CHAPTER 3

Social, General and Economic Sectors (Public Sector Undertakings)

Energy and Power

Haryana Power Purchase Centre

3.1 Purchase of power in Haryana

Haryana Power Purchase Centre (HPPC) incurred extra expenditure of ₹ 209.33 crore in purchasing costly power from private producers and preparing incorrect merit order which put extra burden on consumers of the State. HPPC also could not achieve Renewable Energy Purchase Obligations targets and the shortfall ranged between 18.64 *per cent* and 90.55 *per cent*. Sustainable Development Goals set for ensuring affordable, sustainable and modern energy are thus not fully achieved. Internal controls regarding payments against purchase of power were deficient as instances of erroneous payments were noticed.

3.1.1 Introduction

Government of Haryana set up (April 2008) Haryana Power Purchase Centre (HPPC) to manage the procurement of power on behalf of the two State power distribution utilities (DISCOMs[1]). HPPC is a joint forum owned by DISCOMs. It is a part of Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) as Chief Engineer from UHBVNL heads the HPPC and reports to the Managing Director, UHBVNL. It purchases power for both the DISCOMs. The main objectives of setting up HPPC were arranging for procurement of power on long term basis, banking arrangements[2] and purchase through energy exchange. In the State, power is purchased by assigning daily scheduling to various generators of power on the basis of day ahead demand forecasting. The generators are given priority in scheduling considering Merit Order[3] prepared on the basis of variable cost of previous month. The cheaper generators get priority. In addition to above, some generators are given schedule under 'Must Run' policy i.e., the plant need not undergo the Merit Order scrutiny as either

[1] (i) Uttar Haryana Bijli Vitran Nigam Limited and (ii) Dakshin Haryana Bijli Vitran Nigam Limited

[2] Arrangement between two utilities or states for cashless trading of power to match the seasonal variation in surplus and deficit of power, where no tariff needs to be paid for energy availed /supplied.

[3] Merit order is a list containing variable cost of generating plants in ascending order prepared for deciding the economical scheduling of plants till the total power requisition by all beneficiaries is met.

the plant can't be shut down (like hydel, solar, wind) or is part of a shared project where HPPC has no role in assigning schedule. Audit analysed the function of scheduling[4] and purchase of power by HPPC during the five year period 2015-20.

Audit examined (October 2020 to February 2021) the effectiveness of efforts made by HPPC to ensure access to affordable, reliable, sustainable and modern energy for all as per Sustainable Development Goals (SDGs) mandated by United Nations Development Programme (UNDP), efficiency in procurement of power and enforcement of provisions of Power Purchase Agreements (PPAs) to safeguard financial interests of DISCOMs. An exit Conference to discuss the audit issues was held on 26 August 2021 and comments of the management wherever received have been included in the para.

Sources and procedure for power procurement

To meet the energy requirements of the State, HPPC procures power from:

(i) Central Power Sector Undertakings (CPSUs)[5] and Bhakra Beas Management Board (BBMB), as per power allocation by the Government of India (GoI)

(ii) Power generating plants of state-owned Haryana Power Generation Corporation Limited (HPGCL)

(iii) Independent Power Producers (IPPs) and

(iv) Renewable Energy[6] (RE) generators.

Power from private power projects is contracted through tariff based competitive bidding. Power from State's own generation plants and renewable sources is purchased as per the tariff fixed by Haryana Electricity Regulatory Commission (HERC).

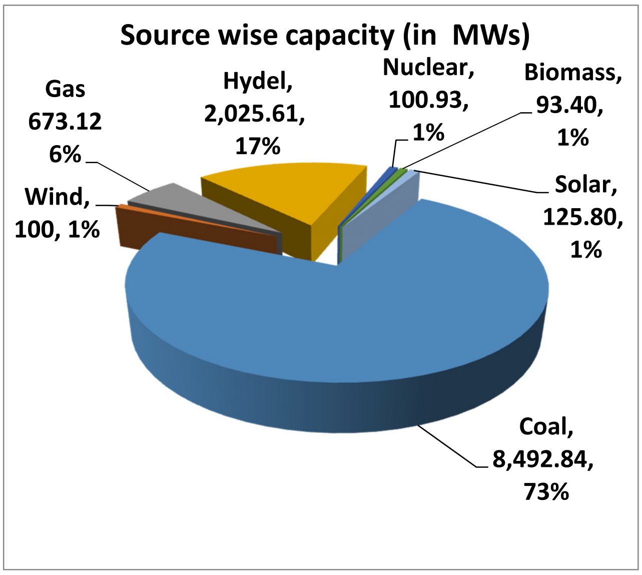
[4] Determination of start-up and shut down times as well as power output level of all generating units at each time slot of 15 minutes.

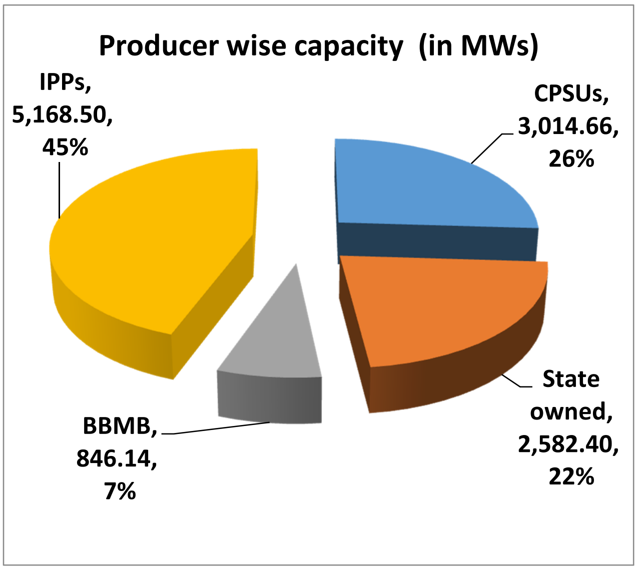
[5] NTPC Limited, NHPC Limited, Nuclear Power Corporation Limited (NPCL).

[6] Power generated from non-conventional fuel, like biomass, solar, etc.

The charts below indicate source wise and producer wise contracted capacity as on 31 March 2020:

Chart 3.1: Type of fuel and source wise production capacity





Source: Compiled from data provided by HPPC.

Contracted capacity and quantum of power purchased

The table below depicts power generation capacity contracted (in Megawatts) and quantum of power purchased (in Million Units) by HPPC during 2015-16 to 2019-20:

Table 3.1: Details of contracted capacity and power purchased by HPPC

Particulars	2015-16		2016-17		2017-18		2018-19		2019-20	
	Capacity (MW[7])	Units (In MU[8]s)	Capacity (MW)	Units (In MUs)	Capacity (MW)	Units (In MUs)	Capacity (MW)	Units (In MUs)	Capacity (MW)	Units (In MUs)
Central Generating Stations	2,976.71	10,021.49	2,976.71	11,764.15	2,976.71	12,840.57	3,014.66	13,077.67	3,014.66	13,141.02
State Owned Plants	2,782.40	9,796.41	2,792.40	8,885.13	2,792.40	10,067.75	2,792.40	9,988.07	2,582.40	6,766.06
BBMB	828.97	3,168.58	828.97	2,799.38	828.97	2,846.98	846.14	2,657.20	846.14	3,307.48
Independent Power Producers	4,444.50	23,095.72	4,466.50	24,206.23	4,668.50	26,209.43	4,718.50	26,577.18	5,168.50	27,887.92
Others (Banking and Un-scheduled Interchanges)	0	4,817.44	0	3,608.81	0	2,770.19	0	4,693.81	0	4,058.34
Total	**11,032.58**	**50,899.64**	**11,064.58**	**51,263.70**	**11,266.58**	**54,734.92**	**11,371.70**	**56,993.93**	**11,611.70**	**55,160.82**

Source: Compiled from data provided by HPPC.

[7] MW- Megawatt.

[8] MUs- Million Units.

During 2015-16 to 2019-20, contracted capacity increased from 11,032.58 MW to 11,611.70 MW and power procurement ranged between 50,899.64 MUs and 56,993.93 MUs.

Audit Findings

3.1.2 Extra expenditure due to procurement of costlier power

The Government of India (GoI) launched (December 2017) a pilot scheme for procurement of 2,500 MW power from coal based thermal power stations of private generators in India to help DISCOMs meet their power deficits and replace costly generation with cheaper and reliable power. HPPC started procuring power under this scheme from April 2019 after entering into agreement (February 2019) with Power Trading Corporation (PTC), who in turn, entered into agreement with power producers[9] for procurement of 400 MW power at the rate of ₹ 4.24 per unit discovered through bidding process undertaken by Power Finance Corporation Consulting Limited. After considering transmission charges, losses beyond point of Grid and trading margin of PTC, the effective tariff worked out to ₹ 4.90 to ₹ 5.00 per unit.

Audit observed that HPPC had assessed[10] (March 2018) Haryana as a power surplus State during 2017-18 to 2020-21 with marginal deficit during 2021-23. However, for procurement of this power, HPPC in its petition filed (October 2018) with HERC, indicated yearly deficit of 563 MW to 2351 MW during 2018-19 to 2023-24 by excluding power availability from already tied up sources of Adani Power Limited (APL) and Coastal Gujarat Power Limited. Further scrutiny revealed that to justify the procurement of 300-400 MW power under the scheme, HPPC had considered acute shortage of power due to non-availability of power from APL from 11 March 2018 to 21 May 2018, Power Purchase Agreements (PPAs) under litigation and State owned plants not running at full capacity due to shortage of coal.

The justification given by HPPC to purchase this power was not tenable as; i) generators were legally bound by the terms and conditions of PPA; ii) issues with APL were already resolved by the time HPPC gave in principle consent (October 2018) to purchase power under the GoI scheme; and iii) a single day shortage of coal at plants was taken as basis for entering into Power Purchase Agreements of three years duration.

[9] M/s SKS Power Generation Chhattisgarh Ltd and M/s M B Power (Madhya Pradesh) Ltd.

[10] Assessed on the basis of Compounded Annual Growth Rate of 6.88 *per cent* as approved by Central Electricity Authority in 19th electric power survey report.

Thus, HPPC had extended favour to these private power producers by purchasing their power at ₹ 4.90 to ₹ 5.00 per unit against the variable cost of State's own generating stations (₹ 3.25 to ₹ 3.88 per unit[11]). This purchase of expensive power resulted in avoidable extra expenditure of ₹ 208.57 crore[12] during April 2019 to September 2020 thereby putting undue burden on the consumers of the State. This burden will increase further till the validity of PPAs (March 2022) as the agreement can only be terminated upon defaults defined in the agreement which does not include error of assessment by HPPC.

