Chapter V: Government Commercial and Trading Activities

Overview of Government companies and Statutory corporations

5.1 Introduction

As on 31 March 2005, there were nine Government companies (all working companies) and two Statutory corporations with no change in position from that as on 31 March 2004, under the control of the Government of NCT of Delhi. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller & Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Table 5.1: Audit arrangements for Statutory corporations

Sl. No	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1.	**Delhi Transport Corporation (DTC)**	Section 33(2) of the Road Transport Corporations Act, 1950	sole audit by CAG
2.	**Delhi Financial Corporation (DFC)**	Section 37(6) of the State Financial Corporations Act, 1951	audit by Chartered Accountants and supplementary audit by CAG

The NCT Government had constituted the Delhi Electricity Regulatory Commission and its audit is entrusted to CAG under Section 104(2) of the Electricity Act, 2003.[1]

[1] Erstwhile Section 34(4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003.

5.2 Working Public Sector Undertakings (PSUs)

5.2.1 Investment in Working PSUs

As on 31 March 2005, the total investment in 11 working PSUs (nine Government companies and two Statutory corporations) was Rs. 9,694.56 crore* (equity: Rs. 837.36 crore, share application money Rs. 12.88 crore and long term loans$ Rs. 8,844.32 crore) as against total investment of Rs. 9,984.15 crore (equity: Rs. 512.95 crore, share application: money Rs. 3,278.07 crore and long term loans Rs. 6,193.13 crore) in 11 working PSUs (nine Government companies and two Statutory corporations) as on 31 March 2004. There was decrease in total investment as on 31 March 2005 as compared to the previous year. The analysis of investment in working PSUs is given in the following paragraphs.

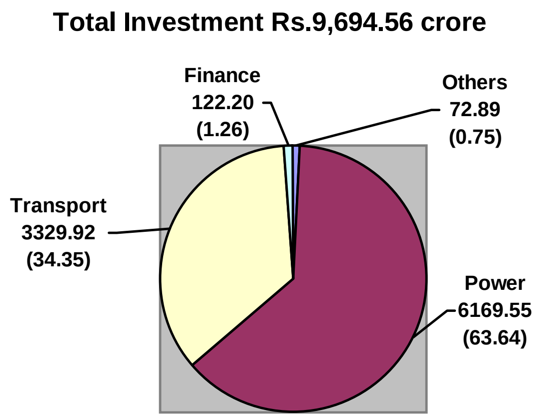
5.2.2 Sector-wise investment in working Government companies and Statutory corporations

The investment (equity and long terms loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the pie charts as follows:

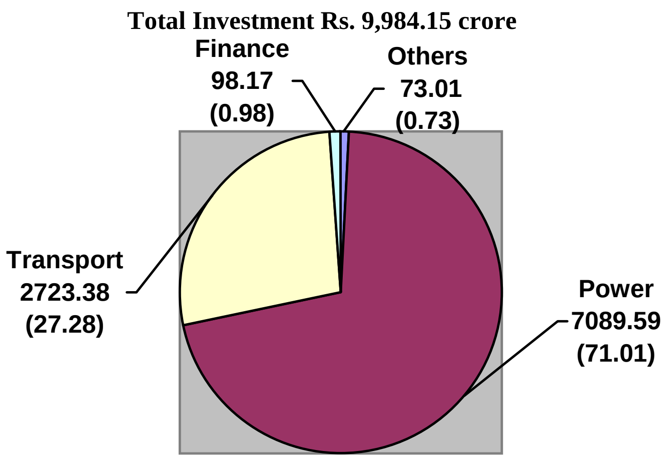
*State Government's investment in working PSUs was Rs.8187.67 crore (others Rs.1506.89 crore) Figure as per Finance Accounts 2004-05 is Rs. 8183.82 crore. The difference of Rs.3.85 crore is under reconciliation.

$ Long terms loans mentioned in para 5.2.1, 5.3 and 5.3.1 are excluding interest accrued and due on such loans.

Sector-wise investment in working Government companies and Statutory corporations
Amount: Rupees in crore
(Figures in bracket indicate percentage of investment)
As on 31 March 2005



As on 31 March 2004



5.3 Working Government companies

The total investment in the working Government companies at the end of March 2004 and March 2005 was as follows:

Table 5.2: Investment in working Government companies

(Rupees in crore)

Year	Number of companies	Equity	Share Application Money	Loan	Total
2003-04	9	383.07	3,265.25	3,514.28	7,162.60
2004-05	9	707.48	-	5534.96	6242.44

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in Appendix IX.

As on 31 March 2005, the total investment of working Government companies comprised 11.33 per cent of equity capital and 88.67 per cent of loans as compared to 50.94 per cent and 49.06 per cent respectively as on 31 March 2004.

5.3.1 Working Statutory corporations

The total investment in working Statutory corporations at the end of March 2004 and March 2005 was as follows:

Table 5.3: Investment in working Statutory corporations

(Rupees in crore)

Name of corporation	2003-04		2004-05	
	Capital (including share application money)	Loan	Capital (including share application money)	Loan
Delhi Transport Corporation	117.00	2,606.38	117.00	3212.93
Delhi Financial Corporation	25.70	72.47	25.76	96.43
Total	**142.70**	**2,678.85**	**142.76**	**3309.36**

The summarized statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in Appendix IX.

As on 31 March 2005, the total investment in working Statutory corporations comprised 4.14 per cent of equity capital and 95.86 per cent of loans as compared to 5.06 per cent and 94.94 per cent respectively as on 31 March 2004.

5.3.2 Budgetary outgo, grants/ subsidies, guarantees, waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the NCT Government in respect of the working Government companies and working Statutory corporations are given in Appendices IX and XI**.**

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the NCT Government to the working Government companies and working Statutory corporations for the last three years ending 31 March 2005 are given below:

Table 5.4: Budgetary outgo to Government companies and Statutory corporations

(Rupees in crore)

Sl. No.		2002-03				2003-04				2004-05			
		Companies		Corporations		Companies		Corporations		Companies		Corporations	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Equity capital outgo from budget	-	-	-	-	-	-	-	-	-	-	-	-
2	Loans given from budget	2	1,438.27	1	761.49	3	2,150.69	1	631.00	4	889.97	1	606.54
3	Grant	2	5.84			3	57.14			3	4.17	-	-
4	Subsidy towards												
	i) Projects/ Programmes/ Schemes			-	-			-	-	1	0..16	-	-
	(ii) Other subsidy			-	-			-	-			-	-
	(iii) Total Subsidy (i)+(ii)			-	-			-	-	1	0.16	-	-
	Total Outgo (1+2+3+4(iii))	**4***	**1,444.11**	**1***	**761.49**	**6***	**2,207.83**	**1***	**631.00**	**5***	**894.30**	**1***	**606.54**

During the year 2004-05, the Government of NCT of Delhi had not given guarantees against the loans obtained by any of the Government companies or Statutory corporations. During the year, no Government dues have been waived by the Government. Loan of Rs. 323.14 crore was converted into equity in Pragati Power Corporation limited.

* *These are the actual number of companies/corporations which have received budgetary support in the form of equity, loans, grants and subsidies from the NCT Government during the respective years.*

5.3.3 Finalisation of accounts by working PSUs

The accounts of companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

It would be noticed from Appendix X that only three* out of nine working Government companies and both the Statutory corporations finalised their accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to September 2005, seven Government companies finalised nine accounts for previous years.

The accounts of six Government companies were in arrears for periods ranging from one to 10 years as on 30 September 2005 as detailed below:

Table 5.5: Arrears in accounts

Sl. No.	Number of working companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial No. of Annex-II
1.	1	1995-96 to 2004-05	10	3
2.	1	2003-04 to 2004-05	2	6
3.	4	2004-05	1	1,2,7,8

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

* *Serial Nos. 4,5 and 9 of Appendix X*

5.4 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest accounts are given in Appendix X. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts are finalised, are given in Appendices XII and XIII respectively.

According to the latest finalised accounts of the nine Government companies and two Statutory corporations, three companies and one corporation had incurred an aggregate loss of Rs. 1,018.25 crore and Rs. 708.58 crore respectively while six companies and one corporation earned an aggregate profit of Rs. 25.06 crore and Rs. 7.90 crore respectively.

5.4.1 Working Government companies

Profit earning working companies and dividend

Out of three companies which finalised their accounts for the current year, only two companies[2] earned a profit of Rs. 5.81 crore and proposed a dividend of Rs. 0.31 crore. Out of seven Government companies which finalised their accounts for previous years by September 2005, four companies[3] earned an aggregate profit of Rs. 19.24 crore. No dividend was, however, declared by them.

Loss incurring working Government companies

Two companies[4] out of three loss incurring working Government companies had accumulated losses aggregating Rs. 4,101.39 crore which exceeded their paid up capital of Rs. 180.05 crore.

The total financial support provided by the NCT Government by way of loans and grant during 2004-05 to these companies amounted to Rs. 857.90 crore.

5.5 Working Statutory corporations

5.5.1 Profit earning Statutory corporations and dividend

Both the Statutory corporations had finalised their accounts for the year 2004-05 by September 2005. One corporation i.e. Delhi Financial Corporation

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[2] *Sl. Nos. 4 and 5 of Appendix X*
[3] *Sl. Nos. 1,2,3 and 6 of Appendix X*
[4] *Sl. Nos. 7 and 9 of Appendix X*

earned a profit of Rs. 7.90 crore but did not declare any dividend on equity shares.

5.5.2 Loss incurring Statutory corporation

One Statutory corporation i.e. Delhi Transport Corporation which finalised its accounts for the year 2004-05 by September 2005 had accumulated losses aggregating to Rs. 3,129.08 crore which exceeded its paid up capital of Rs. 117 crore.

Despite poor performance and complete erosion of its paid up capital, the NCT Government continued to provide financial support to the Corporation in the form of further grant of loan. The financial support so provided by the NCT Government by way of loans during 2004-05 to the Corporation was Rs. 606.54 crore.

5.6 Operational performance of working Statutory corporations

The operational performance of the working Statutory corporations is given in Appendix XIV.

Some of the important observations on the operational performance of the Statutory corporations are given below:

Delhi Transport Corporation

The average number of vehicles on road increased from 2,496 in 2002-03 to 2,905 in 2003-04 and 3,010 in 2004-05. The occupancy ratio decreased from 98.27 in 2002-03 to 94.45 in 2003-04 but increased to 99.38 in 2004-05. The average number of breakdowns per lakh kms increased from 4.9 in 2002-03 to 5 in 2003-04 to 5.90 in 2004-05 and the loss per km increased from Rs. 23.10 per km in 2002-03 to Rs. 23.80 per km in 2003-04 and Rs. 28.07 per km in 2004-05.

Delhi Financial Corporation

Loans disbursed by the Corporation decreased from Rs. 60.30 crore in 2002-03 to Rs. 20.93 crore in 2003-04 which, however, increased to Rs. 65.92 crore in 2004-05. The percentage of default to total loans outstanding increased from 7.72 per cent in 2002-03 to 12.58 per cent in 2004-05.

5.6.1 Return on capital employed

As per the latest finalised accounts, the capital employed[1] worked out to Rs. 1,176.09 crore in nine companies and the total return[2] thereon amounted to Rs. (-) 453.29 crore as compared to total return of Rs. (-) 613.42 crore in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs. 423.92 crore and Rs. (-) 338.17 crore respectively against the total return of Rs. (-) 250.06 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in Appendix X**.**

5.7 Non-working Public Sector Undertakings

There was no non-working Public Sector Undertaking under the control of the NCT Government.

5.8 Status of placement of Separate Audit Reports of Statutory corporations in the Legislature

The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG in the State Legislature by the Government as on 30 September 2005:

Table 5.6: Placement of SARs in the Legislature

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1.	Delhi Transport Corporation	2003-04	--	--	--
2.	Delhi Financial Corporation	2003-04	2004-05	7.11.2005	--

[1] *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents the mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).*

[2] *For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account*

5.9 Results of audit by Comptroller and Auditor General of India

During the period from October 2004 to September 2005, the accounts of nine Government companies and two Statutory corporations were selected for review. The net impact of the important audit observations as a result of review was as follows:

Table 5.7: Decrease/ increase in profit/loss as a result of audit by CAG

Details		Working Government companies		Working Statutory corporations	
		No. of accounts	Rupees in lakh	No. of accounts	Rupees in lakh
(i)	Decrease in profit	3	698.72	1	55.09
(ii)	Increase in profit	1	32.84	-	-
(iii)	Decrease in loss	1	621.00	-	-
(iv)	Increase in loss	2	239.44	1	16768.13
(v)	Errors of classification	3	34722.93	2	442.91

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above Government companies and Statutory corporations are mentioned below:

5.9.1 Errors and omissions noticed in case of Government companies

Delhi Tourism and Transportation Development Corporation Limited (2004-05)

The Other Income (liabilities no longer required and written off**)** included Rs. 1.73 crore received from East India Hotel in 1992 as advance licence fee for construction of a hotel on land given by Government of India to the Company on lease. The lease of the land was cancelled by the Government of India. Since the case is sub-judice, this amount should not have been written back. This has resulted in overstatement of profit and the understatement of liabilities by Rs. 1.73 crore.

