Chapter VII

Government Commercial and Trading Activities

7.1 Overview of Government Companies and Statutory Corporations

Introduction

7.1.1 As on 31 March 2003, there were nine Government companies (all working companies) and two statutory corporations as against 12 Government companies (all working companies) and three statutory corporations (all working) as on 31 March 2002 under the control of Government of NCT of Delhi. Three companies viz., Central-East Delhi Electricity Distribution Company Limited (DISCOM-1), South-West Delhi Electricity Distribution Company Limited (DISCOM–2) and North North-West Delhi Distribution Company Limited (DISCOM-3) were transferred to the private sector during the year 2002-03. The Delhi Vidyut Board (DVB) ceased to be a statutory corporation during the year. Besides the three DISCOMs, the assets and liabilities of the DVB were also transferred to three Government companies (Sl. Nos. 7 to 9 of Appendix I). The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors appointed by the Comptroller & Auditor General (CAG) as per 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 of the Companies Act, 1956. The audit arrangements of statutory corporations are as shown below:

Table 7.1: Audit Arrangements of 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	Chartered Accountants and Supplementary Audit by CAG

In addition, the State had formed the Delhi Electricity Regulatory Commission, the audit of which is also being conducted by the Comptroller and Auditor General of India.

Working Public Sector Undertakings

Investment in Working PSUs

7.1.2 The total investment in 11 working PSUs[1] (9 Government companies and 2 statutory corporations) and 15 working PSUs (12 Government companies and 3 statutory corporations) at the end of March 2003 and March 2002 respectively was as follows:

Table 7.2: Investment in Working PSUs

(Rupees in crore)

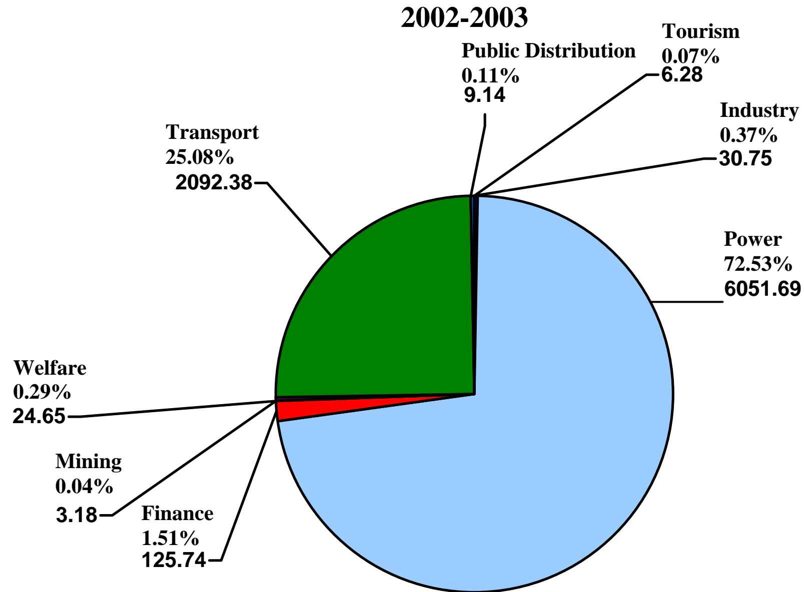
Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loan	Total
2001-02	15	193.20	12.70	10757.93	10963.83
2002-03	11	512.95	3278.01	4552.85	8343.81

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated below

[1] Public Sector Undertakings

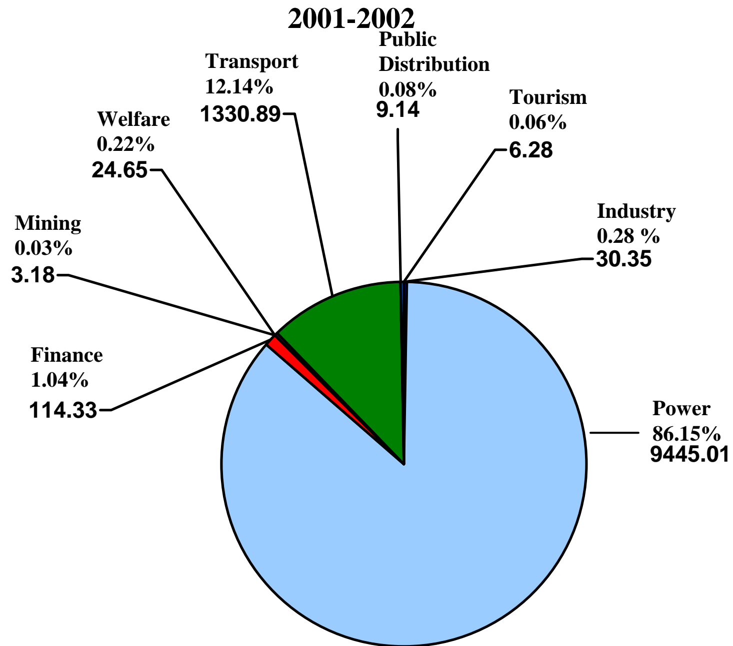
in the pie charts:

Total Investment Rs. 8343.81 Crore



(Figures indicate investment in Rupees in crore)

Total Investment Rs. 10963.83 Crore



(Figures indicate investment in Rupees in crore)

Working Government Companies

7.1.3 The total investment in 9 working Government companies and 12 working Government companies at the end of March 2003 and March 2002 respectively was as follows:

Table 7.3: Investment in Working Government Companies

(Rupees in crore)

Year	Number of working Government Companies	Investment in working Government Companies			
		Equity	Share Application Money	Loan	Total
2001-02	12	63.32	--	436.15	499.47
2002-03	9	383.07	3265.25	2477.37	6125.69

7.1.4 The summarized statement of Government investment in working Government companies in the form of equity and loans is detailed in Appendix – I.

7.1.5 As on 31 March 2003, the total investment of working Government companies comprised 59.56 per cent of equity capital and 40.44 per cent of loans as compared to 12.68 per cent and 87.32 per cent respectively as on 31 March 2002. Due to release of more equity as compared to long term loans availed by the power sector Companies during 2002-03, the debt equity ratio of all Government companies decreased from 6.89:1 in March 2002 to 0.68:1 in March 2003.

Working Statutory Corporations

7.1.6 The total investment in two working statutory corporations at the end of March 2003 and March 2002 was as follows:

Table 7.4: Investment in Statutory Corporations

(Rupees in crore)

Name of Corporation	2001-2002		2002-03	
	Capital (Including share application money)	Loan	Capital (Including share application money)	Loan
Delhi Vidyut Board	Nil	9019.14	Nil	Nil
Delhi Transport Corporation	117.00	1213.89	117.00	1975.38
Delhi Financial Corporation	25.58	88.75	25.64	100.10
Total	**142.58**	**10321.78**	**142.64**	**2075.48**

The summarized statement of Government investment in working statutory corporations in the form of equity and loans is detailed in Appendix –I.

Budgetary Outgo, Grants/Subsidies, Guarantees, Waiver of Dues and Conversion of Loans into Equity

7.1.7 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working statutory corporations are given in Appendices I and III.

7.1.8 The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government companies and working statutory corporations for the three years up to 31 March 2003 are given below:

Table 7.5: Budgetary Outgo to Government Companies and Statutory Corporations

(Rupees in crore)

	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	-	-	-	-	7	0.35	-	-	-	-	-	-
Loans given from budget	-	-	2	1991.57	1	295.52	2	1596.97	2	1438.27	1	761.49
Grant/Subsidy towards												
(i) Projects/ Programmes/ Schemes	1	0.71	-	-	-	-	-	-	1	2.31	-	-
(ii) Other subsidy/grants	2	2.19	1	1.73	2	1.27	1	104.50	1	3.53	-	-
(iii) Total Subsidy	3	2.90	1	1.73	2	1.27	1	104.50	2	5.84	-	-
Total Outgo	**3**	**2.90**	**2**	**1993.30**	**9**	**297.14**	**2**	**1701.47**	**4**	**1444.11**	**1**	**761.49**

7.1.9 During the year 2002-2003, 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 had been waived by the Government. There was no case of conversion of loans into equity capital either in the case of Government companies or statutory corporations.

Finalisation of Accounts by Working PSUs

7.1.10 The accounts of the 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 to be finalized, audited and presented to the Legislature as per the provisions of their respective Acts.

7.1.11 However, as depicted in Appendix–II, none of the nine working Government companies had finalized their accounts for the year 2002-2003 while both the statutory corporations had finalized their accounts for the year 2002-03 within the stipulated period. During the period from October 2002 to September 2003, four working Government companies finalised four accounts for previous years.

7.1.12 The accounts of nine working Government companies were in arrears for period ranging from one year to 10 years as on 30 September 2003 as detailed below:

Table 7.6: Arrears in Accounts

Sl. No.	Number of working Companies / Corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Appendix – II	
	Government Companies	Statutory Corporations			Government Companies	Statutory Corporations
1.	1	-	**1993-94 to 2002-03**	10	3	-
2.	1	-	**2000-01 to 2002-03**	3	2	-
3.	2	-	**2001-02 and 2002-03**	2	6 and 7	
4.	5	-	**2002-03**	1	1,4,5,8 and 9	-

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised half yearly by Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government to overcome the arrears and the number of years for which accounts are in arrears increased from 12 to 16 years. Consequently, the investments made in these PSUs could not be assessed in audit.

Financial Position and Working Results of Working PSUs

7.1.13 The summarised financial results of working PSUs (Government companies and statutory corporations) as per the latest accounts are given in Appendix-II. Besides, statement showing financial position and working results of individual working statutory corporations for the last three years are given in Appendices IV and V respectively.

7.1.14 According to latest accounts of nine working Government companies and two working statutory corporations, one company viz. Delhi State Civil Supplies Corporation Limited and one corporation viz. Delhi Transport Corporation had incurred an aggregate loss of Rs.1.95 crore and Rs.792.02 crore respectively. Eight companies and one corporation earned an aggregate profit of Rs.21.14 crore and Rs.4.29 crore respectively.