The Management stated (February 2021) that scheduling of power on real time basis was continuous process requiring dynamic decisions as power cannot be stored. Generation less than/ more than the demand is not tolerated by Regional Load Despatch Centre and violating DISCOMs have to bear heavy penalties. In a scenario, where supply was insufficient to meet the demand, DISCOMs may have to procure from the sources which may not be the cheaper one. The purpose of the pilot scheme of GoI to meet power deficit was successfully achieved and uninterrupted supply to the consumers has been ensured in awkward situation where the generators in May 2018 desired to breach the terms of PPA. The Management reply was not convincing as it was totally based on apprehension of the HPPC that the supply would be disrupted and when the decision to give in principal approval of procurement of power from private generators in October 2018 was given, situation was quite improved. Further, if at all the requirement of power was due to non-supply by existing sources, it should have resorted to spot purchases of power, as an unanticipated event.

3.1.3 Achievement of Renewable Energy Purchase Obligation targets

Renewable Energy Purchase Obligation (RPO) mandates that all electricity distribution licensees should purchase or produce a minimum specified quantity of their requirements from Renewable Energy (RE) Sources. This is as per the Indian Electricity Act, 2003. The State Electricity Regulatory Commissions fix the minimum RPO for the State.

HERC, from time to time, had notified yearly RPO targets to be fulfilled by DISCOMs. A comparison of notified targets and actual achievement there-

[11] Deen Bandhu Chhotu Ram Thermal Power Plant: ₹ 3.25/unit, Panipat Thermal Power Station- Units VII & VIII: ₹ 3.35/unit and Rajiv Gandhi Thermal Power Station: ₹ 3.37/unit and Panipat Thermal Power Station - Units V & VI: ₹ 3.88/unit.

[12] ₹ 1186.94 crore (cost incurred to procure power under the scheme including cost of transmission loss 84.034 MUs and trading margin: ₹35.77 crore) *less* ₹ 978.37 crore (cost to procure net power from otherwise backed down state run plants).

against is tabulated below:

Table 3.2: Targets and achievements in respect of RE power (non-solar and solar)

Year	RE Power (Non-solar)				RE Power (Solar)			
	Targeted purchase		Actual purchase (MUs)	Shortfall (Percentage)	Targeted purchase		Actual purchase (MUs)	Shortfall (Percentage)
	Percentage of total consumption*	MUs			Percentage of total consumption*	MUs		
2015-16	2.75	1,285	253.14	80.30	0.75	350	126.99	63.72
2016-17	2.75	1,288	255.14	80.19	1.00	468	163.45	65.07
2017-18	2.75	1,078	283.30	73.72	2.50	980	209.51	78.62
2018-19	3.00	1,147	933.18	18.64	4.00	1,529	214.37	85.98
2019-20	3.00	1,186	564.08	52.44	5.50	2,175	205.59	90.55

***Excluding hydro and RE power**
Source: Compiled from data provided by HPPC.

It would be seen from the above table that HPPC could not achieve RPO targets in any of the years under review. The extent of shortfall ranged from 18.64 to 80.30 *per cent* for non-solar RE power and from 63.72 to 90.55 *per cent* for solar RE power.

Audit observed that to achieve the Sustainable Development Goals, the Ministry of New and Renewable Energy, Government of India fixed a target of 1900 MW for renewable energy (both solar and non-solar) for the State. This was incorporated in Haryana Solar Policy, 2016. Towards achievement of this target, HPPC has contracted for renewable energy (solar and non-solar) capacity of 1542.77 MW[13], up to 31 March 2019. There was, thus shortfall in achievement of targets as also non-achievement of RPO obligations determined by HERC.

The Management replied that the HERC considered the submission of DISCOMs and decided to waive off the RPO backlog of previous years till March 2020. The fact, however, remained that the Sustainable Development Goals regarding clean energy could not be achieved.

3.1.4 Non-achievement of envisaged benefits from new Information Technology Project

To reduce Additional Deviations Settlement Mechanism (ADSM) charges[14] and optimise power purchase cost, HPPC awarded (May 2016) a contract for implementation of power management software to REC Power Development and Consultancy Limited New Delhi (a wholly owned subsidiary of REC Limited - a Government of India Public Sector Undertaking) on nomination

[13] Of this capacity, generation of 319.2 MW capacity only has started so far (March 2020).

[14] Additional charges imposed due to drawal of energy by the DISCOMs in excess of specified volume in Million Units (MUs) at specified grid frequency in a time block and ADSM charges are determined on the basis of MUs.

basis at a cost of ₹ 2.95 crore plus applicable taxes. The scope of work included solution software, its implementation and three years' operation support at ₹ 15.50 lakh per month with annual escalation of 5 *per cent*. The software features included medium term, short term and day ahead demand forecasting, day ahead and real time power scheduling, integration with Northern Region Load Dispatch Centre (NRLDC) and Haryana State Load Dispatch Centre (SLDC) with the aim of reducing ADSM charges. The system was made operational with effect from April 2018.

Audit observed that despite implementation of project, there was no improvement in load forecasting and HPPC had to pay ADSM charges to NRLDC as tabulated below:

Table 3.3: Details of ADSM charges before and after implementation of software

Year	Season*	ADSM charges (₹ in crore)	Increase/(decrease) over base period	
			Amount (₹ in crore)	*per cent*
Before implementation of software				
2017-18	Summer	21.92	-	-
	Winter	21.58	-	-
After implementation of software				
2018-19	Summer	37.11	15.19	69.29
	Winter	29.27	7.69	35.63
2019-20	Summer	35.40	13.48	61.50
	Winter	9.15	(12.43)	(57.60)
2020-21	Summer	27.52	5.6	25.55
	Winter	NA	NA	NA

***Summer season: April to September; #Winter season: October to March.**
Source: Data provided by HPPC.

The terms of contract provided that in case of non-reduction of ADSM charges, penalty was to be levied which would be mutually agreed upon subject to maximum of 5 *per cent* of operational cost. However, no such penalty was either agreed to or deducted by HPPC despite the fact that ADSM charges continued to increase from first year. The maximum amount of penalty (5 *per cent*) for second and third year of operation worked out to ₹ 14.90 lakh. Thus, HPPC could not get benefit envisaged from new software despite spending ₹ 3.52 crore and also did not impose penalty on the contractor as per terms of the contract.

The Management stated (May 2021) that the ADSM charges increased due to shut down of Adani Plant and coal shortage in other plants during April and May 2018. The response is not convincing as the ADSM charges for the months of April and May 2018 were lower than the ADSM charges of corresponding months of the next year i.e., April and May 2019. Further, the ADSM charges are levied due to difference in schedule granted and actual drawal whereas the System should calculate the demand as accurately as possible and schedule should be placed accordingly to avoid ADSM charges. In case of non-availability (also declared in advance) of Adani plants or other plants (non-availability of supply), the schedule could be granted to other generators.

3.1.5 Incorrect merit order leading to extra expenditure

Due to high variable cost (₹ 3.894 per unit), Unit-6 (210 MW) of Panipat Thermal Power Station (PTPS) failed to get schedule from February 2019 to May 2020 and remained shut down continuously for 16 months. Haryana Power Generation Corporation Limited (HPGCL), however, requested (March 2020) HPPC for its light up for 24 hours for testing purpose. HPPC granted (March 2020) permission to test the unit for an approximate duration of 24 hours. Accordingly, Unit-6 was started on 19 June 2020 at a load of 160 MW and 4.08 MUs of power were generated during 24 hours at a variable cost of ₹ 3.314 per unit which was lesser by ₹ 0.60 per unit achieved during February 2019, when the Unit was last run.

Audit observed that average variable cost of producing power at Unit-6 during three years from June 2017 to May 2020 was ₹ 3.83 per unit. As per procedure followed by HPPC in deciding merit order, where such abnormal circumstances existed, the variable costs are not considered for deciding merit order. It was also seen that during November 2019, the Faridabad Gas Power Plant was made to run in trial mode to maintain the system and was not scheduled by HPPC, though its variable cost was lesser than the previous operation of the plant (October 2019).

Despite above, HPPC considered the trial run cost of Unit-6 while preparing merit order for July 2020. As a result, Unit-6 was ranked better than Aravali Power Company Private Limited (APCPL) and Jhajjar Power Limited (JPL). It was observed that usually[15] APCPL and JPL had lesser variable cost than Unit-6. Considering the variable cost of the trial run period, the Unit-6 ranked better than APCPL and JPL and was granted schedule for 11 days during 10 July 2020 and 23 July 2020 and 41.105 MUs were purchased at a final variable cost of ₹ 3.514 per unit against the per unit variable cost of ₹ 3.33 and ₹ 3.409 of APCPL and JPL respectively during the same month.

Thus, had the merit order for July 2020 been drawn by not considering the results of trial run, 41.105 MUs could have been purchased at optimum cost and ₹ 75.63 lakh[16] could have been saved.

[15] On the basis of data pertaining to months, from February 2019 to June 2020, where monthly average cost of power from these plants ranged between ₹ 3.349 and ₹ 3.737 per unit, which was less than the variable cost (₹ 3.894 per unit of Unit 6 of PTPS. (Source: HPPC documents).

[16] 41.105 MU (₹ 3.514 minus ₹ 3.33).

The Management informed (June 2021) that from December 2020, while giving the consent for testing, the variable cost thrown up during the testing period would not be considered for merit order preparation.

3.1.6 Lack of Internal Controls

Audit observed internal controls regarding payments against procurement of power needed to be improved in HPPC. The following instances of continuing errors in payments were noticed.

a) Non-adjustment of cross subsidy and additional surcharge from payments to captive generators

As per Rule 3 of Electricity Rules, 2005, no power plant shall qualify as Captive Generating Plant unless (i) not less than 26 *per cent* of the ownership is held by the captive user(s) and (ii) not less than 51 *per cent* of the aggregate electricity generated in such plant, determined on annual basis, is for captive use. If a generating plant does not meet these requirements, it becomes ineligible for benefits extendable under Rules framed by HERC and would be treated as a regular generating plant or independent power producer. Thus, it would be liable to pay cross subsidy charges, additional surcharge or any other charge as notified by the HERC from time to time, on the entire quantum of energy used by itself, to the DISCOMs.