Delhi State Civil Supplies Corporation Limited (2004-05)

The Statutory Auditors have reported in their report that the Corporation has not complied with various Accounting Standards (AS-2, AS-3, AS-9, AS-17, AS-20 and AS-29), that the Company has failed to recognize the provisions of Rs. 2.70 crore and that if the observations made in the report are considered, the net profit for the year before prior period adjustment and tax would be Rs. 58.94 lakh as against the reported profit of Rs. 3.29 crore while the cumulative loss would be Rs. 4.99 crore as against the reported Reserve and Surplus of Rs. 1.91 crore. Considering the above qualifications, which have a material effect on the accounts, the declarations of the Statutory Auditors that the accounts give a true and fair view lacked justification in view of the requirements of paragraph 3.7 of the Statement on Qualification in Auditors Report issued by the Institute of Chartered Accountants of India.

Delhi State Industrial Development Corporation Limited (2003-04)

The Administration, Selling and Other expenses does not include Rs. 3.01 crore being the amount of penalty for not implementing Bar Coding System at liquor vends of the Company. This has resulted in overstatement of profit and understatement of liabilities by Rs. 3.01 crore.

Delhi SC/ST/OBC/Minorities and Handicapped Financial and Development Corporation Limited (1994-95)

The Other Income includes a sum of Rs. 1.33 crore on account of interest earned on unspent grant-in-aid. As per the conditions of sanction order, the unspent grant-in-aid was required to be refunded to the Government of NCT of Delhi.

The interest earned has been treated as revenue income which resulted in under statement of grant-in-aid and over statement of profit by Rs. 1.33 crore for the year 1994-95

Delhi Power Company Limited (2003-04)

The expenses pertaining to DVB period includes an amount of Rs. 1.45 crore incurred by the Company towards compensation to the victims of Uphaar Cinema tragedy (total compensation of Rs. 2.45 crore was paid out of which Rupees one crore was adjusted with a DISCOM) which otherwise should have been shown as receivable from the DISCOM unless it is decided that this liability has to be borne by the holding company.

This has resulted in understatement of receivable under Loans & Advances and overstatement of Loss by Rs. 1.45 crore.

Indraprastha Power Generation Company Limited (2003-04)

The current liabilities is understated by Rs. 1.80 crore on account of interest accrued for the year 2002-03 and 2003-04 on unsecured loan of Rs. 8.43 crore received from the holding company. This has resulted in understatement of current liabilities & provisions and loss by Rs. 1.80 crore.

Delhi Transco Limited (2004-05)

Other income includes Rs. 37.38 lakh being the amount received from Power Grid Corporation Ltd. on account of an advance given during the 'DVB period' against a contract which should have been transferred to the holding company. This has resulted in understatement of Loss as well as Current Liabilities- Payable to Holding Company by Rs. 37.38 lakh.

5.9.2 Errors and omissions noticed in case of Statutory corporations

Delhi Transport Corporation (2003-04)

Liabilities of Rs. 1.75 crore were not provided in respect of 172 fatal cases and 210 injury cases in accordance with section 140(4) of the Motor Vehicles Act, 1988, installation of speed governors in buses and electricity and water charges for the month of March 2004. This has resulted in understatement of loss and current liabilities by Rs. 1.75 crore.

The Corporation has not provided for penal interest of Rs. 164.74 crore on the overdue principal and interest as per order of Government of NCT of Delhi. This has resulted in understatement of Loss and Liabilities-Interest on Government loan by Rs. 164.74 crore.

Delhi Financial Corporation (2003-04)

Non-provision of non-performing assets as per guidelines of Reserve Bank of India resulted in understatement of provision for NPAs by Rs. 55.09 lakh. Consequently, the profit is overstated to the same extent.

5.9.3 Internal audit/ internal control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them in accordance with the directions issued by CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

The major recommendations/comments made by the Statutory Auditors on possible improvement in the internal audit/internal control systems in respect of Government companies are given below:

Name of the company	Recommendations/comments made by the Statutory Auditors
Delhi Transco Limited	The Company does not have an internal audit system commensurate with the size and nature of its business. There is scope for improvement by way of exercising better control on purchases and issue of stores and conducting periodical verification of stores and stocks.
Pragati Power Corporation Limited	The Company does not have an internal audit system commensurate with the size and nature of its business.
Delhi Tourism and Transportation Development Corporation	The internal control system needs to be strengthened with specific reference to maintenance of accounts of few divisions on standard financial software. Strict control to follow standard accounting practices is required.

5.9.4 619-B Companies

There was no company under 619-B of the Companies Act, 1956.

Reviews

Indraprastha Power Generation Company Limited

5.10 Performance of Gas Turbine Power Station

Highlights

The Gas Turbine Power Station (GTPS) was set up by the erstwhile Delhi Electric Supply Undertaking in 1986 to augment the availability of power in the NCT of Delhi. GTPS has six gas turbines (GTs) of 30 MW each along with three 34 MW Waste Heat Recovery Units (WHRUs).

(Paragraph 5.10.1)

Generation of power at higher heat rate than that in the performance guarantee test resulted in generation losses of 341.701 Million Units (MUs) valuing Rs. 48.52 crore.

(Paragraph 5.10.7)

There was a loss of generation of 747.553 MUs valuing Rs. 106.15 crore due to less than optimum functioning of the Waste Heat Recovery Units (WHRU) as compared to the benchmarks set in their performance guarantee tests.

(Paragraph 5.10.8)

GTPS management was unable to adhere to the maintenance schedules of both the gas turbines as well as the WHRUs. There was delay in placement of orders, receipt of material and in overhauling and re-commissioning which resulted in loss of generation of 200.18 MUs valuing Rs. 28.42 crore.

(Paragraphs 5.10.10 and 5.10.11)

5.10.1 Introduction

The Gas Turbine Power Station (GTPS) was set up in 1986 by the erstwhile Delhi Electric Supply Undertaking with the objective of augmenting power supply to meet peak demand. GTPS has six gas turbines of 30 MW each, which were initially operated on High Speed Diesel (HSD)/Naptha. After the availability of natural gas from Hazira-Vijaypur-Jagdishpur (HBJ) pipeline, it was decided (December 1989) to switch over to natural gas as the main fuel with Naptha/HSD as stand by fuel in view of cost benefits of natural gas. The turbines were accordingly modified in January 1990 to switch over to natural gas.

Three Waste Heat Recovery Units (WHRU), two of 34 MW each and one of 17 MW capacity, were installed during 1995-96 to maximize the power generation from the existing gas turbines, generate cheaper power at less than 50 per cent of the cost of generation and mitigate thermal and air pollution. The capacity of WHRUs was increased to 102 MW (3 x 34 MW) in 2001-02.

Consequent upon the unbundling of the Delhi Vidyut Board w.e.f. 1 July 2002, the power generating stations of erstwhile DVB including GTPS were placed under the newly constituted Indraprastha Power Generation Company Limited (IPGCL). The percentage of own generation of IPGCL (including generation from Pragati Power Corporation Ltd.) to maximum demand during the year 1999-2000 to 2004-2005 was in the range of 11.52 per cent to 22.99 per cent whereas the percentage of GTPS own generation to maximum demand during the year 1999-2000 to 2004-2005 was in the range of 3.21 per cent to 5.04 per cent.

GTPS is headed by a Dy.General Manager who is assisted by DGM (Mechanical), DGM (Electrical, C&I), DGM (Operation), DGM (Chemical) and Manager (Contract). At present there are two DGMs i.e. DGM (Mechanical) and DGM (Chemical) posted in GTPS. The respective DGMs are further assisted by managers of the concerned wings.

The Audit Report of the Comptroller & Auditor General of India relating to the Government of NCT of Delhi for the year ended March 2004 had highlighted avoidable generation loss of 1,688 million units (MUs) due to non assessment of demand for power and requirement of gas by GTPS (para 6.10.8). The Report is yet to be discussed by the Committee on Government Undertakings.

5.10.2 Scope of audit

The performance appraisal covers the operational performance of the station from April 1999 to 31 March 2005.

5.10.3 Audit objectives

The audit appraisal was conducted with a view to ascertaining whether:

- the generation of power was optimum and economical;
- the procurement and use of gas was optimum and economical;
- the gas turbines/WHRUs were kept in proper running conditions;
- there existed a scientific system of inventory control;
- pollution level was within the levels prescribed by the Delhi Pollution Control Committee (DPCC); and
- internal control and internal audit was effective.

5.10.4 Audit criteria

Audit criteria considered for assessing the achievement of the audit objectives were to evaluate whether:

- the generation by gas turbines/WHRUs was with reference to their design capacity and operational parameters;
- the procurement of gas was as per agreement/allotment and their uses;
- their maintenance was carried out as per the maintenance schedule;
- there existed a scientific system of inventory control; and
- effective internal audit /control system existed in the Company.

5.10.5 Audit methodology

The methodology adopted for attaining the audit objectives with reference to the audit criteria were :

- examination of
  - daily, monthly and yearly generation reports maintained at the plant;
  - records relating to material sent outside for repairs alongwith the contract files relating thereto; and
  - store ledgers;
- issue of Audit enquiries; and
- interaction with the Management.

Audit findings

The audit findings as a result of test check were reported to the Management/Government in July 2005 and the findings were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 5 September 2005. The Special Secretary (Power), Government of NCT of Delhi, who is also Chairman and Managing Director of the Company and the Director (Finance) of the Company attended the meeting. The views expressed by the members in the meeting as well as those communicated subsequently on 22 September 2005 have been taken into consideration while finalizing the review.

The audit findings are discussed in the succeeding paragraphs.

Operational performance

5.10.6 Achievement of targets

The position of installed capacity, generation targets fixed and actual generation achieved, targeted Plant Load Factor (PLF) and actual PLF achieved during 1999-2005 is as below:

Sl. No.	Year	Installed (Generation) Capacity (MUs)[1]	Gas Consumed (mmscm)[2]	Generation Targets (MUs)	Actual Generation (MUs)	Targeted PLF fixed by CEA (Per cent)	PLF (Per cent)
1	1999-2000	2,327.76	239.778	720	743.66	30.93	31.95
2	2000-01	2,321.40	344.382	1,030	1,139.22	44.37	49.07
3	2001-02	2,470.32	372.412	1,100	1,167.042	44.53	47.24
4	2002-03	2,470.32	347.360	1,200	1,213.967	48.58	49.14
5	2003-04	2,477.09	349.052	1,200	1,214.462	48.44	49.03
6	2004-05	2,470.32	425.749	1,650	1,539.546	66.79	62.32

It would be seen from the table that the PLF ranged from 31.95 to 49.14 per cent during 1999-2000 to 2003-04 but it improved substantially in 2004-05 (62.32 per cent*)*. In this regard following deserve mention:

While GTPS achieved the PLF targets fixed by the CEA during the years 1999-2000 to 2003-04, there was a marginal shortfall in its achievement during 2004-05. The PLF targets did not reflect the actual optimum capacity of the plants but were fixed by CEA keeping in view the constraints of supply of gas. IPGCL was not able to arrange adequate supply of gas to operate at its full installed capacity as commented in para 6.10.8 of the Report of the Comptroller & Auditor General of India for the year ended 2004.

The PLF for similar gas based plants operated by National Thermal Power Corporation was in the region of 80 per cent. The low PLF was also partly attributable to under-utilization of the three turbines during the period from 1999-2000 to 2003-04 and its poor maintenance.

[1] *Million Units*
[2] *Million metric standard cubic meter*

While agreeing that there was a shortfall in achievement of PLF due to constraints of supply of gas and high station heat rate, the Government stated (September 2005) that there had been considerable improvement in performance of the WHRUs as well as station heat rate and efforts were being made to improve it further. The fact remained that the gas turbines could not be utilized to their optimum capacity due to the short supply of gas and poor maintenance.

5.10.7 Loss of generation due to higher station heat rate

Generation of Power at higher heat rate resulted in loss of generation of 341.701 MU valuing Rs. 48.52 crore.

The Performance Guarantee test conducted at the time of commissioning of the plant indicated that heat rate ranging from 2,713 K.cal[1] to 3,021 K.cal in open cycle[2] was required to produce one unit of electricity. Audit scrutiny of the generation reports maintained at the plant revealed that the actual heat rate at GTPS was higher and ranged from 3,013.32 K.cal to 3,154.73 K.cal during 1999-2005. This resulted in loss of generation of over 341.701 MUs valuing Rs. 48.52 crore (at the rate of Rs. 1.42 per unit being the variable cost payable by Delhi Transco Limited) during 2004-05.

The Government stated during ARCPSE meeting (September 2005) that the higher heat rates were attributable to ageing of the plants, environmental pollution, high temperatures and operation of gas turbines on part load during lean hours at night in the winter season. The reply is not acceptable in view of the fact that the performance guarantee test takes into account the geographical and weather conditions at the site while arriving at the heat rates at different temperatures and the loss in generation has been worked out by taking into account the average mean temperature.