Working Government Companies

Profit Earning Working Companies and Dividend

7.1.15 No company had finalized their accounts for the current year upto September 2003. Similarly, out of four working government companies which had finalized their accounts for previous years by September 2003, one company (DSIDC) earned an aggregate profit of Rs.13.95 crore and earned profit for two or more successive years. However, no dividend was declared by it.

Loss Incurring Working Government Companies

7.1.16 The only loss incurring working Government company i.e. Delhi State Civil Supplies Corporation Limited incurred a loss of Rs.1.95 crore during the year ended March 2002. However, the company was having accumulated profits of Rs.1.32 crore as on 31 March 2002.

Working Statutory Corporations

Profit Earning Working Statutory Corporations and Dividend

7.1.17 Both the two working statutory corporations had finalized their accounts for the year 2002-03 by September 2003. One corporation i.e. Delhi Financial Corporation earned a profit of Rs.4.29 crore but did not declare any dividend on equity shares.

Loss Incurring Working Statutory Corporations

7.1.18 One working statutory corporation i.e. Delhi Transport Corporation which finalised its accounts for the year 2002-03 by September 2003 had accumulated losses aggregating Rs.1,874.16 crore which had far exceeded its paid up capital of Rs.117.00 crore.

Despite poor performance resulting in complete erosion of its paid up capital, the State Government continued to provide financial support to the Corporation in the form of further grant of loan. The financial support so provided by the State Government by way of loans during 2002-03 to the Corporation amounted to Rs.761.49 crore.

Operational Performance of Working Statutory Corporations

7.1.19 The operational performance of the working statutory corporations is given in Appendix-VI. Corporation-wise important observations are as under:

Delhi Financial Corporation

7.1.20 The percentage of amount overdue for recovery had increased from 2.91 in 2000-01 to 7.72 in 2002-03.

Return on Capital Employed

7.1.21 As per the latest finalised accounts (up to September 2003), the capital employed[*] worked out to Rs.120.43 crore in nine working companies and total return[**] thereon amounted to Rs.20.11 crore which is 16.70 *per cent* as compared to total return of Rs.16.22 crore (14.52 *per cent*) in the previous year. Similarly, the capital employed and total return thereon in case of working statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.153.28 crore and (-) Rs.570.31 crore respectively against the total return of (-) Rs.916.28 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-II.

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

[**] *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.*

Reforms in the Power Sector

Delhi Electricity Regulatory Commission

7.1.22 The Delhi Electricity Regulatory Commission (DERC) was formed on 3 March 1999 under Section 17 of the Electricity Regulatory Commissions Act, 1998, with the objective of determining electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State, etc. The Commission is a body Corporate and comprises of only one member who is appointed by the Government of NCT of Delhi. The audit of accounts of the Commission has been entrusted to the CAG under Section 34 of the Act ibid.

7.1.23 Though the Commission was required to prepare its separate accounts as per the provisions of the Act, the Commission had not prepared its first accounts so far (September 2003).

Status of Implementation of Memorandum of Understanding signed between the Government of NCT of Delhi and the Central Government

7.1.23 No Memorandum of Understanding has been signed between the Government of NCT of Delhi and Central Government so far (September 2003).

Tariff Fixation

7.1.24 Tariff fixation and sector wise tariff for distribution companies have been given in Appendix IX.

Non Working Public Sector Undertakings

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

Status of Placement of Separate Audit Reports of Statutory Corporations in the Legislature

7.1.26 The following table indicates the status of placement of various Separate Audit Reports on the accounts of statutory corporations issued by the CAG of India in the Legislature by the Government as on 30 September 2003:

Table 7.7: Placement of SARs in the Legislature

Sl. No.	Name of Statutory Corporation	Years 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**	2000-01	2001-02	Under process	N.A
2.	**Delhi Financial Corporation**	1998-99	1999-2000 2000-2001 2001-2002	5.7.2001 17.3.2003 under process	N.A.

Results of Audit by Comptroller and Auditor General of India

7.1.27 During the period from October 2002 to September 2003, the audit of accounts of four Government companies (all working) and one statutory corporation (working) were selected for review. The net impact of the important audit observations as a result of review of the PSUs were as follows:

Table 7.8: Decrease/Increase in Profit as a Result of Audit by C&AG

Details	Working Government Companies		Working Statutory Corporations	
	No. of accounts	***Rupees in lakh***	***No. of accounts***	***Rupees in lakh***
(i) Decrease in profit	1	39.97	1	150.00
(ii) Decrease in loss	-	-	-	-
(iii) Non disclosure of material facts	-	-	-	-
(iv) Increase in loss	1	22.45	-	-
(v) Errors of Classification	1	372.00	1	3348.00

7.1.28 Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies and corporations

are mentioned below:

Errors and Omissions noticed in case of Government Companies

Delhi State Industrial Development Corporation Ltd. (2001-02)

7.1.29 A reference is invited to Note below the above Schedule wherein it has been stated that the above includes Rs.1.00 crore owed by the Company to Small Scale Industrial Units (SSIs). As per Government Notification dated 22.05.2002 (Part-I of Schedule VI to Companies Act, 1956), the names of the SSIs to whom the Company owes any sum together with interest outstanding for more than thirty days are to be disclosed. Thus, the disclosure made by the Company is deficient to that extent.