HPPC did not verify that three Generating Plants[17] were no more to be categorised as Captive Generator (from 2010-11 to 2018-19), as they had supplied more than 51 *per cent* of their generation to HPPC. HPPC as a result of non-verification, did not deduct the applicable cross subsidy and additional surcharge from the power purchase bills, which could have been passed on to DISCOMs.

In August 2019, HPPC issued notices for recovery of applicable charges of ₹ 71.37 crore[18] from the three generators. They challenged the same before HERC stating that issue of notices for recovery after a period of 10 years is unjust, arbitrary and afterthought. After hearing Captive Generators and HPPC, HERC directed (July 2020) that the issue may be mutually resolved through discussions at the level of Administrative Secretaries of both the departments (Power and Co-operative Departments).

[17] (i) Shahabad Co-operative Sugar Mills Ltd., Kurukshetra (ii) Haryana Co-operative Sugar Mills Rohtak and (iii) Naraingarh Sugar Mills Ltd., Ambala.

[18] ₹ 32.92 crore from Shahabad Co-operative Sugar Mills Ltd., Kurukshetra; ₹ 28.48 crore from Haryana Co-operative Sugar Mills Rohtak and ₹ 9.97 crore from Naraingarh Sugar Mills Ltd., Ambala.

As per Section 56 (2) of the Electricity Act, 2003, in case the claims of electricity are not raised within two years from the date when they become first due, they cannot be recovered unless they are being shown continuously as arrears. However, it was observed that notice of recovery was first issued in August 2019 only. Therefore, the recovery of the amount from 2010-11 to 2016-17, amounting to ₹ 35.84 crore out of this amount of ₹ 71.37 crore is doubtful. Further, even if HPPC recovers full amount on behalf of DISCOMs, it has already incurred interest cost of ₹ 26.43 crore (up to March 2020) because of failure to prevent such occurrences.

b) Excess payment of Minimum Alternate Tax /Corporate Tax

HPPC was required to reimburse Minimum Alternate Tax (MAT)/ Corporate tax on applicable rates on Return on Equity (RoE) only to renewable power generators. However, it was observed that HPPC was making payment of MAT/ Corporate Tax to these generators based on actual profits. On being pointed out (March 2020) by Audit and after reviewing other such cases, HPPC took up (June 2020) the matter with concerned generators and asked them to refund the excess amount paid along with interest. As a result, three generators issued (March, May, June 2020) credit notes worth ₹ 5.79 crore[19].

Thus, the internal control mechanism failed in detecting the excess payment made to the power generators.

The Management informed (March 2021) that special checks are now being exercised so that such mistakes do not occur in future and officers are being instructed to be vigilant in interpreting the provision of the Regulation/ Act while making payments.

Conclusion

HPPC incurred extra expenditure of ₹ 209.33 crore in purchasing costly power from private producers and by preparing incorrect merit order which was an avoidable burden on consumers of the State. It could not achieve Renewable Energy Purchase Obligations targets, the shortfall ranged between 18.64 *per cent* and 90.55 *per cent*. Sustainable Development Goals set for ensuring affordable, sustainable and modern energy were not fully achieved. Internal controls regarding payments for purchase of power were not able to detect instances of erroneous payments noticed during the Audit.

[19] M/s GEMCO Energy Limited: ₹ 2.42 crore, Starwire (India) Vidyut Private Limited: ₹ 2.56 crore and Shri Jyoti Renewable Energy Pvt. Limited: ₹ 0.81 crore.

It is recommended that HPPC should undertake cost benefit analysis while entering into long term/ medium term contracts for addition to the generation capacity so that power is purchased at optimum cost. Efforts may be made to fulfil the RPO obligations of the Company so as to achieve the Sustainable Development Goals. Internal controls regarding claims of subsidy and payments against purchase of power may be strengthened.

The matter was referred (March 2021) to the Government and HPPC; their replies were awaited (September 2021).

Uttar Haryana Bijli Vitran Nigam Limited

3.2 Implementation of Mhara Gaon Jagmag Gaon scheme

The implementation of the scheme was slow due to inefficiencies at all stages of project implementation and even after more than five years of its launch (July 2015), 295 out of 972 Rural Domestic Supply feeders were yet to be completed (January 2021). Due to delay in completion as well as non-completion of works, the Company had to forgo potential revenue of ₹ 786.54 crore it could have earned had it achieved targets set for reduction in Transmission & Distribution losses in the scheme.

3.2.1 Introduction

The State Power Distribution Companies (DISCOMs) were facing high transmission and distribution losses. This coupled with their low billing and collection efficiency had adversely affected their financial health. The Government of Haryana, with objective to reduce Transmission & Distribution (T&D) losses[20] and increase collection efficiency on Rural Distribution Supply (RDS) feeders launched (July 2015) Mhara Gaon Jagmag Gaon (MGJG) scheme.

Under the scheme, power supply in villages was to be increased from the then existing 12 hours to 24 hours a day in phased manner on compliance with specified milestones. Activities to be carried out under the scheme included replacement of bare low-tension conductors with Aerial Bunched (AB) cable, replacement of defective/ old energy meters, shifting energy meters outside consumer premises, maintenance of distribution network etc. The scheme

[20] Energy losses occur in the process of supplying electricity to consumers due to technical and commercial reasons. The technical losses are inherent in a system which occurs due to energy dissipated in the conductors, transformers and other equipments used for transmission, and distribution of power. Pilferage by hooking, bypassing meters, defective meters, errors in meter reading *etc.,* are the main sources of commercial losses.

initially implemented (July 2015) on one RDS feeder in each of the 83 State Assembly constituencies (falling in rural areas) was extended (between March 2016 and March 2017) in phases to cover the entire State. The total expenditure incurred on implementation of the scheme up to 31 March 2020 was ₹ 203.01 crore.

Audit reviewed (October 2020 to January 2021) the activities undertaken in implementation of MGJG scheme by Uttar Haryana Bijli Vitran Nigam Limited (Company) which serves 10 districts[21] of Northern Haryana through nine[22] Operation (Op) circles. For this review, Audit selected five[23] Operation circles out of the nine Operation circles for reviewing implementation of the MGJG scheme, irrespective of performance of the circles, considering movement restrictions due to COVID-19; incidentally most of these circles were better performing circles. All the works executed in respect of 512 Rural Domestic Supply feeders in respect of the five selected circles were covered in Audit. Audit objectives were to ascertain whether planning of the scheme was done efficiently, works under the scheme were executed economically and efficiently and the scheme was implemented effectively.

Audit Findings

3.2.2 Project planning

(a) Non-specification of timeline for the scheme

MGJG scheme was launched (July 2015) by Government of Haryana (GoH) without any timelines for its implementation. The Company also did not specify any internal timeline to monitor progress of the scheme periodically. As a result, the Company could not take timely steps to accelerate works under the scheme.

GoH, however, belatedly fixed (February 2017) district wise timeline for completion of works under the scheme and reduction of T&D losses below 20 *per cent*.

Table below indicates the circle wise number of feeders to be completed, target dates and progress there against for completion of MGJG works as of

[21] Ambala, Panchkula, Kurukshetra, Karnal, Kaithal, Panipat, Rohtak, Jhajjar, Sonepat and Yamunanagar.

[22] Ambala, Kurukshetra, Karnal, Kaithal, Panipat, Rohtak, Jhajjar, Sonepat and Yamunanagar.

[23] Ambala, Kurukshetra, Karnal, Kaithal and Yamunanagar.

January 2021:

Table 3.4: District wise targeted and actual dates of completion of MGJG works

Sl. No.	Name of District	No. of feeders to be completed	Target completion	No. of feeders actually completed	Actual completion date	Delay (in months)	Percentage of completion
1	Ambala	51	April 2017	51	October 2018	17	100
2	Panchkula	20	November 2016	20	November 2016	-	100
3	Yamunanagar	98	December 2017	98	January 2021	37	100
4	Kurukshetra	98	March 2018	98	April 2019	13	100
5	Karnal	143	June 2018	143	August 2020	26	100
6	Kaithal	143	March 2018	122	In progress	34	85.31
7	Panipat	81	December 2017	42	In progress	37	51.85
8	Jhajjar	91	June 2018	24	In progress	31	26.37
9	Sonepat	141	June 2018	48	In progress	31	34.04
10	Rohtak	106	June 2018	31	In progress	31	29.24
	Total	**972**		**677**			**69.65**

Source: Compilation based on records/data provided by the Company.

While works under four districts Ambala, Kurukshetra, Karnal and Yamunanagar had been completed and about 85 *per cent* work had been completed in Kaithal district, progress in remaining four districts, (Panipat, Jhajjar, Sonepat and Rohtak) was slow. Audit observed the slow progress was due to inefficiencies noticed at all stages of project implementation viz, planning, awarding and execution.

The Management stated (November 2020) that no timeline was set by the Government to complete the Scheme, however Government vision was 24 hours power supply to all villages as early as possible. The reply is not acceptable because considering importance of timeline in execution of any project, the Company should have set the timeline for itself even if Government had not specified the same. Besides, the Company could also not adhere to timelines when fixed by Government later, in respect of many of the districts.

(b) Delayed decision to award works on turnkey basis

During 2015-16 to 2017-18, the Company executed MGJG works departmentally with material from the Company's stores and by engaging labour on contract basis. As progress of the scheme was very slow in 2016-17 and 2017-18 (only 79 feeders i.e. (8.22 *per cent*) could be covered during this period), the Company decided (October 2017) to award partial works on turnkey basis. After this, though implementation of the scheme picked up, the overall progress achieved up to January 2021 was still 69.65 *per cent* in terms of Rural Distribution Supply (RDS) feeders. The table below depicts RDS feeder wise progress up to January 2021 in respect of works executed departmentally and on turnkey basis:

Table 3.5: Status of RDS feeders taken up departmentally and on turnkey basis

Mode of execution	RDS Feeders		
	To be covered (No.)	Completed (No.)	Progress (*per cent*)
Departmental (from July 2015 to January 2021)	765	499	65.23
Turnkey basis (from October 2017 to January 2021)	207	178	85.99
Total	**972**	**677**	**69.65**

Source: Compilation based on progress reports/data provided by the Company.

While delay in completion of works executed departmentally was attributed to non-availability of adequate material (particularly poles and meters) as per requirement, slow progress under turnkey contracts was attributed to award of works to ineligible firms without assessment of capacity and capability of bidders as discussed in succeeding paragraphs.