5.10.8 Loss of generation due to improper utilization of Waste Heat Recovery Units

Waste Heat Recovery Units (WHRUs) consist of a heat conversion unit linked with steam turbines which generate power utilizing the waste heat generated by the gas turbines. These are installed between each of the three pairs of gas turbines. The performance guarantee report of the steam turbines stipulated a guaranteed capacity of 49.28 per cent of the generation capacity of the gas

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[1] *K.cal-Kilo calorie*
[2] *Open cycle operations are those in which only GTs run.*

turbines. The expected generation vis a vis actual performance of WHRUs during 1999-2005 is as under:

Sl. No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	Gas Consumed in (MMSCM)	239.778	344.382	372.412	347.360	349.052	425.749
2	Actual Generation(MU)	666.941	940.186	1,036.172	935.479	958.746	1,162.719
3	Expected Generation from all WHRUs @ 49.28 *percent* (MU)*	222.481	309.543	373.228	461.004	472.470	572.988
4	Actual Generation from WHRU (MUs)	76.719	199.034	130.870	278.488	255.716	376.827
5	Shortfall in generation in WHRU(MU)	145.762	110.509	242.358	182.516	216.754	196.161
6	Percentage of generation from WHRU to generation from GTs.	16.99	31.69	17.28	29.77	26.67	32.41

* (The generation from GT 3 & 4 has not been taken into account while computing the expected generation from WHRU due to the fire which broke out in WHRU - 2 in September, 1998. The WHRU was subsequently commissioned in January 2002).

Under-performance of WHRUs resulted in loss of generation of 747.553 MU valuing Rs. 106.15 crore

It could be seen from the above that the percentage of generation from the steam turbines ranged from 16.99 to 32.41 per cent during 1999-2005 as against 49.28 per cent stipulated in the performance guarantee report. This resulted in shortfall in generation of 747.553 MU with a consequent loss of Rs. 106.15 crore (at the rate of Rs. 1.42 per unit).

The Government stated during ARCPSE meeting (September 2005) that WHRUs never achieved the optimum performance as given in the performance guarantee report as they were based on design parameters and ideal operating conditions. It was added that the low performance of WHRU was also due to some design constraints. On being pointed out by audit about the need to determine realistic performance standards, the Government informed (September 2005) that the matter of formulating performance benchmarks had been taken up with BHEL.

5.10.9 Non-recovery for power generated

Power Purchase Agreements (PPA) generally provide for the extent and modalities for backing down of generation by the power producer, necessitated by fluctuations in the demand and supply of power in the system caused by various factors including peak/dull hours, temperature variations and frequency fluctuations in the grid. The draft PPA prepared in January 2003 and being followed by Delhi Transco Limited (DTL) and the Company stipulated that DTL should not ask GTPS to decrease the load to less than 80 per cent of its installed capacity in combined cycle[1] and 60 per cent in open cycle. It was noticed in audit that DTL, however, asked GTPS from time to time during February 2003 to December 2003 to reduce the load below these limits which was technically not possible by GTPS. The GTPS, however,

[1] *Combined cycle operations are those in which both GTs and WHRUs run.*

continued the generation and raised a claim for 46.801 MU of power valuing Rs. 5.96 crore during 2002-2004, which was not honoured by DTL. The Company failed to pursue the claim even though it was for an amount in excess of the limit stipulated in the PPA.

The Government stated (September 2005) that the matter had been taken up with DTL, which had since released Rs. 89.90 lakh in August 2005. Release of the balance amount of Rs. 5.06 crore was awaited (October 2005).

Maintenance of gas turbines and WHRUs

5.10.10 Non-adherence to inspection schedule

According to the standard maintenance schedules, gas turbines become due for major inspection/overhauling after 48,000 hours of continuous operation, viz. after approximately six years at the rate of 8,000 hours of operation per year. Since the gas turbines of GTPS were initially operated only during peak hours, major overhauling was scheduled for 1996 i.e. after 10 years of operation assuming an average operation of about 4,800 running hours per year. Audit scrutiny of the maintenance records of gas turbines maintained by the plant revealed the following:

Lack of timely maintenance of gas turbines increased wear and tear as well as the ultimate cost of maintenance.

- The major overhauling work of gas turbines II, III, V and VI was carried out for the first time during 1999 to 2001 after 63,395, 50,812, 57,736 and 64,025 hours of operation respectively. The erstwhile DVB had neither budgeted nor planned for the maintenance of the gas turbines during previous years though the overhauling was overdue. All the four gas turbines, consequently, operated at less than optimal capacity and suffered from frequent forced outages and tripping which ranged from 13 to 17 per cent during 1999-2002. The erstwhile DVB initiated steps for the major overhauling of all four gas turbines only in September 1999 by calling for proposals from the original manufacturers and other competent manufacturers. Failure to plan and provide for timely maintenance and consequent non-adherence to the stipulated maintenance schedule resulted in increased wear and tear of the machines as well as the ultimate cost of maintenance. The forced outages fell sharply by about four per cent after the completion of the major overhauling.
- There was undue delay in initiating action for overhauling of the machines even after complete shut down of the turbines. Gas turbines III and V were shut down in August 1999 and April 1999 respectively. Audit noticed that the action for overhauling of gas turbine III was initiated (March 2000) after more than six months and in case of turbine V (February 2000) after 10 months. In the case of gas turbine

II the overhauling started a month late due to non-resolution of issues of non-payment of dues between the Company and the contractor. Such delays further worsened the position.

The Government while accepting the audit observation stated (September 2005) that a proposal for procurement of spares for major overhauling of two GTs was initiated in May 1997 and approved by the erstwhile DVB in April 1998. During processing of the above proposal, the Government allocated additional funds for the overhauling of four GTs which was carried out between February 2000 and June 2000. The reply is not acceptable in view of the fact that the erstwhile DVB had neither budgeted nor planned for the maintenance of the gas turbines though the overhauling was overdue; the action for overhauling was initiated only after the situation became critical with the complete shut down of two of the six turbines.

5.10.11 Delay in overhauling of WHRUs

Audit appraisal of the maintenance schedule of WHRUs revealed procedural delays and lack of co-ordination as detailed below:

- Steam turbine (STG 1) tripped due to high vibrations after operating for 21,880 hours in August 2001. Audit scrutiny of the Board papers revealed that inspection of the turbine by the BHEL indicated the need for major overhaul as well as replacement of the rotor and guide blade carriers. Audit analysis further revealed that while the work order for the overhauling was placed on BHEL in October 2001 i.e. 45 days after the date of de-commissioning of the turbine, for completion within 30 days of receipt of the repaired rotor, the order for repair and replacement of the rotor itself was placed only in April 2002 i.e. after six months from the date of the work order for overhauling at a cost of Rs. 5.66 crore. The repaired rotor and other material were received after 22 months as against the stipulated period of 12 months. The overhauling work was finally completed in April 2004. Assuming a period of one month for placing of the work orders and the 13 months required for the repair of rotor and overhauling, there was an undue delay of 17 months in completion of the work.

Delay in placement of orders, receipt of material and in overhauling and re-commissioning resulted in loss of generation of 200.18 MU valuing Rs. 28.42 crore.

- Steam turbine II (STG II) tripped in February 2003. BHEL was invited for inspection of the turbine in the same month. The inspection revealed the need for major overhaul as well as re-blading of the turbine. Work orders for both overhaul as well as re-blading of the turbines were placed with BHEL in April 2003 i.e. after 53 days of tripping of the turbine at a total cost of Rs. 72 lakh for completion within 30 days. The re-blading of the turbine blades was, however, completed in July 2003 i.e. after a delay of 70 days and the overhaul subsequently completed in September 2003. Assuming a period of one month for placing of the work orders and one month required for the work, there was an undue delay of five months in completion of the work.

- Steam turbine No.III (STG III) tripped in September 2001 after completing 20,802 hours of operation. Work order was placed on BHEL in October 2001 at a cost of Rs. 28.50 lakh for completion within 30 days. After a lapse of four months, another order for sealing fins and caulking wire valued at Rs. 2.92 lakh was placed which was received in March 2002. The overhauling was finally completed in April 2002 after delay of about five months as against the anticipated 30 days.
- None of the work orders had any penalty clause for delays in completion of work. Consequently, the Company could not take any action to impose liquidated damages or seek compensation for the delays in receipt of material in respect of STG-I and II as well as delay in overhauling of turbines (STG-II and III) after receipt of material.

The above procedural delays and poor co-ordination in placement of order, receipt of material and commissioning of turbines resulted in loss of 200.18 MU valuing Rs. 28.42 crore.

The Management stated (July 2005) that the delay in repair of STG II was due to increase in scope of work i.e. re-blading which could be known only after the turbine had been opened. The delay in repair of STG-III occurred due to additional time required for additional machining work and in getting the finning materials. The Management added that a standby rotor and other essential spares were now being kept in store to avoid such delay. The reply is not tenable as there was undue delay even in placement of the initial work orders except in case of STG II. Though the material required for the work were largely known after the opening of the turbines and their inspection, the work orders were not immediately or simultaneously followed with the placement of orders for the required materials Further, the delay could have been reduced or the loss compensated by keeping a minimum inventory of stand by rotor/spare parts or by ensuring levy of liquidated damages for delays attributable to BHEL.

The Government agreed in September 2005 to explore means to incorporate penalty/liquidated damages clause in its future agreements with BHEL.

5.10.12 Transformation losses

GTPS transfers the power generated to the transformers yard for stepping up from 11 KV to 66 KV. Thereafter, some portion of the power is stepped down for auxiliary consumption while the balance is available for transmission purposes. The acceptable level of transformation losses is one per cent.

Transformation losses, however, ranged from 0.91 to 1.60 per cent during the period 1999-2000 to 2004-05 as below:

Transformation losses in excess of technical limit of one per cent resulted in loss of 17.391 MU valuing Rs. 2.47 crore.

Year	Gross Generation (MUs)	Auxiliary Consumption (MUs)	Net Generation (MUs)	Sale of electricity (MUs)	Transformation losses (MUs)	Percentage loss to Gross Generation	Losses (MUs)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
1999-2000	743.660	16.696	726.964	719.880	7.084	0.95	-
2000-01	1,139.220	25.861	1,113.359	1,095.188	18.171	1.60	7.220
2001-02	1,167.042	18.849	1,148.193	1,130.057	18.136	1.55	6.835
2002-03	1,213.967	26.946	1,187.021	1,173.510	13.511	1.11	1.776
2003-04	1,214.462	25.756	1,188.706	1,175.392	13.314	1.10	1.560
2004-05	1,539.546	36.783	1,502.763	1,488.827	13.936	0.91	-

The excess transformation losses worked out to 17.391 MUs valuing Rs. 2.47 crore.

The Government stated (September 2005) that the transformation losses had been brought down to 0.91 per cent during 2004-05 and that further steps were being taken including replacement of existing electro-mechanical meters with higher accuracy meters and an energy audit to further reduce the losses.

5.10.13 Inventory control

Inventory management and control was totally lacking.

Efficient operational performance requires a proper system of inventory management and control so as to enable timely replenishment of items and supply of spare parts required for maintenance of the turbines without unnecessary blocking of funds. This would entail the availability of lists of spares component wise along with their value. Audit scrutiny of the inventory records revealed the following:

- There was no system of purchase of stores and spares items at GTPS; i.e. economic order quantity, maximum level, minimum level and re-order level;
- There was no Bin Card system in the store of GTPS;
- There was no value wise record of inventory items;
- There was no annual valuation of the inventory at the close of the financial year;
- The Company entrusted the task of valuation and physical verification of inventory to some firms of Chartered Accountants in 2004. While the valuation was stated to have been completed on weighted average method, the physical verification was yet to be done as of July 2005. The reports and records relating to the valuation of the stores and spares even stated to have been completed, however, were not produced to audit; and

- As per stores ledger, GTPS has an inventory of stores and spares of 2,888 items (excluding quantity of each item) treated as slow/non-moving. Out of the above items, 365 items were more than two years old, 497 items more than three years old, 227 items more than four years old and 1,799 items more than five years old. No action has been taken by the management to assess and dispose off the obsolete and dormant items.

Such poor inventory control inhibited the ability of the management to watch over and ensure timely availability of spares and parts required for maintenance of the turbines.

The Government stated (September 2005) that E-inventory management system was being implemented after which the item-wise valuation record of store inventory would be available.

5.10.14 Environmental pollution

According to the latest status report released by the Delhi Pollution Control Committee (DPCC) in April 2005, all the monitored gas turbines were exceeding the Nitrous Oxide (NOx) standard of 75 mg/NM3 prescribed for the units. The NOx emission levels of the plant ranged between 110 to 130 NOx.

The Government stated (September 2005) that they were seeking technical and commercial proposals for installation of suitable NOx control provisions from BHEL and BHEL-GE Gas Turbine Services Private Limited.

5.10.15 Internal control/internal audit

The lack of adequate internal controls/internal audit system was commented upon in the Report of the Comptroller & Auditor General of India relating to the Government of Delhi for the year ended March 2004. The Audit Committee of IPGCL had recommended inter alia in March 2003 that suitable internal control procedures commensurate with the size of the operations should be developed and that the scope of internal audit should be clearly spelt out so that various areas could be covered from time to time on rotational basis. The internal audit of GTPS was conducted by the All India Council of Auditors & Accountants from July 2002 to March 2003 and a report with nine audit observations was issued to the management. No action has, however, been taken by the management on compliance to the audit observations. In its Action Taken Note on the observations made in the Report of the Comptroller & Auditor General for the year ended March 2004, the Government stated (July 2005) that the Company had been following systems and procedures established by DESU/DVB which would be reviewed and revised/strengthened, wherever required.

The Government added (September 2005) that a manual for internal control was being formulated and would be implemented at the earliest and that the recommendations of the internal audit were being complied with.