7.1.30 The Company has paid Rs.7.59 crore for land for the purpose of construction of various Combined Effluent Treatment Plants (CETPs) on which the Company is liable to pay ground rent @ 2.5 per cent p.a. to the Delhi Development Authority (DDA). The Company has disclosed the amount of ground rent of Rs.0.71 crore as contingent liability thereby resulting in over-statement of Contingent liabilities and under-statement of Land under the above scheme to that extent.

7.1.31 Provision amounting to Rs.3.01 crore on account of enhanced compensation payable to landowners as per orders (December 2001) of the Additional District Judge has not been made thereby resulting in under-statement of Liabilities and Land under the Re-location of Industries Scheme by Rs.3.01 crore.

7.1.32 A reference is invited to Note No.6 B under the Schedule wherein it has been stated that Rs.0.58 crore is recoverable from the Delhi State Minerals Development Corporation (DSMDC) after recovering Rs.0.94 crore out of Rs.1.52 crore. However in the same Note, it has been stated that as per the Memorandum of Understanding of Settlement in 1991 arrived through the office of the Commissioner of Industries, an amount of only Rs.0.93 crore (against unsettled amount of Rs.1.52 crore) was payable by the DSMDC to the Company. Thus, there is ambiguity in the aforesaid Note to that extent.

7.1.33 The Company has neither prepared and submitted ‘Balance Sheet Abstract and Company’s Business Profile’ to the Board of Directors nor disclosed the same in the accounts as required vide Notification No.GSR 388(E) dated 15/5/1995 (Part IV of Schedule VI to the Companies Act, 1956).

Delhi State Civil Supplies Corporation Limited (2001-02)

7.1.34 The Loans and Advances include a sum of Rs.11.65 lakh shown as recoverable from ex-employees of the Company. Since the employees are no longer in the service of the Company, the chances of recovery of this amount are almost nil. Non-provision against this amount has resulted in over-statement of Loans & Advances and under-statement of loss for the year by Rs.11.65 lakh

7.1.35 The other income includes a sum of Rs.10.80 lakh earned on unutilized grant received from Government of NCT of Delhi for construction of godowns (interest upto March 2000-01: Rs.16.02 lakh) which does not belong to the Company. This has resulted in over-statement of Reserve and Surplus (including Rs.10.80 lakh for 2001-02) and under-statement of Grant cumulatively by Rs.26.82 lakh.

7.1.36 The Company had purchased land at four places during earlier years but title deeds have not been executed in favour of the Company. This fact has not been disclosed by way of Note to Accounts despite assurance given last year.

Delhi SC/ST/OBC Minority and Handicapped Financial and Development Corporation Limited (1992-93).

7.1.37 The Company earned interest on unspent balance of Grants-in-aid which was required to be refunded to the Directorate for the Welfare of Scheduled Castes/Schedule Tribes, Government of NCT of Delhi, in terms of sanctions issued from time to time. During the year, the interest earned on unspent grants worked out to Rs.39.97 lakh and up to 31 March 1993 it was Rs.1.75 crore. The interest earned on unspent grants is being treated as its own income. Thus, Grants-in-aid were under-stated by Rs.1.75 crore and excess of Income over Expenditure for the year 1992-93 and Reserve and surplus were over-stated by Rs.39.97 lakh and Rs.1.75 crore respectively. Disclosing this as Contingent liability (vide item 1 (e) of Schedule L-Notes to accounts) is not correct.

7.1.38 As per Section 215(3) of the Companies Act 1956, the Balance Sheet and Profit & Loss Accounts after being approved by the Board of Directors are to be handed over to the statutory auditors for their report. Though the annual accounts of the Company were approved by the Board in their 90th meeting held on 7 June 2002, the same were certified by the statutory auditors twice i.e. on 12 October 2001 and 2 August 2002, the former date being before and latter date being after the date of approval of accounts by the

Board. This was grossly irregular and clearly violative of the provisions of the Companies Act, 1956, as well as ethical audit practices.

Errors and Omissions noticed in case of Statutory Corporation

Delhi Financial Corporation (2000-01)

7.1.39 The Corporation has not adjusted the above Bank balances of Rs.5.30 crore against cheques of Rs.5.72 crore issued for disbursement of loan by the end of March 2001. Instead, the Corporation has created liabilities under the head Other Liabilities (Schedule-E) as cheques issued but not presented by the parties in Banks. This has resulted in over-statement of both Cash & Bank Balances and Other Liability by Rs.5.30 crore.