(c) Injudicious selection of material

The primary objective of MGJG scheme was to reduce T&D losses on RDS feeders by curbing theft of power and improving billing and collection efficiency.

The Company in initial phase of the scheme used Aerial Bunched (AB) cable insulated with rubber in the feeders. However, it found the reduction in T&D losses not up to expected levels. It realised that AB cables with rubber insulation were prone to be punctured with nails by unscrupulous elements for illegally drawing power. Therefore, the Company decided (September 2017) to use Armoured[24] cable in works to be executed on turnkey basis.

We observed that in four of the selected Op circles[25], 46.215 km AB cable already erected in 11 feeders was replaced with Armoured cable up to January 2021. Resultantly, an expenditure of ₹ 84.23 lakh on procurement (₹ 73.90 lakh) and erection and dismantling (₹ 10.33 lakh) of AB cable incurred during 2015-17 proved wasteful.

[24] In electrical power distribution, armoured cable means steel wire armoured cable which is a hard-wearing power cable designed for the supply of mains electricity.

[25] Ambala, Kurukshetra, Karnal and Kaithal.

3.2.3 Award of contracts

(a) Award of contracts without considering Qualifying Criteria in totality

The Company invited (October 2017) short term bids in two parts, for execution of works[26] in respect of Rural Domestic Supply feeders in six divisions[27] of three Operation (Op) Circles under MGJG scheme on turnkey basis. After evaluation (November 2017) of techno-commercial bids (Part-I) and price bids (Part-2) of qualified bidders, work in respect of all six divisions was awarded (December 2017) to a single party - M/s Ishwar Singh & Associates Construction Private Limited, Hisar (M/s Ishwar) at a cost of ₹ 98.77 crore who turned out to be L1 bidder in all cases.

Evaluation of Liquidity position of prospective bidders was important to assess their ability to meet short term obligations for continuous operations with sufficient liquidity, while the firms with inadequate liquidity might not be able to carry out work at required pace and complete the same within time schedule.

Audit observed that in bid documents, the financial criterion relating to Liquid Assets (LA) was prescribed to be equal to 25 *per cent* of estimated cost. However, meeting of this criterion was not ensured in totality while deciding number of awards in favour of M/s Ishwar. In view of M/s Ishwar's LA of ₹ 13.79 crore, they were eligible for award of maximum four contracts[28] with award value of ₹ 58.83 crore. Thus, two contracts worth ₹ 39.94 crore[29] were awarded to the firm in violation of tender conditions, for which it was not having requisite liquidity.

The Management stated (July 2019) that LA was considered as per provisions of NIT individually. The reply is not acceptable as it was not prudent to consider qualifying requirement individually when the selected contractor was the same, especially when the Company was required to finalise tender on urgent basis for which it had to go for short term open tender. Contractor's dismal performance (56.48 *per cent*) further corroborates to the impact of liquidity position as discussed in para 3.2.4 (a) below.

[26] Supply of material/equipment, erection, testing & commissioning, dismantlement of existing overhead lines/material for replacement of bare conductor with Armoured cable, shifting meter from consumer premises to outside and replacement of electro-mechanical meter, theft prone meter, defective meter, *etc.*

[27] Tender 1 for Guhla division under Op Circle Kaithal (B-523), Kurukshetra, Pehowa and Shahbad divisions under Op Circle Kurukshetra (B-524 to 526), Samalkha (B 527) and Sub-urban division Panipat (B-528) under Op Circle Panipat and Tender 2 for Jagadhari and Naraingarh divisions under Op Circle Yamunanagar.

[28] Against Bid Nos. 523, 525, 526 and 528 estimated cost (₹ 14.73 crore), (₹ 14.49 crore), (₹ 11.90 crore) and (₹ 10.31 crore) respectively Total Estimated Cost (₹ 51.43 crore).

[29] Award value of contracts against Bid Nos. 524 and 527 estimated cost (₹ 18.22 crore) and (₹ 16.70 crore); award value (₹ 20.84 crore) and (₹ 19.10 crore) respectively.

(b) Irregular award of contracts

The Company invited (November 2017) tenders[30] in two parts for works to be carried out on turnkey basis under MGJG in Sub-urban Division Jagadhari under Operation Circle Yamunanagar. The estimated cost of works was ₹ 33.25 crore. After evaluation of three bids received, the Company awarded (February 2018) contract to L1 firm, M/s Ishwar at a cost of ₹ 38.58 crore.

As per the bid conditions, the bidders were required to demonstrate Liquid Assets (LA) equivalent to 25 *per cent* of the estimated cost of the work i.e., ₹ 8.31 crore (25 *per cent* of estimated cost of ₹ 33.25 crore). The tender conditions also specified that closing stock, cash in hand, bank balance and Fixed Deposit Receipts (FDRs)/ Investment only would be considered for working out LA. Audit observed that the Company declared bid of M/s Ishwar as financially responsive by including debtors of ₹ 36.59 crore as part of LA. If debtors are excluded, LA of M/s Ishwar worked out to ₹ 3.94 crore only against the benchmark of ₹ 8.31 crore. Thus, by considering debtors as part of closing stock against methodology prescribed for calculation of LA in bid documents, the Company favoured the contractor in award of contact.

The Management stated (February 2021) that debtors of below 120 days were considered as part of liquid assets with a view that the firm had bank sanctioned cash credit limits against stocks and debtors below 120 days. The reply is not acceptable as tender documents clearly specified that closing stock, cash in hand, bank balance and FDRs/ Investment would only be considered for working out LA.

3.2.4 Project execution

(a) Delay in completion of works

(i) Due to irregularities, which had bearing on the financial capability of the L1 bidder, discussed in para 3.2.3 (a) and (b) above in award of contacts, the contractor was not able to complete works on any of the allotted feeders within schedule. Six out of eight contracts awarded to the contractor, M/s Ishwar, were completed with delays ranging from six to 29 months, while works under two contracts were still (January 2021) pending though delay of 25-26 months had already occurred. Contract wise status of work as on 31 January 2021 is

[30] Bid No. 534

shown in table below:

Table 3.6: Status of works awarded to M/s Ishwar

Name of Op Circle	Name of Op Division	Date of LOI	Scheduled completion date	Actual Completion	Delay (in months)
Kaithal	Guhla	14.12.2017	13.06.2018	November 2020	29
Kurukshetra	Kurukshetra	14.12.2017	13.10.2018	April 2019	6
	Pehowa	14.12.2017	13.06.2018	April 2019	10
	Shahbad	14.12.2017	13.06.2018	April 2019	10
Panipat	Samalkha	14.12.2017	13.10.2018	In progress	26
	Sub Urban Panipat	14.12.2017	13.06.2018	October 2020	28
Yamunanagar	Jagadhri	03.01.2018	02.11.2018	In progress	25
	Naraingarh	03.01.2018	02.07.2018	July 2020	24

Source: Compilation based on records/data provided by the Company.

As a result of above delays, benefit of 24 hours electricity supply could not be extended to the consumers. Besides, the Company also suffered revenue loss of ₹ 75.62 crore[31] on account of power lost due to delayed completion of works in three of the above four selected Op circles. Though the Company recovered ₹ 5.99 crore from the contractor on account of Liquidated Damages (LD) as per terms of the contract, in respect of selected circles, the loss exceeded the same by ₹ 69.63 crore.

(ii) The Company awarded (between December 2017 and June 2018) five more contracts (contractors other than M/s Ishwar) on turnkey basis for execution of works under MGJG scheme. All these five contracts were completed with delays ranging between four and 16 months from respective scheduled completion dates as indicated below:

Table 3.7: Details of contracts completed with delay under MGJG

Name of Op Circle	Name of Op Division	Date of LOI	Scheduled completion	Actual Completion	Delay (in months)
Karnal	City	14.12.2017	13.06.2018	May 2019	11
	Suburban- 1	14.12.2017	13.10.2018	July 2019	9
	Suburban- 2	11.06.2018	10.04.2019	August 2020	16
	Assand	11.06.2018	10.04.2019	August 2020	16
Yamunanagar	Yamunanagar	03.01.2018	02.11.2018	March 2019	4

Source: Compilation based on records/data provided by the Company.

Audit observed that due to deficient contract management by the Company, contractors failed to arrange sufficient labour and material in timely manner. Although, the Company recovered ₹ 3.99 crore from the concerned contractors

[31] Worked out by comparing T&D loss level in concerned RDS feeders before and after completion of work at ₹ 4.82 per unit average realization rate from domestic category consumers during the year 2019-20.

on account of Liquidated Damages as per terms of contracts, the potential loss of revenue worked out to ₹ 54 crore[32].

(b) Non-achievement of targeted reduction in T&D losses in completed feeders

MGJG scheme aimed to bring Transmission and Distribution (T&D) losses of electricity to below 20 *per cent* and eventually providing 24 hour uninterrupted power supply to the villagers with following phase-wise targets:

Table 3.8: Conditions for progressively increasing supply hours

Supply hours	Conditions
12 to 15 hours	Selection of feeder under MGJG scheme.
15 to 18 hours	Relocation and replacement of Meters and replacement of naked LT conductor with AB cables.
18 to 21 hours	Payment of bills to the extent of 90 *per cent* of power supplied after allowing technical losses up to 20 *per cent.*
21 to 24 hours	Overall payment default amount comes below 10 *per cent.*

Source: MGJG scheme data.

As of January 2021, out of 972 RDS feeders, work on 677 RDS feeders was completed and 24 hours power supply was allowed on all these feeders. However, the condition of the MGJG scheme for reduction in T&D losses below 20 *per cent* and reduction in overall default amount below 10 *per cent* as per scheme were not ensured. The Board of Directors of the Company relaxed (March 2019) these conditions and allowed 24 hour power supply upon substantial decrease in T&D losses and increase in collection efficiency from the start of the scheme. The Company relaxed MGJG scheme conditions without obtaining State Government's approval.

Audit observed that the feeders completed up to 2018-19 could not achieve intended targets of T&D loss reduction as tabulated below:

Table 3.9: Details of feeders failing to achieve targeted loss level after completion

Year	No. of feeders completed during the year	No. of feeders with T&D losses more than 20 *per cent*			
		2016-17	2017-18	2018-19	2019-20
2015-16	16	12	12	7	8
2016-17	86	-	41	38	28
2017-18	110	-	-	60	54
2018-19	137	-	-	-	75
Total	**349**	**12**	**53**	**105**	**165**

Source: Compilation based on soft data of RDS feeders T&D losses provided by the energy audit wing of the Company.