Conclusion

The Gas Turbine Power Station (GTPS) was set up by the erstwhile Delhi Electric Supply Undertaking in 1986 to augment the availability of power in the NCT of Delhi. There was loss of generation due to generation of power at higher heat rate than that envisaged in the performance guarantee test and functioning of the WHRUs at less than guaranteed capacity set in the performance guarantee reports. GTPS management was unable to adhere to the maintenance schedules of both the gas turbines as well as WHRUs. No scientific system of inventory control was followed. There was delay in placement of orders, receipt of material, in overhauling and re-commissioning of the plants.

Recommendations

- *The Company should make efforts to adhere to the norms for generation of power at lower heat rate stipulated in the performance guarantee test report to avoid generation loss;*

- *The Company should ensure the functioning of Waste Heat Recovery Units at optimum level;*

- *The Company should ensure adherence to the maintenance schedule of both the gas turbines as well as WHRUs;*

- *The Company should avoid delay in placement of orders, receiving of material and in overhauling and re-commissioning of the plants and maintain a scientific system of inventory control.*

Delhi Financial Corporation

5.11 Information technology audit

Highlights

The Corporation undertook computerization of some of its business and housekeeping operations without formulating an overall policy or strategy. It did not determine pre-qualification specifications or make adequate assessments of capacities while selecting consultants to whom the tasks were entrusted. This resulted in frequent changes of consultants and premature abandonment of all four computerisation projects without any substantial benefits accruing to the Corporation despite expenditure of Rs. 1.53 crore and lapse of over 17 years.

(Paragraph 5.11.1& 5.11.8)

IT wing of the Corporation lacked adequate technical expertise necessary to effectively progress such computerisation efforts. User requirements were neither defined nor documented indicating lack of involvement on the part of the Corporation's officials. This resulted in poor implementation and acceptance of the systems and its outputs.

(Paragraph 5.11.7 & 5.11.10)

Essential physical and logical access controls were absent from all the computer systems implemented in the Corporation. There was no Disaster Recovery and Business Continuity Plan which exposed the Corporation to unacceptable risks.

(Paragraph 5.11.11 & 5.11.12)

The Corporation procured hardware and software worth Rs. 75.27 lakh without an adequate need analysis and without linking up with the progress of project. Consequently, the hardware and software had either to be kept idle or were not utilized for the intended purpose.

(Paragraph 5.11.16 &5.11.17)

The Pay roll system is not in conformity with the rules governing the payments of pay and allowances. There were no validation controls embedded in the application to automatically detect input errors.

(Paragraph 5.11.18)

5.11.1 Introduction and organisational structure

The Delhi Financial Corporation was set up in April 1967 under the State Financial Corporations Act 1951 to cater to the financial needs of small and medium industries located in the NCT of Delhi and the Union Territory of Chandigarh. The Corporation is carrying out its business activities from its corporate office at New Delhi and two branches at Rohini and Chandigarh. The loans disbursed by the Corporation during last six years (1999-2000 to 2004-05) ranged between Rs. 18.62 crore and Rs. 84.92 crore.

The Information Technology wing of the Corporation is headed by a General Manager (GM) who is assisted by an Officer on Special Duty (OSD) and eight other staff as on February 2005.

The Corporation initiated (during 1987 to 2004) steps to computerise some of its essential business as well as housekeeping operations viz. financial accounting, payroll, provident fund accounting, loan accounting and management information system. It had mainly computerised payroll and provident fund accounting and financial accounting system at its corporate office. The total expenditure incurred on computerisation was Rs. 1.53 crore (March 2004).

5.11.2 Scope of audit

The audit was selected and planned on the basis of the IT systems criticality assessment tool. The scope of audit included a review of planning, implementation and monitoring of the computerisation process and an examination of the controls in the various IT applications.

5.11.3 Audit objectives

An information technology audit of computerisation of the Corporation was conducted to assess whether:

- the implementation of the system was preceded by a systematic planning and adequate assessment of operational requirements and needs;
- the system documentation is adequate and updated to ensure efficient and continuous operation of the system;
- data generated is complete, reliable and follows the business rules of the Corporation;
- the controls in the system reflect the policies, procedures and practices of the Corporation and are adequate to provide a reasonable assurance that the intended objectives are being achieved;
- the physical and logical access controls are sufficient to guard against unauthorized access and modification; and
- the system resources viz. hardware and software are procured timely and in a cost effective manner and utilized optimally.

5.11.4 Audit criteria

The following audit criteria were used to ascertain whether the objectives stated above were being achieved:

- Existence of documented and approved computerisation IT strategy;
- Existence and timely updation of User Requirement Specifications (URS), System Requirement Specification (SRS), System Design Document (SDD) and other manuals;
- Generation of outputs in consonance with the guidelines of Government, SIDBI and RBI;
- Existence of adequate validation controls in all the IT systems;
- Security policy and periodicity of security drills carried out by the Corporation; and
- Procurement of hardware and software with reference to actual implementation of the computerised systems.

5.11.5 Audit Methodology

The data generated by the IT applications during 1999 to 2005 was analysed using computer assisted auditing tool *viz.* IDEA[1] for examining the

[1] *Interactive Data Extraction and Analysis*

completeness, availability and integrity of the data. Further, the existence and adequacy of general IT controls was also assessed.

Audit findings

The audit findings were reported to the Management and the Government in July 2005 for confirmation of facts and to elicit their views. The comments of the Management received in October 2005 and earlier have been taken into account while finalising the review. The comments of the Government were awaited (February 2006).

Audit finding are discussed in the succeeding paragraphs.

5.11.6 IT strategy, planning and policies

It is generally expected that any investments in computerization should be preceded by the development and finalization of a properly documented 'Information Technology Strategy', which should, include *inter-alia,* both the long term and short term directions/goals for the proposed IT systems within the organization and an assessment of the means required to be adopted to achieve the stated objectives. Selection of consultants, where deemed necessary, should be done after determining pre-qualification criteria based on the assessed requirements of the organization so as to ensure completion of the assigned tasks. In this connection following deserve mention:

5.11.7 Abolition of EDP posts

Technical posts abolished when computerization of business operations started.

The sanctioned posts of Sr.Manager (EDP) and Assistant Manager (EDP) were abolished in October 2001 just when IDBI Intech was engaged for computerization of its business operations though such technical positions were essential to coordinate and assist the software developer. This clearly inhibited the successful completion of computerization projects and indicated lack of coherent IT strategy. The Management stated (October 2005) that the audit observation had been noted for suitably strengthening the IT wing.

5.11.8 Frequent change of consultants

The Corporation undertook computerization without first formulating an overall policy or strategy defining its objectives or requirements. The Corporation in the first instance entrusted (September 1987), the work of system study and design of its computerisation requirements along with development of software to M/s COSMOS. The contract was subsequently cancelled (June 1991) as the firm hiked the project cost due to increase in scope of work. The Corporation then engaged (July 1991) the Indian Institute of Public Administration (IIPA) to computerise its various systems. IIPA partially developed modules for financial accounting, payroll and provident fund accounting and thereafter abandoned the project midway in September 1994 on the plea that over a period of three years IIPA had not only imparted adequate training to the Corporation personnel but were also running the system and had incurred costs far in excess of the total consultancy fee agreed to by the Corporation.

The Corporation pulled on with the partially developed software for about five years without making any concerted efforts to complete the computerisation project till April 1999 when it appointed Electronics Corporation of India Ltd (ECIL), to tackle Y2K problems, re-design/modify the existing software and to develop fresh software for loan accounting. ECIL also short closed (March 2001) the project due to brain drain in their company without developing Loan accounting system. The Corporation entrusted (October 2001) the computerisation of its core business operations i.e. Loan accounting system and Management Information System (MIS) to IDBI Intech (a subsidiary of IDBI). This firm too abandoned the project midway in March 2004, without completing the assigned work due to various reasons such as delay in providing requisite inputs and frequent changes in the requirements after entrustment of the work.

Audit analysis of the reasons for premature abandonment of computerisation projects revealed that the Corporation kept changing/expanding the scope of work for the systems under development without freezing it at any point of time even after lapse of 17 years. This is indicative of the fact that the Corporation lacked a clearly defined vision and goals to be achieved through computerisation.

Thus, despite changing four consultants over a period exceeding 17 years, the Corporation is yet (November 2005) to computerise its core operations and develop a credible MIS for efficient and effective functioning of its organisation. Lack of a coherent strategy coupled with selection of consultants who lacked the capacity to carry through and complete the assigned tasks resulted in frequent changes in consultants and premature abandonment of all four projects without any substantial benefits accruing to the Corporation.

The Management stated (May 2005) that it had outlined its IT policy way back in 1991 when the scope of work for computerization with the aim of delivering efficient services to its customers was finalised. Audit scrutiny, however, revealed that this policy referred to by the Corporation was in fact an appraisal report submitted to its Board of Directors (BOD) outlining the works and processes to be entrusted to IIPA and could not be deemed to be an IT policy or strategy. The Corporation added in October 2005 that the partially developed software was being used by the Corporation though substantial benefits did not accrue due to one reason or the other.

5.11.9 Non-integration of related computer systems

The Corporation had computerized its Payroll and Financial accounting (FAS). FAS was input dependent on "Pay roll" and "Classification of assets" packages as output of these packages formed an integral part of the financial statements generated by FAS. Due to non-integration of these systems with each other, the outputs of the payroll, assets classification etc. had to be manually fed into FAS. Similarly, the manual data from the branch offices of Rohini and Chandigarh were also fed, manually, into FAS at the corporate office at New Delhi. Consequently, the changes/adjustments made in the Payroll or Classification of Assets packages on a later date were not automatically reflected in the FAS leaving room for errors and manipulation leading to lack of referential integrity. This indicated lack of proper planning on the part of the Management. The Management stated (May 2005) that the possibility of an integrated software would be explored while finalizing the new software in consultation with the experts as the systems ibid were developed on different platforms, i.e., FoxPro and DOS.

5.11.10 System development

Non-involvement of end users in all the systems resulted in poor implementation of IT systems.

The Corporation has not followed the proper System Development Life Cycle as neither were the User Requirement Specification (URS) defined nor were they analyzed and documented by the developer which indicated a lack of involvement or seriousness on the part of the officials of the Corporation in the systems development. Non-involvement of the end users in all the systems resulted in poor implementation and acceptance of the systems and its outputs e.g. generation/preparation of Profit & Loss Account and Balance Sheet in the Financial Accounting System (FAS) were not utilized though these were available in the system. Further, in the absence of a documented URS, no comparison of URS with System Requirement Specifications (SRS) or system design could be made in audit to ascertain whether all user requirements had been taken care of and compliance of business rules ensured in the computerized systems. The Management stated (May 2005 and October 2005) that the observations of audit have been noted for follow up through the consultant/agency being engaged for future development.

5.11.11 Physical and logical access controls

Physical access controls aim at safeguarding the computer equipment from unauthorized access, theft and damage due to accidents/deliberate actions,etc. while logical access controls protect the programmes and data files from unauthorized access, modification, copying and deletion. Such access controls were absent from all the computer systems implemented in the Corporation. It was also noticed in audit that:

- the Corporation lacked a formal IT security policy and no security drills had either been framed or ever conducted. Access to computer rooms was not regulated or restricted. Physical security of the main server has not been ensured since it was easily accessible to visitors and staff of other departments;
- the Corporation lacked a well-defined and documented password policy. Passwords were not being changed periodically. The administrative password was shared among four officials including one contract employee thereby exposing the system to the risk of malicious damage, manipulation of data, etc. The Payroll system despite being a very sensitive package completely lacked logical access controls as neither user-id nor password security features were available. Though features of user-id and password were available in the FAS, the safeguards were inadequate as:

  (i) the date and time of last access and number of unsuccessful attempts after last successful login attempt were not displayed on the screens of authorized users at the time of login;
  (ii) there was no validation check to reject creation of password of very short length;
  (iii) alpha-numeric passwords were not enforced by the system;
  (iv) passwords were not case sensitive; and
  (v) both the user-id and password were the same (e.g. 'fa').

The Management while accepting the audit observations stated (October 2005) that they would be taken care of in the new software, being developed in consultation with the Committee of Experts formed in January 2005 to assist in the process of inviting open tender from CMM[1] 5 level firms so that safety and security of the data was not compromised.

5.11.12 Absence of business continuity planning

The Corporation lacked a documented backup policy for the computerized systems. It did not even have a documented 'Disaster Recovery and Business Continuity Plan' outlining the action to be taken in the event of a disaster (i.e. total breakdown of the system resulting in massive loss of data) so as to ensure that information processing capability is restored at the earliest. There was also no standby system. In the absence of such plan a significant disaster impacting the Corporation's servers and other computing systems ran the risk of paralyzing the computerized system of the Corporation which would seriously hamper its recovery efforts. The Management while accepting the audit observation stated (October 2005) that the concern would be addressed in the new software being developed.

[1] *Compatibility Maturity Model*

5.11.13 Change control procedure

No documentation procedure followed despite IT systems having undergone several changes.

The Corporation has neither followed nor devised any formal change control procedures to ensure that the modifications in the programme are authorized, tested to the satisfaction of the users, approved and documented e.g. the payroll system as originally developed by IIPA in 1992 was frequently modified in-house to accommodate changes in logic of calculations without any documentation. In the absence of such systems documentation, it would be difficult for any organization to ensure smooth and error free operation of its software systems or proper recovery in case of system breakdown and the system would also be exposed to the possibility of unauthorized changes. The Management would also be unable to keep track of all the changes incorporated in the software.