7.1.40 The Loans and Advances include loans of Rs.33.48 crore disbursed during 2001-02. A corresponding liability for this amount was created under the head Other Liabilities as the payment had not been made during the year. Though the Corporation lacked sufficient funds, cheques were issued and shown as disbursement. Obviously, this has been done in order to inflate the disbursement of loans and advances during 2000-01. This has resulted in over-statement of Loans & Advances and Other Liabilities by Rs.33.48 crore.

7.1.41 The Loans and Advances include following three loan cases where provision on account of Non-Performing Assets (NPAs) has not been made in accordance with the guidelines of the Reserve Bank of India (RBI). This has resulted in under-statement of provision for NPAs and over-statement of profit for the year by Rs.1.50 crore as indicated below:

7.1.42 The Corporation disbursed loans of Rs.7.26 crore to five loanees. The repayment of loans had been re-scheduled by the Corporation and the category of the loans was upgraded in NPA in contravention of RBI guidelines which stipulates that classification of assets should not be upgraded merely on re-scheduling without watching its performance. This has resulted in short provision for NPAs by Rs.0.82 crore.

7.1.43 M/s TTS Holiday was disbursed three loans during 1990-91, 1991-92 and 2000-2001. The total amount outstanding as on March 2001 was Rs.0.68 crore. The repayment of the first two loans was not as per the loans repayment schedule. Provision for NPAs was made at 30 per cent. The first loan attracted provision at 50 per cent and as per RBI guidelines all loans of same party should be classified in a single category. This resulted in short provision of NPAs to the extent of Rs.13.54 lakh.

7.1.44 Against three outstanding loans of Rs.0.62 crore, Rs.0.64 crore and Rs.24.20 lakh as on March 2001 in respect of M/s NBG Industries, M/s

Rutvin India Private Limited and Gagan Garments (P) Limited, realizable value of security was Rs.22.00 lakh, Rs.40.51 lakh and Rs.5.10 lakh respectively. The provision made against the outstanding loans was Rs.49.99 lakh whereas provision of Rs.1.04 crore was to be made as per RBI guidelines. This resulted in under provision for NPAs by Rs.0.54 crore.

Auditors' Report

7.1.45 As stated in paragraph No.5 of the Auditor's Report, Accounting Policy relating to charging of interest on outstanding advances has been changed during the year. Due to this change, the profit for the year increased by Rs.6.83 lakh. The impact of change in policy has not been disclosed in the above Report by way of a Note to the Accounts as required under Accounting Standard-I.

Internal Audit System

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

Delhi Tourism & Transportation Development Corporation Limited

7.1.47 Scope and frequency of internal audit and timely submission of reports and compliance thereof need to be improved and strengthened in view of the size and nature of the business of the Company.

Delhi State Civil Supplies Corporation Limited

7.1.48 The coverage of internal audit needs to be broadened. Immediate follow-up action should also be taken to give it more meaning.

Delhi State Industrial Development Corporation Limited

7.1.49 Though there existed a fairly large internal audit system commensurate with the size and nature of business of the Company, mechanism to pursue compliance of the internal audit observations was inadequate.

Response to Inspection Reports, Draft Paras and Reviews

7.1.50 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective Heads of Departments within a period of six weeks. Inspection Reports issued up to March 2003 pertaining to eight PSUs disclosed that 119 paragraphs relating to 45 Inspection Reports remained outstanding at the end of September 2003. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2003 is given in Appendix-VII.

7.1.51 Similarly, draft paragraphs and reviews on the working of PSUs are demi-officially forwarded to the Principal Secretary/Secretary of the administrative department concerned seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was however observed that no reply had been received (November 2003) to one of the three draft reviews and five of the six draft paragraphs proposed for inclusion in this Audit Report which had been forwarded to the concerned departments as detailed in Appendix-VIII.

7.1.52 It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule, (b) the Government ensures action to recover loss/outstanding advances/over-payment in a time bound schedule and (c) the Government revamps the system of responding to the audit observations.

Position of Discussion of Audit Reports (Commercial) by the Committee on Government Undertakings

7.1.53 The position of discussion of Audit Reports (Commercial) by COGU[2] of reviews and paragraphs pending for discussion in the COGU at the end of

[2] Committee on Government Undertakings

March 2003 is depicted below:

Table 7.9: Position of Discussion of Audit Reports (Commercial) by COGU

Period of Audit Report	No. of reviews and paragraphs appeared in the Audit Report		No. of reviews/paragraphs selected for Discussion		No. of reviews/paragraphs pending for Discussion out of those Selected	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Reviews	Paragraphs	Reviews	Paragraphs	Reviews	Paragraphs
1997-98	-	4	-	1	-	-
1998-99	2	8	-	7	-	-
1999-00	2	7	2	-	1	-
2000-01	1	9		1	-	-
2001-02	2	5	Not yet selected	Not yet selected	-	-

The Audit Report (Commercial) for the year 2001-02 was placed before the State Legislature on 3 April 2003.