[32] Worked out by comparing T&D loss level in concerned RDS feeders before and after completion of work at ₹ 4.82 per unit average realization rate from domestic category consumers during the year 2019-20.

It would be seen from the above table that out of 349 RDS feeders completed up to 31 March 2019, 165 feeders (47.28 *per cent*) still recorded T&D losses above 20 *per cent* and as such they failed to achieve targeted loss reduction even after 1 to 4 years of their completion. Resultantly, 243.92 MUs of electricity, in excess of normative 20 *per cent*, valuing ₹ 126.60 crore[33] was lost during 2016-17 to 2019-20.

An in-house exercise was carried out by the Company to find out reasons for non-reduction of losses on above feeders despite their completion under the scheme. The results revealed that losses could not be reduced due to poor workmanship during execution, lack of monitoring and follow-up after completion of work and use of AB Cable instead of armoured cable.

Audit further observed that in case of 340 Rural Domestic Supply feeders (out of 512 covered in Audit), where works were executed departmentally, there was no mechanism of Quality Assurance Plan (QAP) in place in order to ascertain the quality of work. Such a mechanism in form of third party oversight was seen to exist in respect of balance 172 Rural Domestic Supply feeders which were executed on turnkey basis.

(c) Revenue foregone due to high T&D losses in incomplete feeders

Although more than five years have elapsed since launch of the scheme, out of 562 RDS feeders, works on 295 RDS feeders under five Operation Circles (Kaithal, Panipat, Jhajjar, Sonepat and Rohtak) have not been completed so far (January 2021). Out of 295 feeders, work on 84 RDS feeders had not been taken up as yet and work on 48 RDS feeders though taken up was held up due to public resentment (January 2021), while work on remaining 116 RDS feeders was in progress (January 2021).

The table below indicates circle wise incomplete RDS feeders where T&D loss level was more than 20 *per cent*:

Table 3.10: Incomplete RDS feeders with T&D loss level above 20 *per cent*

Sl. No.	Name of circle	Number of feeders	Incomplete RDS Feeders with T&D losses above 20 *per cent* during 2019-20				
			>50%	40-50%	30-40%	20-30%	Total
1	Kaithal	21	17	2	2	0	21
2	Panipat	39	36	1	1	1	39
3	Jhajjar	67	56	10	0	0	66
4	Rohtak	75	66	5	2	1	74
5	Sonepat	93	84	7	1	0	92
Total		**295**	**259**	**25**	**6**	**2**	**292**

Source: Compilation based on soft data of RDS feeders T&D losses provided by the energy audit wing of the Company.

[33] Worked out taking average realization rate from domestic category consumers @ ₹ 6.33 per unit for 2016-17, ₹ 5.66 per unit for 2017-18, ₹ 5.32 per unit 2018-19 and ₹ 4.82 per unit for 2019-20.

It would be seen that out of 295 incomplete RDS feeders, 292 feeders recorded more than 20 *per cent* losses. Of these 292 feeders, 259 feeders recorded more than 50 *per cent* losses. Further, in 292 RDS feeders where loss level was more than 20 *per cent,* potential loss of revenue worked out to ₹ 530.32 crore[34] during 2019-20 alone.

The Company should speed up the execution of works already awarded and award the balance works on priority to reduce the T & D losses as per the spirit of the scheme.

(d) Short receipt of ACSR conductor scrap

As per 13 Nos. work orders awarded by the Company on turnkey basis for implementation of MGJG scheme, Aluminium Conductor Steel Reinforced (ACSR) conductor was to be replaced with Low Tension Armoured Cable and dismantled conductor was to be properly accounted for and returned to Company's stores. Against Bid No. 519 for Op Division City, Karnal, where contractor's final bill was finalised, dismantled conductor was not properly accounted for. As per final foot survey under this contract, 153.48 Kms ACSR conductor valuing ₹ 31.30 lakh[35] was to be dismantled. Against this estimated quantity, the contractor deposited (between January 2019 and February 2019) only 58.95 Kms ACSR conductor scrap in Company's store leaving shortfall of 94.53 Kms (153.48 Km – 58.95 Km) ACSR scrap valuing ₹ 19.28 lakh. The Company has not taken any action for its recovery from the contractor. The bills of contractors pertaining to remaining 12 bids have not been finalised yet (January 2021).

During exit conference (August 2021), the Management intimated the progress of the scheme and stated that turnkey works awarded under the scheme have been completed and departmental works were expected to be completed by end of this year.

Conclusion

The implementation of the scheme was slow due to inefficiencies at all stages of project implementation viz., planning, awarding of works and their execution. Even after more than five years since its launch (July 2015), 295 out of 972 RDS feeders were yet to be completed (January 2021). Due to delay in completion/non-completion of works, the Company has foregone potential revenue of ₹ 786.54 crore[36] it could have earned, had it achieved targets set for

[34] Worked out by multiplying MUs lost due to T&D losses being above 20 *per cent* (1100.26 MUs) with per unit realization rate from domestic category consumers (₹ 4.82) in year 2019-20.

[35] 153.48 Kms x 213.6 Kg per Km (average quantity of aluminium retrieved from 50 mm Rabbit ACSR conductor used in LT lines) x ₹ 95.50 per kg rate of aluminium scrap.

[36] Para No. 3.2.4(a), (b) and (c).

reduction in T&D losses in the scheme. Even after completion of works on 349 feeders (completed up to March 2019), the T&D losses remained more than 20 *per cent* on 165 feeders during 2019-20. Thus, the objective of the scheme to reduce T&D losses by curbing power theft and improving billing & collection efficiency could not be fully achieved.

It is recommended that the Company should prepare a time bound plan for completion of the balance projects of the scheme by an more efficient contract management. It should also improve its monitoring mechanism to ensure timely achievement of envisaged benefits from the scheme.

The matter was referred (April 2021) to the Government and the Company; their replies were awaited (September 2021).

Dakshin Haryana Bijli Vitran Nigam Limited

3.3 Non-recovery of differential tariff

Company did not recover tariff difference of ₹ 39.88 lakh from a consumer who was sanctioned connection in wrong category by the sanctioning authority, in terms of provisions of Electricity Supply Code, 2014.

The Electricity Supply Code, 2014, of Haryana Electricity Regulatory Commission clause 8.6 (7) provides that in cases where the consumer had not concealed the category of usage of supply while applying for connection, but the load was sanctioned under a wrong category by the sanctioning authority only the difference of tariff from the date of connection would be charged. Future billing would be made in applicable category and no case of unauthorised use of supply or theft of electricity would be made.

Dakshin Haryana Bijli Vitran Nigam Limited (Company) released (June 2012) a High Tension (HT) electricity connection with sanctioned load of 350 kW in the 'Bulk Domestic Supply[37](BLDS) category as applied for (February 2012) by a consumer[38] for their premises.

A vigilance inspection (August 2017) of the consumer premises by the Company revealed that they were providing services of boarding and lodging *etc*. to senior citizens on daily/monthly chargeable basis and recommended that the consumer should be charged tariff under 'Non-Domestic Supply[39]' (NDS) category. Accordingly, the Company directed (October 2017) the consumer to

[37] Tariff category applicable to group housing societies, *etc*., having mixed load with major portion of domestic load.

[38] M/s UCC Care Private Limited (formerly UCC Builders Private Limited).

[39] Tariff category applicable to all non-residential premises, *e.g*., business houses, cinemas, clubs, public offices, hotels, *etc*.

apply for a new NDS connection within 30 days which was complied with (November 2017).

Audit observed that although it was a case of release of connection in wrong category by the sanctioning authority, the Company did not take action as per applicable clause 8.6 (7) of the Electricity Supply Code-2014, which provides for charging of difference of tariff between the applicable category and that charged, from the date of connection from the consumer. Audit estimated the difference of tariff, from the date of connection (June 2012) in lower tariff category (*i.e.,* BLDS) till its disconnection (November 2017) amounting to ₹ 39.88 lakh was not recovered from the consumer.

The Management stated (April 2021) that a notice for recovery of tariff difference was served (March 2021) on the consumer as per audit observation. However, the consumer filed a court case in the civil court, Faridabad, which is still pending (September 2021).

Thus, the Management acted for recovery of the differential amount only after being pointed out in Audit.

It is recommended that the provisions of the Electricity Supply Code should be enforced immediately in such cases in future.

The matter was referred (February 2021) to the Government, their replies were awaited (September 2021).

Industries and Commerce

Haryana State Industrial and Infrastructure Development Corporation Limited

3.4 Non-achievement of envisaged benefits of training to participants

Due to inept handling of the training programme without adequate monitoring/conducting any due diligence study, the envisaged benefits of granting employment could not be achieved even after incurring expenditure of ₹ 3.62 crore. Besides there was excess payment of ₹ 2.96 crore to the training provider.

Haryana State Industrial and Infrastructure Development Corporation Limited (Company), the nodal agency for development of industrial infrastructure, under its social development initiative aimed to provide employment skills to the residents of identified villages where land had been acquired by the Company for setting up its Industrial Estates. The employment skill programmes are run by the Company through Sector Skill Councils[40] and their approved training providers.

In August 2017, Leather Sector Skill Council[41] (LSSC), Chennai sent a proposal to the Company for providing skill development training[42] in leather sector to 15,000 candidates of Haryana on the basis of Common Norms notified (July 2015 and May 2016) by the Ministry of Skill Development and Entrepreneurship (MSDE), Government of India. The Company accepted the proposal and executed (August 2017) Memorandum of Understanding (MOU) with LSSC. As per payment terms agreed, the Company were to release 30 *per cent* of total training cost[43] on commencement of training against validated candidates (including 10 *per cent* as mobilisation fee on submission of action plan), 50 *per cent* on successful certification of trainees and remaining 20 *per cent* on their finding employment within three months of completion of training. The release of 20 *per cent* of training cost on employment had a benchmark of employment of at least 70 *per cent* of trainees.

The Company simultaneously, in terms of MSDE notification, appointed (September 2017) a Project Management Consultant (PMC) for one year at fee of ₹ 1.75 crore. The scope of work of PMC included understanding skill development requirements, planning and rolling out of skill development activities in coordinated manner under Phase-I and implementation of the programme under Phase-2 which included project monitoring, documentation, reporting and overall due diligence of implementation phase.