The Management stated (May 2005) that initiatives would be taken to formulate a policy in consultation with the experts.

5.11.14 Audit trails

Adequate audit trails are required to be incorporated in the IT system for detecting security violations and tracing the flow of transactions and analysis of all incidents, problems and errors that are not part of the standard operation in a timely manner by recreating the actual transaction flow from the point of origination to its existence on an updated file. It was noticed in audit that there was, however, only one table named as "Book_Aud" in FAS indicating information about modifications to earlier data without any reference to reasons for such modifications. The transaction logs (in the Book_Aud table in the instant case) did not enable tracing of the flow of transactions as also the processing at every stage. The Management while accepting the audit observations stated (May 2005) that proper audit trails would be incorporated in the new software.

5.11.15 Abandonment of project on computerization of Loan Accounting System

The Corporation entrusted (October 2001) the computerization of Loan accounting and MIS to IDBI Intech at a cost of Rs. 29.50 lakh (Rs. 27.50 lakh for development of software and its implementation, training etc and Rs. 2 lakh for special maintenance for six months). IDBI Intech was to execute the project within a period of one year from the date of signing of the agreement, provide on-site support, training, data feeding etc., and also to ensure that it conforms to ISO-9001 certification requirements. The firm, however, could not fulfil its commitments even after expiry of two years from the date of undertaking of the project and could provide only a part of the Loan accounting system, i.e. industrial loan account software.

In the meantime, without ensuring the full stabilization of the computerized system through a parallel run phase and in spite of incomplete software, the Corporation took a decision in April 2003 to shift from manual to computerised system. IDBI Intech eventually withdrew its team in March 2004 without handing over the source code, designing and testing methodology and documentations etc. of the software. The Corporation paid Rs. 6.54 lakh to IDBI Intech. After the midway abandonment by IDBI Intech, the Corporation had to revert back to the manual system of Loan accounting in February 2004 and resort to outsourcing the work of updating of its manual books of accounts for the period April 2003 to March 2004 at an additional cost of Rs. 7.18 lakh to three chartered accountant firms and Rs. 2.06 lakh overtime to its own staff.

Audit scrutiny revealed the following:

- IDBI Intech was a new entity in the business. The contract was awarded to the firm, without verifying its credentials or past experience, on the assurance given by the IDBI nominee director on their Board that IDBI Intech was capable of undertaking the above assignment.

  The Management stated (May 2005) that a team of senior officers had studied the software developed/managed by IDBI Intech at IDBI and Maharashtra State Financial Corporation (MSFC) and found it satisfactory for their work requirement. The reply is not tenable as the expert team in its report indicated (October 2001) that the software implemented in MSFC was eight years old and did not fulfill all their requirements. Audit further noticed that IDBI Intech came into existence in the year 2000 only. The work was nevertheless entrusted to the firm, which proved to be injudicious.

Bank guarantee from the contractor not obtained.

- The Corporation failed to obtain a bank guarantee from the firm though the agreement provided for it.

  The Management stated (May 2005) that the matter had been referred to their legal department who had initiated arbitration proceedings against IDBI Intech. The reply is not relevant, as it did not indicate the reason for not obtaining bank guarantee.

Payments to contactor were made on *ad-hoc* basis and not as per the terms of contract.

- The Corporation did not follow the payment schedule prescribed in the terms of agreement with IDBI Intech. It made an ad-hoc payment of Rs. 6.54 lakh despite failure of the firm to complete the project, testing, etc.

  The Management stated (October 2005) that the ad-hoc payments made were bare minimum and were to compensate for the efforts and costs of IDBI Intech. The reply is not tenable since the payments made should have been commensurate with the quantum and status of work.

EMI Logics were not provided for over two years to the software developer.

- The logic for EMI calculation, which was essential for transport loan portfolio, was not provided by the Corporation to IDBI Intech even though the same were being followed for many years.

  The Management stated (May 2005) that providing the logics was in the pipeline when IDBI Intech left abruptly. The reply is not acceptable as the management could not provide the logic to IDBI Intech for 25 months (i.e. from March 2002 to March 2004) indicating lack of involvement of the management with the computerisation process. This was a major contributory factor for the inordinate delay and midway abandonment of the project.

- Audit further noticed that the Board approved (January 2005) a proposal to procure a readymade software from CMM level 5 companies for computerization of the operations of Loan accounting and MIS and also formed a committee of experts to assist in formulating the pre-qualification specifications/criteria for inviting open tenders.

Inadequate assessment of the capabilities of the firm before its appointment coupled with injudicious decision to discontinue manual system without a parallel run and inordinate delay in providing information required for developing of the system eventually resulted in midway abandonment of the project rendering the expenditure of Rs. 15.78 lakh incurred on it infructuous. Though a notice of reference to arbitration clause spelling out the damages claimed by the Corporation was issued to the firm in January 2005, the chances of recovery were remote as IDBI Intech was no longer in existence.

The Management stated (October 2005) that it has made a net gain of Rs. 16.56 lakh by way of savings of Rs. 20.40 lakh on account of salaries to terminated contractual staff and that the income of Rs. 5.40 lakh earned from processing fee under revival package and One Time Settlement (OTS) schemes. The reply is not relevant as it did not address the central issue of abandoning the project midway and the Corporation being left with incomplete software. As regards, the contractual staff, the audit noticed that these officials had been hired since May 2001 i.e. even before entrustment of work to IDBI Intech in October 2001 and their terms were extended from time to time due to rush of work in re-location of industries, annual closing work, etc. As these officials, were completing more than two years of service, it was decided not to hire them further purely for administrative reasons. Further, the income earned from processing fee on the revival package and OTS scheme was in no way related to the manual work done by outsourcing.

5.11.16 Purchase of hardware and software

Hardware

The Corporation placed (August 2002) an order with CMC Ltd. for purchase of hardware at a cost of Rs. 57.15 lakh which included one server, 50 PCs (Pentium-IV), seven office jet printers (HP-725), 15 DMPs (TVSE MSP-335) and other networking material and services on the recommendation made by IDBI Intech. The Corporation paid Rs. 53.65 lakh to CMC as per the terms of agreement. A scrutiny of the procurement revealed the following:

Hardware items worth Rs. 25.79 lakh either kept idle or not used for intended purpose.

- The Corporation purchased hardware valued at Rs. 25.79 lakh for establishing a Local Area Network (LAN) and Wide Area Network (WAN) between head office and its two branches at Rohini and Chandigarh. This network equipment was, however, kept idle or not used for the intended purpose. The Management agreed (May 2005) that the procurement of the equipment for WAN connection to Chandigarh office was pre-mature and it would be put to productive use as and when the application software was completed in the future. It added that the connectivity with Rohini office had been established through ISDN line. Audit scrutiny, however, revealed that though an ISDN connection was taken in January 2003 from MTNL, WAN has not been made operational so far.
- The Corporation purchased 50 PCs and 22 printers worth Rs. 29.25 lakh without developing and testing the software. Further, all the 50 PCs were equipped with 52X CD ROM, 1.44 MB Floppy drives and external speakers which were not required in changed IT environment. This has not only resulted in avoidable extra expenditure on computer peripherals not used but also exposed the system to virus threats and malicious damage/theft of data. These devices have now been disabled by the Corporation.

  The Management stated (May 2005) that the PCs with the above peripherals were purchased on the advice of IDBI Intech and added that the procurement and installation of anti-virus tools to contain the possible virus threats was in process. The fact remained that the peripherals such as CD-Roms, floppy drives and external speakers had little use for the system envisaged.

PCs purchased with inappropriate version of operating system.

- All the 50 PCs were pre-loaded with Windows XP- Home edition instead of Windows XP–Professional edition. Procurement of Windows XP Home Edition software, which does not provide effective support for a network environment and lacks advance security features as such encryption, file level access, network-domain membership and assignment of group policies, was also likely to entail an additional cost of Rs. 2.53 lakh on switching over to appropriate version of Operating System (OS).

The Management stated (May 2005) that PSUs like CMC was selected to purchase the hardware precisely because the Corporation did not have the expertise to check all these points and it had withheld an amount of Rs. 3.50 lakh as well as initiated legal action against the supplier for breach of contract to off-set the loss caused on account of inferior supply. The reply is not tenable since it is incumbent on the purchaser to specify all the requirements in the purchase order.

5.11.17 Software

The Corporation purchased (April 1999) a five user licensed copy of Oracle-8i from Sonata Software Ltd. at a cost of Rs. 0.40 lakh, which was being utilized for running the computerized FAS developed by IIPA. The software developed by IDBI Intech was also designed to run on Oracle database engine. On the recommendation of IDBI Intech, the Corporation decided (March 2003) to purchase a licensed 50 user Oracle-9i Enterprise Edition at a cost of Rs. 18.12 lakh from National Informatics Centre Services Inc (NICSI) to meet the requirements of its Loan accounting system and MIS. The software was received in August 2003 and installed in September 2003. Purchase of 50-user version of Orcale-9i before development of loan accounting system and MIS was premature and resulted in non-utilization of the software for the purpose for which it was intended.

5.11.18 Payroll application software

Payroll system not in conformity with the rules governing payment of pay& allowances, advances etc.

The Corporation implemented the Pay roll system (developed by IIPA) in December 1992 in dBase requiring MS-DOS version 3.3 or any later version as its operating system (OS). The system was subsequently re-cast twice for shifting from dBase to FoxPro (in-house) and to overcome Y2K[1] problem (through ECIL). The data generated by the application from April 1999 to January 2005 was analyzed in audit to assess the effectiveness of the application and the reliability of data with reference to provisions of the Fundamental Rules and the General Financial Rules as applicable to the Corporation. Audit scrutiny revealed that important validation checks/controls, which were necessary to prevent erroneous calculations/ misuse of the system, were neither incorporated at the time of initialization and thereafter nor the application software was in compliance with the rules *ibid* as detailed below:

- In 39 cases, the rate of personal pay paid was found to be in excess of the prescribed limit. In six cases, CCA was paid at the rates over and

[1] *Year 2000.*

above the admissible rates, while in seven cases deputation allowance was paid in excess of the admissible limits. Thus, there were no validation checks to prevent processing of allowances over and above the admissible rates.

The Management attributed (May 2005) the excess payments to 'arrears' and assured that necessary modifications would be made in the system to record and exhibit the 'arrears' separately.

HRA & DA paid incorrectly on deputation allowance.

- The pay given to deputationists was calculated incorrectly by allowing HRA and DA to be paid on deputation allowance. This resulted in an excess payment of Rs. 3,321 during July to December 1999. This indicated lack of inbuilt checks to prevent processing of payments over and above admissible rates.

- An employee on deputation may elect to draw either pay in the scale of pay of the deputation post fixed under the normal rules or his basic pay in the parent department from time to time plus deputation duty allowance. The option should be exercised with in one month of joining deputation post and once exercised it is final. In two cases, the deputationists had not only exercised their option after expiry of one month but the same was changed subsequently after drawal of the deputation allowance for the period ranging from two to four months. They were, thus, allowed to draw higher pay resulting in over payment of Rs. 2.15 lakh.

  The Management stated (May 2005) that the issue of fixation of pay in one case has been referred to the Services Department and their reply is awaited. The Management added (October 2005) that while the audit observations had been noted for adoption in the new IT software, the payments were on account of the policies adopted by the Corporation and had no bearing on the software in use. The reply is not tenable since the software in use by the Corporation did not have inbuilt controls to prevent processing of pay in contravention of the rules *ibid*.

- In 30 cases, the 'date of first installment' of loan paid preceded the 'date of release' of loans and advances given to its employees. Further, there were two instances wherein the invalid dates namely '5-10-2204' and '21-10-9989' were accepted by the system.

  The Management stated (May 2005) that these were typographical errors, which were noted for modification in the system. Evidently, the system did not have inbuilt validation checks to reject such dates.

- In 116 cases, the basic pay drawn was more than the maximum of the corresponding time scale plus stagnation increments as the master table for pay scales was not updated. The system did not have validation checks to reject amounts of pay greater than maximum of pay scale of a post.

The Management stated (May 2005) that the provision of generating exception list would be incorporated in the software.

- The system did not have any provision to record and exhibit stagnation increments (SIs) and arrears, if any, separately.

  The Management while assuring that 'arrears' would be exhibited separately in the system stated (May 2005) that the system had a well-defined provision to record and exhibit SIs. Audit scrutiny revealed that the Management was referring to 'remarks' column to record SI, which was not a suitable substitute for recording and exhibiting 'SI'. Moreover, in the absence of a separate field, no inbuilt checks, such as maximum of three SIs at the rate of one increment after every two years, could be exercised by the Corporation.

- In 41 cases, the difference between the 'date of birth' and 'date of retirement' was found to be more than 60 years i.e. the age of superannuation. In 38 cases, the reason for the same was acceptance of "null" entries in "Date of Birth" field. In respect of remaining cases, it was explained to audit that the two cases pertained to officials (whose parent office was Delhi Police) appointed on contract basis after attainment of retirement for expediting recovery work and another case was as a result of entering of wrong date of birth in the system. Evidently the software lacked effective date validation controls to ensure that the age of an official should not be beyond 60 years at the time of superannuation.