Reviews

Delhi State Industrial Development Corporation Limited

7.2 Review on Re-location of Industries

Highlights

Delhi State Industrial Development Corporation Limited (the Company) was incorporated in February 1971 with the main objective of aiding, financing and promoting small scale industries. The Company was declared as land development agency for the purpose of re-location of industries operating in residential and non-conforming areas of NCT of Delhi up to 30 September 2002 in pursuance of directions (April 1996) of the Supreme Court in order to decongest Delhi and reduce environmental pollution in the national Capital.

(Paragraph 7.2.1)

Out of 27,028 units declared eligible for allotment of plots/factories under the scheme, only 16,410 allotments (for entire re-location scheme including Bawana) could be made (March 2003) due to shortage of plots. Of the 16,410 units, only 9,766 units (59.51 per cent) have made 100 per cent payment. Possession letters have been issued to 3,882 units (39.75 per cent) and of these, 3,503 units have since taken possession.

Out of 14,924 allottees of plots at Bawana, only 350 allottees had started construction of buildings and ten could commence operations by 31 October 2003 thereby resulting in non-achievement of the objective of re-location of industries by 30 September 2002 as per the orders of the apex Court.

(Paragraph 7.2.19)

The Company paid interest amounting to Rs.25.16 crore on the Earnest Money Deposits (EMD) for the period when the amount was utilized by the Office of the Commissioner of Industries which not only lacked justification but also overburdened the re-location scheme.

(Paragraph 7.2.5)

Acquisition of 28935.04 sq.mtr of unsuitable land resulted in unfruitful expenditure of Rs. 3.18 crore.

(Paragraph 7.2.10)

Grant of interest free mobilisation advances of Rs. 12.19 crore to contractors in contravention of generally accepted CPWD norms resulted in undue favour to contractors and loss of interest of Rs. 1.04 crore.

(Paragraph 7.2.14)

The Company injudiciously spent Rs.23.01 crore from the scheme funds for the construction of Master Plan roads which should have been constructed by the Government of NCT of Delhi.

(Paragraph 7.2.15)

The cost of 220 KV and 66 KV lines and sub-stations amounting to Rs.107.22 crore which are normally to be borne by the electricity company was included in the costing of the electrification of the industrial estate thereby burdening the allottees unnecessarily.

(Paragraph 7.2.17)

The works relating to setting up of common facilities, electrification work and arrangement for handling of industrial waste could not be completed even up to May 2003.

(Paragraphs 7.2.18)

Recovery at the rate of Rs. 4,200/- instead of Rs. 4,246/- per sq. mtr. resulted in short recovery of Rs.14.06 crore from the allottees. Further, enhanced compensation of Rs.10.69 crore though paid had not been recovered from the allottees.

(Paragraphs 7.2.20 and 7.2.21)

Introduction

7.2.1 The Delhi State Industrial Development Corporation Limited (Company) was originally incorporated under the Companies Act, 1956, on 15 February 1971 under the name of Delhi Small Industries Development Corporation Private Limited with the main objective of aiding, counselling, assisting, financing and promoting the interest of small scale industries. Subsequently, the name of the Company was changed (15 May 1976) to Delhi State Industrial Development Corporation Limited.

In pursuance of directions of Supreme Court, industries operating in residential and non-conforming areas to be re-located w.e.f. 1.1.1997.

While deciding a civil petition, the Supreme Court directed (April 1996) that non-residential activities may be permitted in residential premises subject to fulfillment of certain conditions as stipulated in the Master Plan of Delhi 2001. It was consequently decided by the Government that all industries which did not fulfil the requisite conditions should stop operating from residential areas w.e.f. 1st January 1997. The primary objectives of the above order were:

- to decongest Delhi by re-locating the industries operating in residential and non-conforming areas; and
- to reduce environmental pollution and provide environmental friendly solutions.

Towards this end, the Company was to develop land and provide common services to the re-located industries and facilitate providing information/consultancy support to the re-located industries for up-gradation of their technology.

Consequently, a scheme for re-location of industries which were operating in residential and non-conforming areas of National Capital Territory (NCT) of Delhi) was framed by the Government of NCT of Delhi which also approved (January 1997) a proposal to declare the Company as the land development agency (LDA) for this purpose. The salient feature of the scheme was that the Company would be designated as the land development agency to (a) take possession of the land from the land acquisition authority; (b) develop the land; and (c) provide common services and facilities, information and consultancy support to re-located industries. For this purpose, the project was to be taken up in three phases, viz:

i) Planning phase i.e. planning of development program and layout planning;

ii) Design phase i.e. of required infrastructure including inter alia road network, water, sewerage, drainage, solid waste management, power, telecommunication and maintenance systems; and

iii) Execution and management phase including budgeting, placement of Letters of Awards, quality management and other legal safeguards.

The industrial units were to be re-located at new sites by September 2002 as per the directions of the Supreme Court.

Organisational set-up

7.2.2 The management of the Company is vested in a Board of Directors (Board). The re-location wing of the Company is headed by a Managing Director (MD) who is assisted by General Manager (Re-location) and Chief Manager (Re-location) for administrative matters, a Financial Advisor and Chief Accounts Officer in financial matters and one Chief Engineer, two Superintending Engineers, six Executive Engineers and other junior staff in technical (works) matters.