The PMC adopted the report (October 2013) of National Skill Development Corporation (NSDC) for planning skill development programme wherein the combined incremental manpower requirement for leather and footwear sectors in Haryana was indicated as 5608 only, in one five year period of 2017-22. The Company approved guidelines for implementation monitoring and tracking of skill development programme prepared by PMC in December 2017 and February 2018, respectively. However, the Company in contrast to the projected demand, granted approval for training of 476 batches consisting of 13,670 candidates during November 2017 to February 2018, before approval of monitoring and tracking guidelines. In all 523 batches of 15,003 candidates were approved by the Company.

[40] The National Policy on Skill Development and Entrepreneurship, 2015 laid out Skill India Mission, and envisaged the creation of Sector Skill Councils (SSCs) by National Skill Development Corporation (NSDC).

[41] A company registered as section 8 company under Companies Act, 2013 and a SSC in leather sector approved by NSDC.

[42] Total duration of training in hours: 200/500 relating to six different job roles e.g., stitcher, cutter etc.

[43] ₹ 9,680 per candidate for 200 hours and ₹ 22,400 per candidate for 500 hours.

Upon the claims by Leather Sector Skill Council, the Company released (December 2017 to March 2018) payment of ₹ 6.58 crore (including GST of ₹ 1.01 crore) towards first instalment of 30 *per cent* of total cost in respect of 13,670 candidates. Payment in respect of 1,333 candidates was not released by the Company. LSSC also raised (March 2018) claim of ₹ 2.90 crore towards 2ndinstalment in respect of 4,648 candidates which though approved (March 2018) by the Company, was not released for not ensuring due diligence by nodal wing of the Company. Subsequently, the Management ordered (July 2018) for due diligence exercise of the enrolled candidates, checking of infrastructure of training centres and stopped further commitments under the programme. The due diligence exercise carried out (December 2018) by the PMC showed 10,776 out of 15,003 candidates were ineligible for various reasons *e.g.,* trainees not confirmed, ineligible due to age, Aadhaar number duplication, trainees not found during inspection, and candidates in excess of approved number in job role[44] etc. Thus, only 4,227 candidates were found eligible and in respect of whom 80 *per cent* payment could be released.

Audit observed:

(i) The Company signed (August 2017) Memorandum of Understanding (MOU) with Leather Sector Skill Council for providing training to 15,000 candidates without considering National Skill Development Corporation study report/consultant study which suggested annual requirement of only 1,000-1,200 candidates (total 5608 Nos. in five years) in leather and footwear sector and without involving the Project Management Consultant in due diligence for validation of eligibility of candidates for training.

(ii) The Company paid ₹ 1.01 crore towards GST on first instalment of training cost though the services provided by Sector Skill Councils approved by National Skill Development Corporation were exempted from GST.

(iii) Since, Leather Sector Skill Council (LSSC) had not fulfilled the MOU condition with regard to employment/placement of trained candidates, it was eligible for 80 *per cent* payment in respect of only 4,227 eligible candidates which worked out to ₹ 3.62 crore (80 *per cent* payment). This resulted in excess payment of ₹ 2.96 crore (₹ 6.58 crore *minus* ₹ 3.62 crore) to LSSC.

[44] As per MOU, there were six job roles viz. stitcher (Goods and garments), cutter (Goods and garments), stitcher (footwear), cutter (footwear), pre-assembly operation (footwear) and skiving operator (footwear) in the required numbers. However, the candidates were enrolled in first four job roles only but in different numbers, which led to enrolment of excess candidates for approved job roles.

Thus, the training programme run without conducting due diligence study and monitoring of desired yield impacted the envisaged benefit of generating gainful employment to the trainees even after incurring expenditure of ₹ 3.62 crore. Besides there was excess payment of ₹ 2.96 crore to Leather Sector Skill Council.

The Management stated (June 2020) that due diligence of records was done as per the Common Norms[45], and legal action has been initiated against the LSSC to recover the excess amount. During exit conference (August 2021), the Management further stated that recovery notice has been issued and the Company was in the process of lodging FIR against the Leather Sector Skill Council.

The reply is not acceptable as the Company signed MOU with Leather Sector Skill Council without considering the training requirements as indicated in National Skill Development Corporation report and Project Management Consultant was not involved in carrying out due diligence, though their scope of work provided for the same, which resulted in non-achievement of envisaged benefits.

It is recommended that the Company may fix responsibility for the lapses and adequate monitoring/due diligence may be made in such trainings in future.

The matter was referred (January 2021) to the Government and the Company; their replies were awaited (September 2021).

3.5 Non-levy of extension fee

The Company extended undue benefit to an allottee by reckoning the implementation period of project from 26 August 2013 instead of 27 July 2010 as per the agreement which resulted in non-levy of extension fee of ₹ 1.74 crore for delayed implementation of project.

Haryana State Industrial and Infrastructure Development Corporation Limited (Company) allotted (27 July 2010) a plot measuring 12,150 sq. meters at Food Park, Rai to M/s Shakti Bhog Foods Limited (allottee) under prestigious project[46] category on the undertaking (13 July 2010) given by the allottee for taking physical possession of plot on "as is where basis" without completion of development works by the Company. The allottee also undertook that for

[45] Common norms were notified (July 2015 and May 2016) by the Ministry of Skill Development and Entrepreneurship which included Skill development, Skill Development Courses, Input Standards, Outcome of skill development, Funding norms, fund flow mechanism etc.

[46] Projects involving investment of ₹ 50/40/30 crore.

absence of the development work/infrastructure facilities they would not hold any claim against the Company.

The agreement (6 September 2010) with the allottee required them to take physical possession of plot within six months of allotment and to implement[47] their project within three years from the date of offer of possession i.e., by 26 July 2013. Any extension for completion of project beyond three years was to be granted on payment of prescribed extension fee[48] in terms of Estate Management Procedures (EMP)[49] of the Company.

The allottee, however, took possession of plot (which actually measured 11,610 sqm) on 23 July 2012 after lapse of two years. The Board of Directors of the Company, in the meanwhile, granted (29 August 2013) one-year general extension for implementation of the projects for plots allotted up to 31 December 2012 without charging any extension fee. Accordingly, implementation period of project was extended to 26 July 2014. The Company granted further extension in time for implementation of project up to 26 July 2015 after charging due extension fee.

The allottee informed and requested (12 January 2016) for change in allotment as it had decided to implement the project through its subsidiary and also sought extension in implementation period. The Company allowed (October 2016) the change and also granted extension up to 26 July 2017 subject to payment of extension fee.

The allottee could not implement the project even up to 26 July 2017 and again requested (September 2017) the Company to reckon three years period for implementation of project from date of approval of change in constitution i.e., 27 October 2016, but Estate Management Committee declined (September 2017) the same on the plea that the extension fee was charged as per policy of the Company. However, after giving personal hearing to the allottee, the Management decided (November 2017) that implementation period should be reckoned from date of completion of infrastructure i.e., 26 August 2013 (instead of date of offer of possession 27 July 2010) and ordered to adjust three year’s extension fees already paid by the allottee. Accordingly, the Company extended (August 2018) the implementation period up to 25 August 2019 on the basis of extension fee already paid by the allottee for three years. The allottee started commercial production on 23 August 2018

[47] Implementation of the project would mean commencement of commercial production with minimum investment of ₹ 30 crore in fixed assets.

[48] For 1st year: ₹ 75 per sqm, 2nd year: ₹ 150 per sqm and 3rd year: ₹ 250 per sqm 4th year at ₹ 500 per sqm and for 5th year at ₹ 1000 per sqm.

[49] Estate Management Procedures address the parameters for allotment, reservation and priority in allotment of industrial plots and other related matters concerned with management of industrial estates.

and project was considered implemented with effect from 25 September 2018 on the basis of site report. The allottee paid all their dues on account of cost of plot.

Audit observed that the decision of the Management to reckon the implementation period from 26 August 2013 instead of 27 July 2010 was not justified as the allottee had undertaken (July 2010) to take possession without completion of development work and not to lodge any claim therefore. Further, the actual measurement of plot is always taken at the time of physical possession and there was delay on the part of the allottee in taking the possession of the plot. The zoning plan of plot was issued by the Company in September 2012 i.e., within two months of taking over possession of the plot by the allottee.

Thus, the Company extended undue benefit to allottee by reckoning the implementation period from 26 August 2013 instead of 27 July 2010. Resultantly, the Company did not charge extension fee for 4th and 5th years (i.e., 27 July 2017 to 26 July 2018 and 27 July 2018 to 23 August 2018) amounting to ₹ 1.74 crore[50]. The allottee on the other hand has asked (October 2018) the Company for refund of ₹ 19.64 lakh after adjusting an amount of ₹ 41.10 lakh towards transfer fee for transfer of plot with 100 *per cent* shareholding in the name of M/s Bikano Foods Pvt. Limited. The status of payment was awaited.

The Management stated (November 2019) that they have considered the date of possession from 26 August 2013 when infrastructure facilities were completed as per clause 4.1 of Estate Management Procedure (EMP). The reply is not acceptable as clause 4.1 of EMP is not applicable in this case as the allottee had given (July 2010) undertaking before the allotment that they want to take physical possession of plot on "as is where basis" without completion of development work by the Company as per clause 4.5 of EMP. During exit conference Management did not inform any reasons for non-levy of extension fee.

It is recommended that the Company may fix responsibility for extending undue benefit to the allottee to its disadvantage and must enforce provision of EMP fully in such cases.

The matter was referred (January 2021) to the Government and the Company; their replies were awaited (September 2021).

[50] ₹ 58.05 lakh for 4th year at ₹ 500 per sqm and ₹116.10 lakh for 5th year at ₹ 1000 per sqm for 11,610 sqm of area.

Agriculture Department

Haryana Agro Industries Corporation Limited

3.6 Misappropriation of paddy

State Government guidelines for regular physical verification of stocks of paddy kept with the millers were violated which resulted in misappropriation of paddy by the miller. Subsequently, the Company favoured the miller by not encashing cheques and delayed taking legal actions to recover its dues which resulted in loss of ₹ 6.64 crore.