  The Management stated (May 2005) that 'Date of Birth' is not important for processing of salaries. The reply is not tenable as the salary bills of the officials/officers, who have attained age of superannuation, should not be processed by the system**.**

- The employees are identified with the help of a 'unique' employee code (E_Code). The 'employee code' is allotted without linking it with the name, designation and addresses of the employees. Resultantly, there is scope for allotment of more than one employee code to the same employee.

  The Management stated (May 2005) that E_Code is assigned at the time of appointment and its uniqueness is ensured by human intelligence. The reply is not tenable as there should be an inbuilt systemic control to prevent generation of more than one employee code to the same employee.

- The pay roll application was completely input dependant for the accuracy of outputs. Adequate validation controls were, however, not embedded in the application per se to automatically detect input errors and ensure reliability and integrity of the system. The system was highly dependent on manual checking and verification at all stages of data processing from preparation of source documents to final verification of pay bills which defeated the very purpose of computerisation.

The Management stated (May 2005) that all deficiencies pointed in the existing system would be taken care of in the new proposed system to be finalized shortly.

5.11.19 Financial accounting system

The Financial Accounting System (FAS) was made operational w.e.f. April 1993. The system was developed by IIPA in Oracle 6 RDBMS, Forms 2.3 and SQL plus 3.0. The system was subsequently re-cast to overcome Y2K problem by ECIL. Presently the system is being run using Oracle 9i RDBMS, which was originally purchased for the loan accounting system. The system has features for on-line cash transactions and batch mode journal and bank voucher posting, generation of financial reports like cash book, daybook, subsidiary ledgers, bank ledgers, trial balance, profit and loss statement, balance sheet, etc. Audit scrutiny revealed the following:

FAS not used to optimum capacity even after 12 years of making it operational.

- The features for generation/preparation of Profit & Loss Account and Balance Sheet were not being utilized though the same were available in the system The computerized FAS was not implemented at Chandigarh branch at all where the work was carried out manually.

  The Management stated (May 2005) that the features for generation and preparation of Profit & Loss and Balance Sheet were not utilized as it had not yet been approved by the Corporation. This indicates that the Management had failed to utilize the system to its full potential even after lapse of 12 years.

FAS lacked a feature for classification of asset. There was short provisioning of Rs. 3.30 crore made towards NPAs.

- Classification of assets (Loans and Advances) is an integral part of FAS of any financial institution. FAS being used in the Corporation lacked an integrated feature for classification of assets. The Corporation developed, in-house, a separate package for classification of assets, which is being utilised at the time of finalization of annual accounts. The data generated by the system could not be provided by the Corporation to Audit. In the absence of the data, correctness of the provisions made with the help of this package could not be ensured. Further, review of the information furnished by the Management at the time of accounts audit of the Corporation during 1999-2004 revealed under provisioning of Rs. 3.30 crore towards sub-standard, bad and doubtful loans and advances in the accounts in 545 cases.

  The Management stated (October 2005) that the classification of assets and the provisions made against these are on the basis of current status of accounts and short and excess provisions made, if any, in the previous year get modified/rectified as per its current status in the subsequent years and therefore the software has nothing do with the provisioning aspect. The reply is not tenable since the under provisioning computed by Audit was with reference to the status of assets at the end of each year during the period. The software used for classifying the assets should also have revealed the provisioning status.

- The FAS did not have features for generation of MIS reports. The Management stated (May 2005) that the system might not be able to generate all reports related to MIS due to non-integration.

It was evident that despite being operational since April 1993, the full potential of the system was yet to be utilized by the Corporation.

The Management stated (May 2005) that the deficiencies would be taken care of while selecting/finalizing the new proposed software in consultation with the experts.

5.11.20 Internal audit

There has been no internal audit of the IT wing of the Corporation so far. Consequently, the deficiencies in the functioning of the wing remained undetected and the Corporation was deprived of the opportunity of taking timely remedial measures.

Conclusion

The Corporation undertook computerization without formulating an overall and co-ordinated IT policy or strategy. General and application controls were not effective, user requirements were not defined or documented and essential physical and logical controls essential to prevent misuse of the system or unauthorized manipulation of data stored were absent. Hardware and software remained idle or were not used for the intended purpose. The software design in its payroll application did not accurately reflect the terms of the rules and lacked effective validation checks which enabled inadmissible payments on account of various allowances to the employees. FAS is not utilised to its full potential even after lapse of twelve years of implementation. Consequently, the computerization efforts of the Corporation remained *ad hoc* and failed to yield the expected results.

Recommendations

- *The Corporation should formulate a coherent IT strategy defining inter alia the goals and objectives of the intended computerisation and the* *benefits which would accrue from it. It is essential that an integrated software package be developed which would take care of the entire business operations of the Corporation.*

- *The Corporation should ensure documentation of all stages of system development and the changes carried out to the system at later date to ensure its smooth and error free functioning.*

- *The Corporation should ensure adequate physical and logical access controls so that the safety and security of data is not compromised. Besides, adequate validation checks should be embedded in the software systems to avoid data manipulations and erroneous data entries.*

Paragraphs

5.12 Corporate governance in State government companies

5.12.1 Introduction

Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for the governance of their companies.

The Companies Act, 1956, was amended in December 2000 by providing *inter alia* a Directors' Responsibility Statement (Section 217) to be attached to the Director's Report to the shareholders. According to Section 217(2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for maintenance of accounting records, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

Further, according to Section 292-A of the Companies Act 1956 notified in December 2000, every public limited company having paid up capital of not less than Rupees five crore shall constitute an Audit Committee at the Board level. The Act also provides that the statutory auditors, internal auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee but without voting rights.

The main components of corporate governance are:

- Matters relating to the Board of Directors;
- Directors' Report; and
- Constitution of the Audit Committee.

Out of nine working Government companies (unlisted) in the State, Audit reviewed six companies as detailed in Appendix XV.

5.12.2 Board of Directors

The responsibility for good governance rests on the Corporate Board which has the primary duty of ensuring that principles of corporate governance both as imbibed in law and regulation and those expected by stakeholders are rigorously and voluntarily complied with and the stakeholders' interests are protected. For this purpose, every company should hold the meetings of the Board of Directors at regular intervals. Every Director should attend these

Board meetings to share the expertise, knowledge and guide the affairs of the Company.

Composition

There was one independent Director each on the Board of Delhi Transco Limited (DTL) and Indraprastha Power Generation Company Limited (IPGCL), six on the Board of Delhi SC/ST/OBC Minorities Handicapped Financial & Development Corporation Limited and two on the Board of Delhi State Industrial Development Corporation (DSIDC). There was no independent Director on the Board of Delhi Tourism and Transportation Development Corporation Limited (DTTDC) and Delhi State Civil Supplies Corporation Limited (DSCSC). DSCSC stated (June 2005) that any decision regarding independent Directors is to be taken by the Government.

Attendance

Attendance of some of the Directors in the Board meetings was not regular in DSIDC, DTTDC and DSCFDC. In case of DSCFDC, three Directors did not attend any Board meeting held in 2001-02 while five Directors and one Director did not attend any meeting in 2002-03 and 2003-04 respectively. This indicated a weak commitment towards the principles of corporate governance. Since the Board of Directors is the primary agency for implementation of good governance practices, it is imperative that the government nominees devote adequate time and attention for participation in Board meetings and contribute to the proper functioning of the companies.

5.12.3 Audit Committee

Role and functions

The main functions of the Audit Committee are to assess and review the financial reporting system, to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the Statutory auditors before finalisation of annual accounts. The Committee also reviews the adequacy of the internal control system and holds discussion with Internal auditors on any significant finding and follow up action thereon. It also reviews financial and risk management and evaluates the findings of internal investigation where there is any suspected fraud or irregularity or failure of the Internal control system of material nature and reports to the Board.

Meetings

- As per terms of reference of the Audit Committee in respect of DSCSC, DSCFDC and DSIDC, the Committee was required to meet four, three and four times respectively in a year. The Audit Committee of DSCSC met only once each during 2001-2002 and 2002-03 and twice during 2003-04.

- In DSCFDC, no meeting was held in 2001-02, one meeting was held in 2002-03 and two in 2004-05.
- The Audit Committee of DSIDC held two meetings in 2001-02 and once each in 2002-03 and 2004-05. No meeting was held in 2003-04.
- The statutory auditors of DSIDC did not attend the first meeting held in 2001-02 and the fourth meeting held in 2004-05.

Discussions in the meetings

- The Audit Committee of DSCFDC and DSIDC did not review the adequacy of internal control systems and the irregularities pointed out by government/internal auditors of the companies. The Statutory auditors of these companies as well as of DTL have commented in their report that the internal audit system needs to be strengthened for greater coverage and adequacy in these companies.
- Issues relating to fraud and fraud risks were not discussed in the Audit Committee meetings of DSIDC and DSCFDC.
- The Audit Committee in DSCFDC could not stress upon/enforce the preparation of up to date annual accounts which are pending for the years 1995-96 to 2004-05. Thus, the Company lacked transparency in the absence of up to date accounts which increases the chances of fraud and fraud related risks.

DSIDC stated (July 2005) that Audit Committee meetings were held mainly for discussion on internal control systems, scope of audit and to review annual financial statements before submission to the Board and to ensure compliance of internal control systems. A perusal of the minutes of Audit Committee meetings, however, did not show any record of the issues discussed or action to be taken to follow up on audit issues. There is no record of discussion on adoption of annual accounts except for a brief note. The purpose of creation of an Audit Committee is to facilitate discussion on important financial issues and this purpose is not served unless the Committee discusses and records its discussions in detail.

DSCFDC stated (June 2005) that the Audit Committee always discussed the adequacy of internal control system and the irregularities pointed out by the auditors. The reply is not acceptable as deviations in budgeted and actual expenditure and delay in bank reconciliation have never been discussed so far.

5.12.4 Financial and Risk Management Policies

The review of financial and risk management policies was neither a part of the mandate of the Audit Committee nor was it reviewed by the Audit Committees of DSIDC, IPGCL, DSCSC and DSCFDC.

DSCSC stated (June 2005) that the Audit Committee reviewed the financial and risk management policies whenever referred to it. The reply is not tenable as no such policies were placed before the Audit Committee or discussed by it. DSIDC stated (July 2005) that the financial and risk management policies were often discussed in the meeting of the Board of Directors of the company and hence it was not reviewed or discussed in the Audit Committee meeting. The reply is not acceptable as it was necessary that the Audit Committee should also review such policies so as to ensure an in-depth and independent examination of the issues involved.

In respect of power sector companies, the Government stated (June 2005) that as per section 292(A) of the Companies Act, the review of financial and risk management policies by the Audit Committee was not mandatory. The reply is not acceptable as the review of financial and risk management policies by the Audit committee is a prudent practice and a feature of corporate governance which need to be adopted by IPGCL as was being done by DTL, which is under the same management.

To sum up

- Attendance of some of the Directors in the Board meetings was not regular;
- In some companies, the Audit Committee did not have the required number of meetings; and
- Audit Committee of some companies did not review the adequacy of internal control systems and issues relating to fraud and fraud risks.

5.13 Cash Management in Power Sector PSUs

Inefficient cash management and failure to place surplus funds in Corporate Liquid Term Deposit Receipt/Flexi deposits resulted in loss of interest of Rs. 20.62 crore.

Efficient fund management is a systematic monitoring and timely deployment of surplus funds in interest earning deposits/accounts to augment the resources of a company and to optimize the utilization of available resources and borrowings at the most favourable terms. An appraisal of the fund management practices of the four power sector companies revealed that these companies were retaining large amount of surplus funds in their current accounts instead of placing them in the Corporate Liquid Term Deposit Receipt (CLTDR)* linked with current account which would have earned interest ranging from 3.75 to six per cent per annum.

This resulted in loss of interest of Rs. 20.62 crore, as detailed below:

Name of the Company	**Period covered in audit**	**Surplus funds during the period (Rs. in lakh)**	**Number of days funds remained unutilised**	**Loss of Interest (Rs. in lakh)**
Delhi Transco Limited (DTL)	July 2002 to March 2005	Rs. 51 to 37,092	15 to 246	1,252.04
Delhi Power Company Limited (DPCL)	-do-	Rs. 30 to 48,144	15 to 270	528.48
Indraprastha Power Generation Company Limited (IPGCL)	-do-	Rs. 50 to 3,723	15 to 107	220.28
Pragati Power Corporation Limited (PPCL)	April 2003 to March 2005	Rs. 53 to 2,685.7	15 to 70	61.49
Total loss				**2,062.29**

The Government stated (August 2005) that :

- DTL had been placing temporarily rendered surplus funds in flexi/CLTD accounts of their bankers after retaining funds required for releasing payments to power generation companies. They added that funds received as loan from the Government cannot be utilized by DTL for the purpose of earning dividend or interest in term deposits. It was added that their banker SBI has now been advised to place funds in excess of Rupees one crore in the current account automatically to CLTDR account.
- It was very difficult for IPGCL to ascertain the expected payment and receipts during its initial period.
- DPCL as a holding company of TRANSCO and GENCO and also holder of 49 per cent shares in DISCOMs, held funds amounting to Rs. 481.44 crore to meet the unforeseen liabilities of the erstwhile Delhi Vidyut Board (DVB) due to which it could not take decision to park surplus funds in term deposits. Further, the funds provided by the Government of Delhi under APDRP scheme were not meant for investment but for distribution to the DISCOMs.