As on 31 March 2003, there were nine directors on the Board consisting of the Chairman, one Managing Director and seven directors. The appointment, tenure and removal of the Managing Director is regulated by the Government of NCT of Delhi.

It was noted in audit that the post of Managing Director was held by 12 persons since 1997. The average time for which an MD held the post worked out to only about six months. Such lack of continuity and frequent changes resulted in depriving the Company of the benefits of a steady leadership which was essential for effective achievement of its objectives and tasks.

Scope of Audit

7.2.3 The review covers the scheme on 'Re-location of Industries' from April 1997 to March 2003 in the Bawana Industrial Area which was the major industrial area developed solely for re-location of the industries.

The review was discussed by the Audit Review Committee of Public Sector Enterprises in its meeting held on 25th September 2003. The Government was represented by the Commissioner and Secretary, Industries and the Corporation by the Managing Director.

Management of Funds

7.2.4 The total estimated project cost at Bawana was Rs.1,298 crore for development of 1,903.29 acres of land. The scheme of re-location is a self-financing scheme and no subsidy whatsoever was to be given by the Government of NCT of Delhi for implementation of the scheme. The main sources of finance for the project were as under:

Sl. No.	Source	Amount (Rs. in crore) 31 March 2003 (Provisional)
1	**Earnest money deposits from the applicants of plots/flatted factories (after payment of refunds)**	**167.69**
2	**Amount received from allottees.**	**698.45**
3	**Interest income on surplus fund on the scheme.**	**120.98**
4	**Other interest income**	**4.94**
5	**Loan from the Government of NCT of Delhi.**	**Nil***

* A loan of Rs.100 crore from the Government of NCT of Delhi was taken in November 1996 and finally repaid in October 2000 along with interest of Rs.21.20 crore.

Injudicious Payment of Interest

7.2.5 The Company received Rs.100 crore as loan (November 1996) from the Government of National Capital Territory of Delhi (GNCTD) through the Commissioner Industries for implementing the project of re-location of industries at an interest of 15 per cent per annum including 0.5 per cent service charges. Till April 1997, the Commissioner of Industries (CI) had collected Rs.295 crore as Earnest Money Deposits (EMD) from the applicants of plots and flatted factories under the scheme. The money was remitted to the Company (March 1998) after adjusting the loan of Rs.100 crore along with the interest of Rs.15 crore thereon. Thus, the Company received a net amount of Rs.180 crore.

Payment of interest amounting to Rs. 25.16 crore on EMD lacked justification.

It was observed in audit that the Company was paying simple interest at 7 per cent per annum on the EMD to both the successful as well as unsuccessful applicants since 01 January 1997. As the amount collected was lying with the CI during the period 01 January 1997 to 20 March 1998, the interest on the amount during the aforesaid period should have been paid by them instead of the Company. The amount of interest so paid/payable for the period 01 January 1997 to 20 March 1998 by the Company on EMD of

Rs. 295 crore worked out to Rs.25.16 crore which not only lacked justification but also overburdened the scheme.

The Government stated (October 2003) that no interest had been earned by the CI as the EMD collected by them was deposited in the Consolidated Fund of Delhi and that the interest earned by the Company on investments out weighed the interest they have had to pay and as such there was no loss to the Company. It added that the interest paid on the Rs.100 crore had been loaded to the Scheme.

The reply is not tenable as it was clear that the Company had to bear an interest burden for funds during a period when the funds were actually not even available to it which resulted in unduly burdening the scheme. The Company could have been exempted from paying interest during this period in the interest of the scheme.

Avoidable Payment of Interest.

7.2.6 It was further observed that while adjusting (March 1998) the loan of Rs.100.00 crore along with interest of Rs.15.00 crore to the CI as discussed in paragraph 7.2.5 above, the Company did not make interest calculations in accordance with the terms and conditions of loan but relied on the calculation made by the CI. The Company came into action only in November 1999 when demand for additional interest (Rs.7.08 crore) was received from CI. An amount of Rs.6.20 crore on account of additional interest was finally paid in November 1999 (Rs.4.81 crore) and November 2000 (Rs.1.39 core) in addition to Rs.15.00 crore already adjusted in March 1998.

The Company could have saved an interest burden of Rs.1.39 crore by making calculation of interest and payment thereof in March 1998 itself as it had surplus funds in fixed deposits. Even after adjusting an interest of Rs.0.84 crore earned on fixed deposits (assuming Rs.4.81 crore was invested), the avoidable payment of interest works out to Rs.0.55 crore.

Government stated (October 2003) that interest income of Rs.125.80 crore subject to tax had been credited to the scheme up till 31.03.2003 thereby subsidising the cost of plots chargeable from the allottees.

The reply did not address the issue raised by audit which was that the payment of interest as worked out by audit could have been avoided by timely calculation of interest especially when adequate funds were available under the scheme.