The State Government procures paddy on behalf of Food Corporation of India (FCI) for central pool through its procuring agencies including Haryana Agro Industries Corporation Limited (Company). The paddy so procured is moved directly from procuring *mandis* to the millers' premises for milling and the resultant rice, called Custom Milled Rice (CMR) is delivered to FCI. Government of Haryana had issued (September 2017) guidelines for the Kharif Marketing Season (KMS) 2017-18, which, *inter alia*, provided that:

- the miller was to deliver CMR in phased manner i.e., 20 *per cent* each in November 2017 to January 2018, 25 *per cent* in February 2018 and balance 15 *per cent* in March 2018 and the miller shall maintain the ratio for delivery of CMR and his own milling of rice;
- in case, rice miller failed to deliver the CMR as per the stipulated schedule, the agency has to shift the paddy stocks which would be done at the risk and cost of the miller;
- in event of delay in supply of CMR by the miller, the miller was liable to pay interest @ 12 *per cent* for delayed period and in case of failure to deliver the CMR, miller was liable to pay the cost of short quantity of CMR @ 110 *per cent* of rates of CMR along with interest;
- the Company was to conduct Physical Verification of paddy stock on fortnightly basis; and
- the miller was to provide signed cheques @ ₹ 50 lakh for each tonne of milling capacity and two third party sureties of Ahrtias, besides security amount of ₹ 10 lakh for first tonne capacity and ₹ 5 lakh for every additional one tonne capacity in the shape of Fixed Deposit Receipt pledged in the name of agency.

In KMS 2017-18, the Company allotted (October 2017) 8,237.89 MT paddy to M/s Parteek Rice Industries, Kurukshetra (Miller), the CMR for which was to be delivered by 31 March 2018. The Miller was slow in delivery of CMR from very beginning and he delivered 1053 MT, 835 MT and 727 MT of CMR in November 2017, December 2017, and January 2018 respectively against the target of 1104 MT in each month. The miller finally delivered 3,935.38 MT of CMR from October 2017 to June 2018 against the due CMR of 5,519.38 MT and misappropriated the balance 1,584 MT CMR valuing ₹ 4.63 crore. Beside this, an amount of ₹ 36.39 lakh was also recoverable from the miller on account of cost of bardana, paddy top up and wooden crates supplied to the miller and interest of ₹ 1.88 crore (up to October 2020 @ 12 *per cent per annum*). In the first physical verification held on 25 May 2018, the Company found shortage of 1,687.23 MT of CMR and therefore, filed (25 June 2018) First Information Report (FIR) with the police against the miller and two guarantors for non-delivery of CMR. In the physical verification held on 3 July 2018, no stock was found with the miller and shortage of 1,548 MT was noticed.

Audit observed that:

- Though the Company was required to carry out 16 physical verifications during November 2017 to June 2018, the Company did the first physical verification only on 25 May 2018, when shortage of 1,687.23 MT of CMR was found. The Company, however, issued notice to miller on 4 May 2019, after one year to supply the balance CMR and return of bardana and other stocks lying with the miller intimating the recovery of ₹ 6.02 crore along with interest.
- Had the Company conducted physical verification of stocks fortnightly, it could have come to know the (i) status regarding maintenance of the ratio for delivery of Custom Milled Rice and his own milling of rice and (ii) slow progress of milling/non-delivery of rice. Further, the Company could have shifted the un-milled paddy to the other millers as per milling guidelines.
- The signed cheques of Rupees two crore obtained from the miller were not presented to the bank for recovery of its dues so far (October 2020). The Company, however, encashed (17 December 2019) the Fixed Deposit Receipt of ₹ 20 lakh (making it to ₹ 22.71 lakh with interest) after the lapse of more than 17 months from the notice of shortage.
- The Company initiated (October 2019) arbitration proceedings against the miller though the cases of fraud, theft or misappropriations were to be dealt through appropriate legal proceedings as per the milling guidelines and that too after 16 months.

Thus, the Company did not conduct physical verification of stock regularly in violation of State Government guidelines, which resulted in misappropriation of paddy by the miller. Subsequently, the Company has favoured the miller by not encashing of cheques and delay in taking legal actions to recover its dues which resulted in loss of ₹ 6.64 crore[51].

[51] Cost of CMR ₹ 4.63 crore *plus* cost of bardana etc. ₹ 36.39 lakh *plus* interest up to October 2020 ₹ 1.88 crore *minus* recovery on account of FDR encashed ₹ 22.71 lakh.

The Government stated (August 2021) that physical verification could not be done due to shortage of staff. Further, a settlement scheme for all the defaulting rice millers has been introduced with the approval (December 2020) of the State Government for recovery of dues. During exit conference (August 2021), the Management further stated that matter regarding appointment of Arbitrator was pending in the High Court and inquiry for lapses by officials of the Company was at final stage. It was further stated that efforts for recovery of dues would be made under the settlement scheme approved by the State Government.

The reply was not acceptable as the Company has failed to comply with the State government guidelines which resulted in misappropriation of paddy by the millers and now the Government/Management has brought in a settlement scheme for all the defaulting rice millers to recover some amount.

It is recommended that the Company may fix responsibility for violation of the State Government guidelines and system in vogue should be followed in Custom Milled Rice.

3.7 Interest/penalty due to non-deposit of VAT in time

The Company suffered avoidable loss of interest/penalty amounting ₹ 1.85 crore due to not depositing the Value Added Tax amount in time with the tax authorities.

The Haryana Agro Industries Corporation Limited (Company) is one of the food grains procuring agency and is also engaged in trading of fertilizers, pesticides and agriculture implements etc. through its 17 Farmer Service Centres (FSCs). The Company had taken separate Value Added Tax (VAT) numbers for each FSC who are responsible to deposit the VAT on due dates. Section 14 (6) of the Haryana Value Added Tax Act provided that if any dealer fails to make payment of tax beyond 90 days from the last date of payment of tax, he shall be liable to pay interest @ 2 *per cent* per month for the whole period till the payment is made.

Farmer Service Centre, Pipli of the Company filed its quarterly returns of VAT (VAT-R1) but did not deposit the full due tax. The FSC had turnover of ₹ 413.57 crore and ₹ 346.16 crore during Assessment Years (AY) 2013-14 and 2014-15 respectively as per Forms VAT-R2 filed. The VAT liability for the AY 2013-14 and 2014-15 worked out to ₹ 16.07 crore and ₹ 16.65 crore respectively as per assessment made by the Assessing Authority after adjusting the input tax credit. However, the Company had deposited VAT of ₹ 14.78 crore and ₹ 13.28 crore respectively. As such, the Company short deposited VAT by ₹ 1.29 crore for the AY 2013-14 and ₹ 3.37 crore for the AY 2014-15 as the VAT authorities increased the sale during assessment which resulted in short deposit of tax apart from non-payment of tax by the concerned person.

The Assessing Authority, Kurukshetra imposed (March 2017) interest/penalty amounting to ₹ 94.06 lakh (interest: ₹ 91.68 lakh and penalty: ₹ 2.38 lakh) for the AY 2013-14. The Company deposited the additional tax and interest during June to November 2017.

As regard AY 2014-15, the Company filed (March 2018) appeal for adjustment of previous refunds amounting to ₹ 1.08 crore and deposits made on 29 April 2015 amounting ₹ 2 crore for the payment of tax. The assessing authorities, however, did not make any adjustment and imposed (March 2018) as interest of ₹ 2.46 crore and penalty of ₹ 0.10 crore for the AY 2014-15. The Company deposited (April 2018) only the short tax liability of ₹ 3.37 crore with the authorities but the interest/ penalty of ₹ 2.56 crore (₹ 2.46 crore plus ₹ 0.10 crore) for the AY 2014-15 has not been deposited so far (March 2021). The non-deposit of interest/ penalty may further attract interest/ penalty.

Audit observed that the Company has availed cash credits/ short term loans from banks for its day-to-day activities at the interest rate of 11.83 *per cent* per annum which was lesser than the worked out interest rate of 24.33 *per cent* per annum levied on the Company. As such, had the Company made payment of additional tax timely from its cash credits/ short term loans, it could have saved an amount of ₹ 1.73 crore on account of differential interest. Further, a penalty of ₹ 12.38 lakh (AY 2013-14: ₹ 2.38 lakh and AY 2014-15: ₹ 10 lakh) also could have been avoided.

Thus, due to short deposit of VAT, the Company had to bear extra burden of interest and penalty amounting to ₹ 1.85 crore.

The Government stated (August 2021) that the VAT authorities increased the sale which resulted in short deposit of tax apart from non-payment of tax by the concerned person. During exit conference (August 2021), the Management further stated that inquiry was to be taken up against the delinquent officials for the lapses.

It is recommended that the Company may fix responsibility for short deposit of VAT and strengthen its internal control mechanism to ensure timely payment of taxes in future.

Haryana State Warehousing Corporation

3.8 Damage of wheat stock

The Corporation suffered a loss of ₹ 1.29 crore due to non-maintenance of health of wheat stock.

The State Government procures wheat on behalf of the Food Corporation of India (FCI) for central pool through its grain procuring agencies including Haryana State Warehousing Corporation (Corporation). The Director Food, Civil Supplies & Consumer Affairs Department, Government of Haryana had issued instructions from time to time (reiterated in May 2018) for maintenance of health of wheat stock procured and kept especially in open stores. As per the standard operating procedure, the Corporation was to ensure protection of its wheat stocks from vagaries of nature, when stored in open, and thus, was required to assure itself that they had been kept properly on wooden crates covered with polythene sheets under all circumstances, storage area to have proper drainage system and free of grass and weeds, given periodical pre-monsoon treatment with fumigants and specified chemicals as per schedule and all other necessary steps taken including deployment of adequate watch and ward staff.

However, in respect of wheat stocks procured at Haily Mandi (Pataudi) and Sevali Mandi (Palwal) the following was observed.

(i) The Corporation stored 13,379 MT wheat in open plinths at Haily Mandi during crop year 2018-19. FCI in its inspection observed and intimated (August 2018) the Corporation that the wheat was not covered properly with polythene covers by the staff and as a result, the stock was affected by rain and most of the outer layer of stock lying in open was rain affected and given inadequate aeration and observed atta formation in pockets. The FCI declared (September 2018) 7,088 MT wheat stock as up gradable[52] . Of this, 1,765 MT damaged wheat was auctioned (July 2019) causing financial loss of ₹ 1.10 crore[53] to the Corporation. They also cited repeated instructions to concerned warehousing staff to maintain health of wheat stock which have not yielded improvement.

(ii) In case of 15,090 MT wheat stored at Sevali Mandi (Palwal), the stock was received from three mandis[54] during crop year 2018-19 for storage. The

[52] Up-gradable means improvement in quality of wheat through segregation, out of damaged wheat lots.