Corporate liquid term deposit receipt is a short term deposit at fixed rate of interest linked with the Current Account and with a facility of transferring of funds to current account as and when required.

The reply of the Government is not tenable since all the companies had large amounts of idle funds held in its current account for extended periods. The facility of CLTDR provided by banks only affords an opportunity to companies to park their temporarily surplus funds in a manner which earns interest while retaining flexibility and liquidity. Keeping surplus funds in CLTD accounts did not amount to utilization of funds for purposes other than that for which it was meant since this was neither a long term nor a short term investment. Inefficient cash management by not placing surplus funds in CLTDR accounts/flexi deposits, thus, resulted in loss of interest income of Rs. 20.62 crore.

Pragati Power Corporation Limited

5.14 Avoidable expenditure

Failure to draw up realistic drawal schedules to avoid the payment of commitment charges and delayed payment of interest installments resulted in avoidable expenditure of Rs. 99.90 lakh.

The Company was sanctioned a loan of Rs. 700 crore in August 2001 by the Power Finance Corporation Ltd. (PFC) for the execution of its power project. As against the sanctioned loan of Rs. 700 crore, the Company withdrew Rs. 670.53 crore during March 2002 to January 2004. The balance of Rs. 29.47 crore was not drawn and cancelled since the actual requirement was found to be less than the estimated cost.

Clause 2.3 of the terms and conditions of the sanction order stipulated that reduction of 0.5 per cent would be given in the applicable lending rate if the quarterly interest was paid on due dates viz. by the 15th day of October, January, April, July of every year. Further, Clause 4 of the terms provided that PFC would recover commitment charges at the rate of one per cent per annum from the last day of the respective quarters till the date of actual drawl in case the amount is not drawn on the due dates by the borrower. Audit scrutiny of the loan records revealed the following:

5.14.1 The Company revised (December 2001) the schedule of drawals of loan twice in March 2002 and December 2002 based on estimates, target dates and delays of various construction activities in the execution of the project. The Company, however, continuously failed to adhere either to the original schedule or the revised schedules throughout its withdrawal and there were delays ranging up to 92 days. Audit analysis revealed that the main reason for delay in withdrawal of loan was the failure of the Company to realistically assess the progress of work. Neither was any procedure or mechanism evolved for timely withdrawal of funds nor were funds flow statement prepared periodically to assess the fund requirement even though the Company was receiving substantial funds from various sources, viz., PFC, the Government of Delhi, etc. This resulted in payment of commitment charges of Rs. 85.32 lakh.

The Government stated (July 2005) that the actual requirement of loan did not arise on the 'scheduled dates' projected in the loan drawal schedules. The drawal dates were deferred as it was beneficial to pay one per cent commitment charges rather than higher interest rates. The reply is not tenable as the Company could have saved commitment charges had the second revised schedule been drawn up judiciously by giving due cognizance to the pace of work and other cash inflows.

5.14.2 The first instalment of interest of Rs. 4.08 crore was due on 15 April 2002 to PFC. The payment was, however, made to PFC after a delay of two days on 17 April 2002. Consequently, PFC disallowed (September 2002) the rebate of Rs. 14.58 lakh (at the rate of 0.5 per cent on the principal amount of Rs. 280 crore for 38 days).

The Government stated (July 2005) that the original demand notice was sent by PFC at Vikas Bhavan, I.P Estate Delhi, which was not received in the concerned office of the company and the same was collected from PFC on 16 April 2002. Due to an all India strike, the payment was made on 17 April 2002. The reply is not tenable as PFC had sent the demand notice at the declared address of the Company in the loan agreement and it was well aware of the payment schedule. Had the Company made the payment on the due date, it could have saved Rs. 14.58 lakh.

5.15 Avoidable payment for unutilized power

Failure of the Company to ensure payments on the basis of power actually consumed resulted in avoidable payment of Rs. 13.75 lakh for power which it did not actually consume.

The Company was drawing power for Pragati Power Project from BSES Yamuna Power Ltd.(BYPL) with a sanctioned load of 1950 KVA from two 1000 KVA transformers. After commissioning of the first gas turbine in June 2002, the Company requested (October 2002) BHEL, the turnkey contractor, to review the load requirements of the project. BHEL informed that one transformer would be sufficient to meet the requirements and the Company accordingly requested (October 2002) BYPL to disconnect one transformer and raise bills as per the revised load w.e.f. 1 November 2002. BYPL, however, continued to raise the bills for the full load of 1950 KVA without effecting any revision till March 2003 when the supply was disconnected on completion of the project. This resulted in avoidable payment of Rs. 16.92 lakh for power not consumed during November 2002 to February 2003.

The Government while accepting the facts stated (July 2005) that full payment was made under protest to avoid disconnection of supply which could have adversely affected the project activities. It was also stated that BYPL had since refunded Rs. 3.17 lakh. The fact remains that even after recovery of Rs. 3.17 lakh, the Company had incurred an extra expenditure of Rs. 13.75 lakh.

Delhi SC/ST/OBC/Minorities and Handicapped Financial and Development Corporation

5.16 Ineffective implementation of schemes for upliftment of weaker sections

Failure of the Company to properly conceptualize schemes and ensure viability of the purposes for which loans were disbursed defeated the objective of upliftment of weaker sections through supporting and generating self employment opportunities. Further, the Company failed to safeguard its financial interests and enforce meaningful recovery action, which resulted in non-recovery of Rs. 2.08 crore.

The Delhi SC/ST/OBC/Minorities and Handicapped Financial and Development Corporation Limited (Company) was incorporated to undertake the task of economic upliftment of members of the SC/ST/OBC/Minorities and disabled living below the poverty line in NCT of Delhi by providing financial assistance for the setting up of small businesses or trade. Scrutiny of records relating to three schemes of extending financial assistance to members of the weaker sections of society revealed faulty conceptualization of schemes and failure to effectively follow up recoveries which not only defeated the very objectives of the scheme but also resulted in non-recovery of Company dues of over Rs. 2.08 crore, as discussed in the succeeding paragraphs.

5.16.1 Allotment of work sheds for setting up businesses

The Company formulated a scheme in December 1988 for allotment of work sheds to skilled and semi-skilled scheduled caste artisans to set up businesses in trades like leather, electronic/electrical goods, tailoring, dry-cleaning, ready made garments, etc. The Company took over (November 1991) 238 work sheds at Mangolpuri, Raghubir Nagar and Sultan Puri allotted (July 1989) by DDA at a cost of Rs. 1.10 crore. The cost of the sheds was borne by the Department for Welfare of SC/ST of the Government of Delhi.

Two hundred and twenty seven out of the 238 work sheds were allotted to beneficiaries for a period of five years at a nominal monthly rent of Rs. 239 in Raghubir Nagar, Rs. 367 at Mangolpuri and Rs. 392 at Sultanpuri plus security deposit of Rs. 1500 per shed. The allottees were required to obtain the requisite water and electricity connections at their own cost. The terms specified, *inter alia,* that in case of non-payment of the monthly rent for a period of three consecutive months, the allottee would have to vacate the premises failing which the Company could initiate legal proceedings against him. Audit scrutiny of the records revealed the following:

- The work sheds were actually allotted to the beneficiaries only in 1995-96 viz. after a delay of four to five years since taking over of possession in November 1991, on the ground that there was no water or electricity connection.
- The allottees had continuously failed to pay the rent for the work sheds except for the initial few installments. No action was initiated by the Company to recover its rental dues. In June 1996, the Company in consultation with the Social Welfare department decided to waive the rent up to December 1997 on the ground that electricity and water facilities were not provided to the allottees during this period. Even after electricity and water facility was provided in January 1998, the allottees still failed to pay the rent. In the meantime, the lease period of five years expired in 2000-01.
- Despite this gross default and the expiry of the lease period, the Company took no action to recover its rental dues by either initiating action to recover the rental arrears as arrears of land revenue or to evict the defaulters till August 2004 when recovery notices were issued.
- Subsequently, 182 of the 227 allottees vacated the premises between December 2004 and April 2005 but without paying their dues. No action was initiated to recover the dues.

The Company had evidently failed to properly conceptualize the scheme as it should have determined at the outset itself whether the responsibility for water and electricity supply could be left to the allottees or whether it should have ensured the connections in view of the intended objective of assisting entrepreneurs from weaker sections to set up viable businesses. Failure to do so resulted in delay of over four years in extending of the intended benefit despite expenditure of Rs. 1.10 crore by Government on the scheme. Further, even after water and electricity were provided in January 1998, the Company failed to take meaningful steps to recover its rental dues even after the expiry of the original lease period in 2000-01. Since the work sheds were being used for business purposes at least since January 1998, there should have been no difficulty in the allottees paying the nominal license fee had the Company enforced the terms of the allotment. Failure of the Company to pursue its claims resulted in non-recovery of Rs. 60.69 lakh (from February 1998 to March 2005) and the only security available with the Company was the security deposit of Rs. 3.40 lakh.

5.16.2 Financial assistance for purchase of three wheeler scooter rickshaws (TSR)

The Company sanctioned and disbursed term loans totaling Rs. 1.53 crore to beneficiaries from the weaker sections during 1992 to 1995 for purchase of three wheeler scooter rickshaws (TSR) without obtaining personal guarantee as required. The loans were to be repaid in 60 equal monthly installments from 1997 to 2000. The loans were secured only by way of hypothecation of the vehicle.

A scrutiny of the records relating to the disbursement and recovery of the loan revealed that 112 out of the 495 loanees had defaulted in repayments of the loan installments. It was noticed in Audit that there was no system of monitoring of recoveries or periodic verification of the information furnished by the beneficiaries and the Company failed to take any effective action to recover its dues till 2002 when it wrote to the Deputy Commissioner to recover the dues as arrears of land revenue. No response, however, was received from the Deputy Commissioner. The Company could not ascertain the whereabouts of the defaulting loanees through their bailiffs as they were only tenants at the addresses available with the Company, which had since been vacated. The Company did not make any attempt to ascertain the current addresses where the vehicle was registered even though these details were available with the Road Transport authorities from where they could have been ascertained.

Failure of the Company to insist upon personal guarantees or other measures to secure its interest in the event of default coupled with lack of any serious action to monitor and recover its dues from the defaulters or impound the vehicles resulted in the non recovery of Rs. 38.77 lakh. Since these were loan funds from NSCFDC, the Company would now have to repay the loan to NSCFDC from its own resources.

5.16.3 Financial assistance for purchase of mini buses and deluxe buses

The National Scheduled Castes Finance and Development Corporation (NSCFDC) sanctioned two term loans of Rs. 36.60 lakh each in March 1998 and July 1998 to the Company for grant of loans to 20 persons from the weaker sections of society for purchase of mini buses for commercial use at the rate of Rs. 3.66 lakh per vehicle. The balance cost of the vehicles was to be met through the Company's share including subsidy and the promoter's contribution. In the meantime, the Supreme Court directed (July 1998) that only taxies/buses run on CNG or other clean fuel could ply in the NCT of Delhi w.e.f. April 2001.

Without taking cognizance of the orders of the Supreme Court, the Company disbursed the loans to the 20 beneficiaries for purchase of vehicles between July 1998 and September 1999, which were repayable in five years on monthly instalment basis with a moratorium of six months. The loanees failed to meet their repayment obligations right from the beginning and were in default to the tune of Rs. 16.86 lakh by April 2001, i.e. the date of coming into force of the restrictions imposed by the apex Court. The default continued thereafter as the loanees could not ply their vehicles in Delhi. The loanees filed petitions before the Delhi High Court in December 2002 against recovery proceedings initiated by the Company and the Court directed (February 2003) that the recovery proceedings should be stayed till the loanees were granted fresh loans either for the purchase of new CNG buses or for conversion of their existing vehicles into CNG. Subsequently, the Company recommended (March 2004) grant of fresh loans to NSCFDC for 18 out of the 20 loanees. The applications were rejected by NSCFDC in June 2004 on the ground that their lending policy did not permit assistance to "sick existing units."

The Management stated (March 2004) that the circumstances faced by the beneficiaries were peculiar in the sense that the major portion of default was due to the ban imposed by the Supreme Court in plying of diesel buses. It was further stated (September 2004) that the restrictions imposed by the apex Court were not known to the Company and the Transport department had neither cautioned the Company nor refused registration of the vehicles. The reply is not acceptable as the Transport department had given extensive publicity to the directions of the apex Court and it was a matter of public knowledge. Clearly, the Company ought to have known about the restrictions at the time of appraisal of the loan applications or disbursement of the loans which took place after the pronouncement of the Supreme Court and it should have been evident at that stage itself that the loanees may not be in a position to repay the loans since the vehicles could not be commercially operated.

Similarly, the Company sanctioned (during the year 2000) two term loans totaling Rs. 18.15 lakh to two beneficiaries (Rs. 9.15 lakh to one and Rs. 9.00 lakh to the other) for purchase of tourist/deluxe buses. As per the loan agreement, the share of NSCFDC was Rs. 12.30 lakh with the balance cost being met by the promoter and the Company including a subsidy component in both the cases. The loan was repayable in five years with a moratorium of six months. While one of the loanees paid the installments regularly from November 2000 to March 2001, the other defaulted in repayment from the very beginning. The loanees stated that they were not in a position to repay the loan as they could not ply their buses in Delhi due to the ban imposed on non-CNG buses by the Supreme Court. Both the loanees requested for additional loans for fitment of CNG kits which were rejected by the Company.

