power Generation Corporation Limited.

@ Haryana Tourism Corporation Limited and Haryana Financial Corporation.

3.20.11 In order to expedite the clearance of pending accounts, discussions were held (December 2003) by the Accountant General with the Principal Secretary to Government of Haryana, Finance Department assuring of mediation in case of any difficulty with the Statutory Auditors. Matter was also taken up (February 2004) with the Chairman, Committee on Public Undertakings for directing the Administrative departments/companies to expedite the clearance of arrears in accounts and offering assistance in clearance of accounts.

The matter was referred to the companies and the Government in May 2004; their replies had not been received (September 2004).

3.21 Follow up action on Audit Reports

Outstanding replies

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

Though the Audit Reports for the years 2000-01, 2001-02 and 2002-03 were presented to the State Legislature in March 2002, March 2003 and February 2004 respectively, seven out of nine departments, which were commented upon, did not submit replies to 32 out of 58 paragraphs/reviews as on 31 March 2004, as indicated below:

Year of the Audit Report (Commercial)	Number of Reviews/ Paragraphs appeared in Audit Report		Number of paragraphs/reviews for which replies were not received	
	Reviews	Paragraphs	Reviews	Paragraphs
2000-01	4	16	2	5
2001-02	2	14	-	10
2002-03	3	19	2	13
Total	**9**	**49**	**4**	**28**

Department-wise analysis is given in **Annexure 11**. Departments largely responsible for non-submission of replies were Power, Industries and Agriculture. The Government did not respond to even reviews highlighting important issues like system failure, mismanagement and inadequacy of recovery system.

Outstanding compliance to Reports of Committee on Public Undertakings (COPU)

3.21.2 Replies to 15 paragraphs pertaining to 11 Reports of the COPU presented to the State Legislature between March 1995 and February 2004 had not been received (March 2004) as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1994-95	2	3
1996-97	2	1
2000-01	3	3
2002-03	2	3
2003-04	2	5
Total	**11**	**15**

These reports of COPU contained recommendations in respect of paragraphs pertaining to six[@] departments which appeared in the Comptroller and Auditor General of India's Audit Reports for the year 1990-91 to 1999-2000.

Action taken on the persistent irregularities

3.21.3 With a view to assist and facilitate discussion of paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in **Annexures 12** and **13.**

Government companies

Irregularities in disbursement of loan without verifying title of collateral security and acceptance of defective/inflated collateral security amounting to Rs. 10.78 crore (Haryana State Industrial Development Corporation Limited) and in non-invoking risk purchase clause amounting to Rs. 2.30 crore (Power Sector companies/ erstwhile Haryana State Electricity Board) were included in the Reports of the Comptroller and Auditor General of India for the years 1997-98 to 2002-03 (Commercial)-Government of Haryana. The irregularities were persisting with the companies over the period ranging from three to six years. Action taken by the companies/State Government on the irregularities as scrutinised in audit revealed that action taken was belated and inadequate as per details given in **Annexure 12**.

[@] Power (eight), Industry (one), Mines and Geology (two), Forest (one), Tourism (two) and Agriculture (one).

Statutory corporations

The irregularities of non-verification of assets before disbursement of loan, defective title of collateral security, acceptance of fraudulently inflated, unrealistic and insufficient collateral security amounting to Rs.5.83 crore (Haryana Financial Corporation) were included in the Reports of Comptroller and Auditor General of India from the year 1995-96 to 2002-03 (Commercial)-Government of Haryana. The irregularities were persisting with the Corporation over the period of eight years. Action taken by the Corporation/State Government on the irregularities as scrutinised in audit revealed that action taken was belated and inadequate as per details given in **Annexure 13**.

3.22 Response to Inspection Reports, Draft paragraphs and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 21 PSUs and Haryana State Regulatory Electricity Commission disclosed that 635 paragraphs relating to 312 Inspection Reports remained outstanding at the end of September 2004. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2004 is given in **Annexure 14.**

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit observed that 18 draft paragraphs and two draft

reviews forwarded to the various departments during February to August 2004 as detailed in **Annexure 15** had not been replied to so far (September 2004).

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

Chandigarh
Dated

(Ashwini Attri)
Accountant General (Audit) Haryana

Countersigned

New Delhi
Dated

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