[53] ₹ 3.90 crore (amount receivable from FCI) – ₹ 2.92 crore (amount received in auction of damaged wheat) + ₹ 0.02 crore (expenditure on segregation & up-gradation) + ₹ 0.14 crore (cost of excess gunnies replacement) - ₹ 0.04 crore (difference of amount recovered from arthias on account of moisture cut).

[54] Punhana Mandi: 15,002 MT Baroli Mandi: 78 MT and Hodal Mandi: 10 MT.

Corporation in its internal inquiry (June 2018) observed that while receiving the wheat stock from Punhana Mandi, staff posted at Sevali Mandi did not properly check the wheat stock as some of stock was already in damaged condition. Resultantly, 143 MT of damaged wheat stock was auctioned (July 2019) which caused a loss of ₹ 0.19[55] crore.

Thus, the Corporation suffered a loss of ₹ 1.29 crore (₹ 1.10 crore plus ₹ 0.19 crore) due to negligence of staff in maintenance of wheat stocks of crop year 2018-19 in good health at Hailey Mandi (Pataudi) and Sevali Mandi (Palwal) despite the clear instructions from the Director Food, Civil Supplies & Consumer Affairs Department.

The Government stated (August 2021) that three officials at Haily Mandi, who were charge sheeted earlier in this case were found negligent in preservation of stocks and consequential financial loss of ₹ 1.10 crore to the Corporation. Further case for imposing penalty were being pursued. Besides, the then District Manager had also been charge sheeted (28 June 2021) for his supervisory lapses. Further, regarding the Sevali Mandi, necessary action against the concerned employees for financial loss of ₹ 0.19 crore would be taken. During exit conference (August 2021), the Management reiterated that inquiry has been taken up against the concerned officials for the losses suffered by the Corporation.

It is recommended that the Corporation should follow instructions of Director Food, Civil Supplies & Consumer Affairs Department for proper storage of its wheat stocks to safeguard its interests and disciplinary actions against the officials should be expedited.

3.9 Misappropriation of paddy/Custom Milled Rice

Non-compliance with the terms and conditions of Kharif Marketing Season guidelines and not making timely efforts to recover the balance amount from a defaulting miller caused loss of ₹ 6.75 crore.

The State Government procures paddy on behalf of Food Corporation of India (FCI) for central pool through its procuring agencies including Haryana State Warehousing Corporation (Corporation). The paddy so procured is moved directly from procuring *mandis* to the millers' premises for milling and the resultant rice, called Custom Milled Rice (CMR) is delivered to FCI. Government of Haryana issued (September 2018) guidelines to its procuring

[55] ₹ 0.33 crore (amount receivable from FCI) *minus* ₹ 0.20 crore (amount received as per auction) *plus* ₹ 0.06 crore (expenditure incurred on segregation and up-gradation).

agencies for the Kharif Marketing Season (KMS) 2018-19 which stated as follows:

- The agency was to conduct physical verification of paddy stock on fortnightly basis and each rice miller was to prepare a pictorial chart depicting the positioning of the stacks with stack number and number of bags in each stack and submit a copy to the concerned agency.
- The miller was to provide signed cheques at the rate of ₹ 50 lakh for each tonne of milling capacity and two third party sureties of Ahrtias[56], besides security amount of ₹ 10 lakh for first tonne capacity and ₹ 5 lakh for every additional one tonne capacity in the shape of Fixed Deposit Receipt (FDR) pledged in the name of agency.
- In case rice miller failed to deliver the CMR as per the stipulated schedule, the agency was to shift the paddy stocks at the risk and cost of the miller.

Test check of records for KMS 2018-19 revealed that M/s M. M. Rice Mills, Radaur (Miller) was allotted 3,475.27 MT of paddy against the maximum of 4,000 MT paddy as per guidelines. The Miller was to deliver 2,328.43 MT of CMR at out turn ratio of 67 *per cent* up to 31 March 2019, which was extended up to 30 September 2019. The Miller defaulted on delivery of CMR even during the extended period and had delivered only 674.34 MT (28.96 *per cent*) of CMR up to 9 April 2019 to FCI against the target of 100 *per cent* as per original delivery schedule by 31 March 2019. The last physical verification carried out (16 July 2019) by the Committee consisting of Godown Keeper and Manager of the Corporation alongwith representative of miller in the premises of the Miller revealed that the Miller had misappropriated remaining 1,654.09 MT of CMR causing loss to the Corporation amounting to ₹ 6.75 crore (including interest up to January 2021).

Audit observed that during physical verification on 25 March 2019, though the Corporation came to know that there was shortage of 196.87 MT paddy, legal notice for the same was issued on 30 May 2019 only. First Information Report (FIR) against the Miller was lodged on 27 December 2019, five months from the date of last physical verification. The paddy stock was not shifted when the shortage was noticed on 25 March 2019. The guarantee cheques amounting to ₹ 5.80 crore of Miller were presented to bank only on 19 February 2020 *i.e.*, after seven months from the notice of misappropriation. The cheques bounced on 25 February 2020. The Corporation has filed recovery suit in the court against the miller as well as sureties/ guarantor in October 2020. The joint physical verification of the paddy stock was also not conducted on fortnightly

[56] Ahrtia is a middleman in a market.

basis and pictorial chart/sketch of paddy stocks was not received from the miller.

Thus, non-compliance with the terms and conditions of KMS guidelines, and not making timely efforts to recover the balance amount has resulted in misappropriation of paddy by the miller worth ₹ 6.75 crore.

The Government stated (July 2021) that the Corporation had carried out physical verifications of stock a number of times, though not on fortnightly basis and Corporation was hopeful to make good the loss from the Miller through all legal as well as criminal actions. During exit conference (August 2021), the Management further stated that delinquent officials have been charge sheeted and FIR have been lodged against the Miller. Further, suit has been filed for recovery of dues.

It is, therefore, recommended that guidelines of the Government should be followed in letter and spirit to safeguard financial interests of the Corporation.

Health Department

Haryana Medical Services Corporation Limited

3.10 Poor financial management

Due to poor financial management, the Company lost the opportunity to earn interest of ₹ 4.48 crore on its surplus funds.

Haryana Medical Services Corporation Limited (Company) was established (January 2014) for purchase of drugs, consumables and equipment for all hospitals/ dispensaries on behalf of the Director General Health Services (DGHS), Health Department, Haryana. The DGHS transfers funds to the Company for undertaking procurement activities on its behalf for which it pays four *per cent* as processing fees. The main sources of revenue of the Company are process fee received from DGHS, interest from fixed deposits, late supply charges and testing charges.

Test check of the records of the Company revealed that it opened three bank accounts with HDFC bank and one in IndusInd bank, as detailed below. The Company lost the opportunity to earn interest due to keeping funds in the savings accounts in HDFC bank and current account with IndusInd bank.

(a) **HDFC Bank**: At the time of opening the account, the bank had offered (May 2016) interest at rates between 6 *per cent* and 7.25 *per cent* on sweep-in-savings account[57] deposits. The Company however, opened three[58] savings bank accounts with the bank on 1 June 2016, 3 June 2017 and 21 May 2018, respectively. The bank paid applicable interest at the rate of 3.5 *per cent* from the date of opening of these bank accounts. Audit observed that the Company did not review the account type/ nature of account and unspent balances received from DGHS kept lying in these accounts. On being pointed out by Audit that the Company has kept funds in saving accounts, the Company asked (November 2019) the bank to pay interest at the rate of 6 *per cent* per annum instead of 3.5 *per cent* per annum. Upon non-receipt of any response from the bank, it decided (January 2021) to close all the three accounts with HDFC Bank. Thus, instead of keeping the money in higher interest earning sweep-in-saving account, funds were kept in low interest rate bearing saving accounts, due to which, the Company lost opportunity to earn minimum additional interest income of ₹ 4.22 crore during June 2016 to March 2020[59].

(b) IndusInd Bank: For opening of bank account, the IndusInd bank offered interest at the rate of 6 *per cent* per annum on the daily balances held by Company in its account, above Rupees one lakh. The Company applied to open a current flexi account[60] with IndusInd Bank account in September 2014, but the bank opened a current account in October 2014. No funds were maintained in this account till 29 September 2017. However, funds ranging from ₹ 1.03 crore to ₹ 10.17 crore were deposited in this account during the period from 29 September 2017 to 26 July 2018 and remained credited till 9 August 2018. In August 2018, the Company realised that funds kept in current account with IndusInd bank were not earning any interest and therefore decided to change the nature of the account from current account to saving account-cum-Indus large business account. The balance of ₹ 10.17 crore lying in the current account was transferred to this new account. Thus, had the Company reviewed the type of account timely and converted the current account into a saving account, it could have earned interest of ₹ 26.14 lakh on its balances held in the bank, during the period 29 September 2017 to 9 August 2018.

Thus, due to poor financial management, the Company lost opportunity to earn additional interest income of ₹ 4.48 crore on its surplus funds kept in the two banks.

[57] Whenever balance in saving account is higher than threshold limit, the surplus amount is transferred to Fixed Deposit account to earn higher rate of interest. The technical term for this purpose is “sweep-in”.

[58] (i) 50100072479021; (ii) 5010020549608; and (iii) 50100236650058.

[59] As the fixed deposits rates after March 2020 were nearing to the interest on saving bank accounts, no calculation has been made thereafter.

[60] Current flexi accounts are current account with benefits of fixed deposits for funds exceeding some amount (₹ 1 lakh in this case) kept in account for a period in excess of specified days (7 days in this case).

The Company admitted the facts and stated (December 2020 and January 2021) that all three bank accounts in HDFC bank have since been closed and added that efforts are being made to get the interest credited from IndusInd bank. During exit conference (August 2021), Management reiterated that the matter for recovery of interest has already been taken up with the bank and no such cases have occurred in the recent past.

The reply is not acceptable because the banks will give interest as per the nature of account operated during the period and may not entertain the claims of the Company.

It is recommended that the Company should strengthen its financial management for investment of its surplus funds to optimise returns.

The matter was referred (March 2021) to the Government and the Company; their replies were awaited (September 2021).

Vishal Bansal

(VISHAL BANSAL)
Principal Accountant General (Audit), Haryana

Chandigarh
Dated: 29 November 2021

Countersigned

New Delhi
Dated: 10 December 2021

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India