Faulty loan appraisal and injudicious disbursement of loans ignoring changed circumstances brought about by the restrictions imposed by the Supreme Court on plying of diesel vehicles coupled with failure to take timely and effective action to enforce terms of loans resulted in recovery of Rs. 1.12 crore being rendered doubtful and imposing a liability on the Company to repay the loan amount to NSCFDC from its own resources.

To Sum up

Failure of the Company to properly conceptualize schemes meant for assistance to SC/ST beneficiaries for setting up of businesses coupled with faulty loan appraisal and injudicious disbursement of loans defeated the objectives of the schemes of extending meaningful assistance to members of weaker sections to set up business and generate self employment opportunities. Further, failure to enforce terms of agreement and take effective action to recover its legitimate dues resulted in non recovery of Rs. 2.08 crore.

The matter was referred to the Management and the Government in June 2005; their reply had not been received (February 2006).

Delhi Transco Limited

5.17 Wasteful expenditure and blocking of funds

Failure to take cognizance of objections raised by ASI regarding construction of a sub-station resulted in blocking of funds of Rs. 2.24 crore as well as wasteful expenditure of Rs. 30 lakh.

The Company (erstwhile Delhi Vidyut Board) purchased (January 1998) land measuring 3.4 hectare adjacent to the Siri Fort from Delhi Development Authority (DDA) at a cost of Rs. 2.24 crore. The site fell within 300 meters of Siri Fort which was a centrally protected monument under the Ancient Monuments and Archaeological Sites and Remains Act, 1958, and as such no activity was permissible without prior permission of the Archaeological Survey of India (ASI). The Company did not take permission and started construction of a boundary wall in February 1999.

While construction of the boundary wall was underway, ASI asked (June 1999) the erstwhile DVB to halt the work immediately. By that time, three sides and 50 per cent of the remaining fourth side of the wall had been completed by incurring Rs. 30 lakh. ASI informed (March 2000) that a dwarf wall with a high grill could be constructed, leaving a space of about five meters from the Siri Fort wall; but no modern building other than the boundary wall would be allowed to come up within 100 meters of the prohibited area of Siri Fort wall.

The Company did not take any action to resolve the problem and awarded (April 2003) the work of establishment of the sub-station to Bharat Heavy Electricals Ltd. (BHEL) on turnkey basis at a total cost of Rs. 18.31 crore. When construction activities were to commence in May 2003, ASI reiterated its objections and did not allow BHEL to commence the work. The layout plan of the sub-station was submitted to ASI only in November 2003 for approval. ASI refused (January 2004) to accord permission as the proposed sub-station fell within the prohibited area of the remains of Siri Fort wall. DDA cancelled (May 2004) the allotment of the land on the ground that the Company had failed to complete construction activities by January 2000 as stipulated in the allotment letter. On the request (June 2004) of the Company, an alternate land measuring 2.23 hectare at Masjid Moth was allotted (September 2004) in exchange of the earlier land of 3.4 hectare, possession of which was taken in October 2005. The cost of the land was yet to be worked out (October 2005).

Failure of the Company in taking timely action for resolving problem with ASI resulted in blockade of funds of Rs. 2.24 crore in addition to infructuous expenditure of Rs. 30 lakh.

The Government stated (August 2005) that the Company had no option but to accept the allotted land since hardly any land was available in South Delhi for construction of sub-stations. It added that the Company had since issued internal instructions that in future a certificate should be obtained from the land owning agency that it is free from all encumbrances. The reply is not tenable as the Company failed to ensure that the land allotted was free from encumbrances and available for the intended purpose.

Delhi Transport Corporation

5.18 Undue favour to contractor

Delay in calling of tenders for leasing out advertisement space coupled with non-imposition of normal 10 per cent increase while granting ad hoc extension till finalization of fresh contracts resulted in loss of Rs. 45.92 lakh.

The Corporation has been leasing out advertising space on its Bus Queue Shelters (BQS) and Time Keeping Booths (TKB) to various advertising agencies on the basis of tenders. The reserve price of such tenders is generally fixed at 10 per cent above the previous year's rate.

The Corporation entered (May 2001) into a contract with Adwel Advertising to display advertisements on BQS and TKB under the jurisdiction of the five depots* for a period of three years (from 2 February 2001 to 1 February 2004). The contract stipulated payment of a monthly license fee to the Corporation which would increase by 10 per cent for every year from the second and third year.

It was noticed in audit that though the Corporation was aware of the expiry of the contract on 1 February 2004, it took no steps to call for fresh tenders. It instead continued to grant month by month extensions to Adwel Advertising at rates prevalent in the third year of the contract from February 2004 onwards. After a delay of five months, the Corporation called (June 2004) for fresh tenders and accepted (July 2004) the tenders of Modern Advertising Agency, a sister concern of Adwel Advertising, for three depots viz. Sarojini Nagar, Hari Nagar-II and Kalkaji. The rates quoted by Modern Advertising

* *Kalkaji, Hari Nagar-II, Sarojini Nagar, Vasant Vihar and Naraina*

Agency were higher than the rates paid by Adwel Advertising. While accepting the tenders, the Corporation imposed a condition that the firm should first clear all the outstanding dues of Rs. 5.26 crore (as on 31 July 2004) of its "sister concern" Adwel Advertising within seven days of the award letter. Modern Advertising declined to accept the stipulated condition to pay the dues of its sister concern. The Corporation consequently cancelled the award letter and decided to continue to grant ad hoc extension to Adwel Advertising at the rates prevalent in the third year of the expired contract. This arrangement continued till 31 October 2004. This has resulted in undue benefit of Rs. 45.92 lakh to Adwel Advertising.

The Management stated (July 2005) that the license fee was increased by 10 per cent in the second and third year of the contract and not in the extended period. On the fact of delay in calling of tenders, the Management stated that the tenders could not be called for due to procedural reasons.

The reply is not tenable as the decision to cancel the award of tender to Modern Advertising (who had offered more advantageous rates to the Corporation) for its refusal to clear the dues of its sister concern-Adwel Advertising and grant of ad-hoc extension given to Adwel Advertising at the existing rates, which would generate lower revenue to the Corporation, was not justified.

The matter was referred to the Government in June 2005; their reply had not been received (February 2006).

5.19 Non recovery of terminal fees

The Corporation failed to collect Rs. 67.85 crore of terminal fees from private bus operators despite enabling provisions in the Act.

The Government of Delhi, while approving an upward revision of fares, notified (December 1999) that private stage carriage operators should pay Rs. 5,000 per month for use of the bus terminals to the Corporation with effect from 16 October 1999. Fourteen terminals maintained by the Corporation were being used by the private operators for their buses. The charges were to be collected by the Corporation through its counters in the offices of the State Transport Authority (STA).

It was noticed in audit that the Corporation failed to collect the full terminal fees from a majority of the private bus operators. The Corporation repeatedly requested STA to make payment of terminal fees a part of the permit condition to enable recovery action by invoking Section 86* of the Motor Vehicle Act. STA, however, felt that it was not possible to make payment of terminal fees a permit condition as only about 30 per cent of the total number of privately operated buses were using the terminals. The Corporation was informed (February 2003) by STA that in case identified buses availing of the terminal facilities abstain from depositing the terminals fees, then DTC may file for prosecution for infringement of Section 84(c)♦ of the Motor Vehicle Act. The Corporation, however, failed to act or respond to any of these suggestions.

As the matter remained unresolved, it was decided (September 2003) in a meeting convened by the Chief Secretary that the Corporation should make all possible efforts to recover the terminal fees from the private operators using its terminals and that it should make out a case to STA against defaulting operators and STA would ensure that terminal charges were paid by them to DTC. The Corporation forwarded (November 2003) lists of defaulting private buses to STA and necessary directions were issued (February 2004) by STA for issue/renewal of permit after collection of terminal fees.

The above directions were implemented w.e.f. 18 March 2004 but recoveries of terminals fees were again stopped at the instance of STA on 23 March 2004. It was subsequently decided (July 2004) by the Government to review the matter and place the issue of collection of terminal fees before the Cabinet for an appropriate decision. No further action has been taken so far (December 2005). The total amount recoverable from the private bus operators during 16 October 1999 to 31 March 2005 was Rs. 74.21 crore of which Rs. 67.85 crore remained to be recovered.

The Management stated (July 2005) that the Corporation did not have any proper mechanism to enforce implementation on the private operators except for reporting to STA and the recovery/collection of terminal fees could only be effected with the cooperation and assistance of STA as well as necessary directions from the Government.

Government stated (December 2005) that DTC is the authority to collect the terminal fee and determine methodology for its collection from the private operators that are using DTC terminals. It added that a cabinet note on rationalisation of Bus Queue Shelter fee and terminal fee was under consideration of the Government.

** Section 86 of the Motor Vehicle Act provides for cancellation and suspension of permits in case of breach of any of the permit conditions.*

♦ Section 84 (c) of the Motor Vehicle Act provides for compliance by a permit holder with any prohibition and restriction imposed and fares or freights fixed by due notification before STA.

The fact remained that the matter remained unresolved despite the mandatory provision of the notification of December 1999. The issue needs to be resolved expeditiously as delay in collection of the terminal fees was causing a further loss of revenue of Rupees one crore per month to DTC.

5.20 Unfruitful expenditure

Retainer Crew conductors appointed under a scheme for private bus operators were neither gainfully utilized nor terminated after discontinuation of the scheme resulting in unfruitful expenditure of Rs. 18.80 crore.

The Corporation introduced a 'Kilometer Scheme' for private bus operators in September 1996 under which the driver was to be provided by the bus owner and the conductor by the Corporation. At the time of the introduction of the scheme, there was a shortage of conductors and the Corporation recruited 2,036 Retainer Crew (RC) conductors who were to be paid on daily rated basis. The terms of appointment of these RC conductors specifically stipulated that the employment was on a purely temporary basis and that their services could be terminated at any time without assigning any reason. These RC conductors were paid regular wages for the days they were actually deployed on duty and at the rate of Rupees three per day on the other days.

The scheme was subsequently discontinued w.e.f. 18 April 2002. Despite the strength of regular conductors being far in excess, the services of these RC conductors were, however, not discontinued by invoking the terms of their appointment.

The matter was reviewed by the Transport Department, GNCTD, in September 2002 on the basis of which the Board of Directors (BOD) of the Corporation decided (October 2002) to retain the services of 1,775 RC conductors and deploy them on time keeping duties to regulate the operation of unified time table for which the Transport department was to provide the funds. These RC conductors were also to be utilised for ticket checking duties in order to prevent revenue leakage.

Audit scrutiny revealed that the services of only 440 conductors (of which 200 were deputed in November 2004) were placed at the disposal of STA. The Corporation, however, failed to seek reimbursement of the cost of even these 440 RC conductors from STA because the unified time table could not be prepared. The Corporation continued to bear the burden of the expenditure being incurred on all the RC conductors. The anticipated increase in its earnings through passenger composite fine also did not materialize in spite of strengthening of the checking team as the earnings decreased from Rs. 2.86 crore in 2002-03 to Rs. 2.58 crore in 2003-04 and further decreased to Rs. 2.28 crore in 2004-05. The total expenditure incurred by the Corporation on the RC conductors was Rs. 18.80 crore till March 2005.

The Management stated (November 2005) that the excess RC conductors had been purposefully utilized on various duties which had benefited the Corporation. Further, STA had since been approached in September/October 2005 for reimbursement of the salaries of the 440 RC conductors placed at its disposal. It was added that DTC was also facing litigation from the RC conductors on issues like regularization which was sub judice.

The reply is not tenable as the Corporation should have taken action to deploy the RC conductors as per the decisions of the BOD of October 2002. The services of the RC conductors were still being utilized in an ad hoc manner without any clear benefit to the Corporation.

The matter was referred Government in April 2005; their reply had not been received (February 2006).

5.21 Excess payment to employees

Incorrect calculation of encashment of leave resulted in excess payment of Rs. 16.94 lakh to the employees.

The Corporation is dividing earned leave of its employees into two equal parts and placing them into two separate accounts i.e. one for availing and the other for encashment. The payment for leave encashment is calculated and paid in accordance with the formula* prescribed in the Payroll Manual of the Corporation. While working out the leave encashment, the actual number of days in the month in which earned leave was encashed was considered by the Corporation instead of 30 days in a month which should have been the basis as leave entitlement and its encashment is with reference to the whole year and not with reference to a particular month.

Audit scrutiny of the payroll records of the Corporation pertaining to leave encashment revealed that large number of the employees have been availing the leave encashment in the month of February every year as the number of days in that month are minimum i.e. 28 days. During the last three years from 2003 to 2005, the Corporation has paid Rupees three crore in the month of February alone as against total payment of Rs. 8.21 crore on account of leave

* *[{Basic+ Spl. Pay+ DA+ NPA+ CCA} X leave encashment days] / No. of days in a month*

encashment to its employee. This resulted in excess payment of Rs. 16.94 lakh to the employees.

The matter was referred to the Management and the Government in April 2005. Management accepted (November 2005) the audit observation and stated that the position indicated by audit would be followed in future. The reply of the Government had not been received (February 2006).