Non-maintenance of Separate Account of Earnest Money Deposits (EMD) for Eligible Unsuccessful Applicants.

7.2.7 A separate account has been maintained by the Company for the scheme as it was a self-financing scheme. All the receipts under the scheme (including interest earned on the parking of surplus funds) was being credited and all the expenditure debited to the said account. Out of the total number of 27,028 applicants declared eligible for allotment of plots/factories under the scheme, only 16,410 allotments (for the entire re-location scheme including Bawana) could be made (March 2003) due to non-availability of land and the remaining 10,618 applicants were categorised as eligible unsuccessful applicants.

It was observed in audit that no separate account was being kept by the management in respect of the money received from these eligible unsuccessful applicants. In the absence of separate details regarding interest earned on EMD, it could not be verified as to how much money on account of EMD and interest earned thereon in respect of these eligible unsuccessful allottees had been utilised for development of land/plots pertaining to eligible successful allottees.

The Government stated (October 2003) that DSIDC had since prepared a statement of funds pertaining to such eligible unsuccessful applicants and as per this statement, Rs.67.65 crore had been received from them.

However, it was noted in audit that no separate account has been maintained of the interest earned on the EMD received from eligible unsuccessful applicants in the books of accounts prepared by the Company.

Acquisition of Land

7.2.8 In pursuance of the directions of the Supreme Court, the GNCTD initiated steps for acquisition of land and for development of new industrial estates for re-location of industrial units operating in the residential/ non-conforming areas. The year-wise area of land acquired/handed over to the

Company at Bawana Industrial Area was as follows:

Year	Land Acquired (in acres)
1996-97	739.57
1997-98	195.89
1998-99	134.42
1999-2000	Nil
2000-2001	798.29
2001-2002	35.12
2002-2003	Nil
Total	1903.29

Delay in Identification and Acquisition of Land

Delay in acquisition of sufficient land to accommodate all eligible units resulted in 10,618 units not being re-located.

7.2.9 Though the orders/directions for re-location of industries were given by the Supreme Court in April 1996, the process of acquisition of land is still continuing and sufficient land to accommodate all the eligible industrial units could not be acquired even till date i.e. 30.9.2003. Out of the total number of 27,028 units declared eligible for allotment of plots/factories under the scheme, only 16,410 allotments (for the entire re-location scheme including Bawana) could be made (March 2003).

About 486 hectares of additional land was required to accommodate the remaining eligible allottees. A requisition for allotment of additional land was sent (May 2002) to the Delhi Development Authority (DDA) which has so far identified 772 hectares of land (175 hectares in Narela, 332 hectares in Rohini and 265 hectares in Dwaraka) for allotment under the scheme. The first site at Narela has no encumbrance and Land and Building Department has accordingly been requested for acquisition of the same. The area of the remaining two sites is inhibited by structures. Correspondence has been going on between the Department of Industries and DDA for identifying alternate sites.

It was observed in audit that considerable time had been taken in identifying the required land and undergoing formalities and as a result over 10,618 eligible allottees have yet to be re-located even after lapse of over 7 years since the orders of the Supreme Court.

The Government stated (October 2003) utmost efforts were being made to acquire additional land and the matter was being vigorously followed up with the DDA as well as the Government of India.

Acquisition of Unsuitable Land.

7.2.10 A gas pipe line of Gas Authority of India Limited (GAIL) was passing through the industrial complex at Bawana. `Right of Way' on land measuring 28,935.04 sq.mtr. on a 13 mtr. wide corridor along the gas pipe line was acquired by GAIL by paying 10 per cent compensation in order to prevent any unauthorised encroachment/land use of the gas corridor. Though this was known to the Company, it decided (March 2001) to acquire the whole area from where the gas pipe line was passing through the villages of Khera Khurd and Bawana.

Acquisition of unsuitable land resulted in unfruitful expenditure of Rs. 3.18 crore.

It was observed in audit that this decision of the Company lacked justification as construction of any building or structure, excavation of any tank, well reservoir or dam or even plantation of trees was strictly prohibited on the above land in terms of Section 9 of the Petroleum (Acquisition of Right of User in Land) Amendment Act, 1977. Thus this portion of the land could not be utilized by the Company for the purpose for which it had been acquired and the expenditure of Rs.3.18 crore incurred in the acquisition of this stretch of the land was likely to be rendered unfruitful. Further, the major portion of the pipeline was lying near boundary of the land acquired by the Company and the western Yamuna Canal and this portion could have been easily excluded from the land acquired.

The Government stated (October 2003) that the acquisition of the land was necessary for the proper development of the project and that area had been kept under green areas.

The reply was not tenable as the pipe line was largely down one side of the acquired plot and could easily have been excluded as it was of no use for the purposes of the scheme thereby saving Rs.3.18 crore.

Transfer of Acquired Land to Slum Department

7.2.11 With a view to rehabilitating the jhuggi dwellers who were displaced due to their jhuggis coming in between the alignment of the Delhi Metro Rail Corporation route from Shahdara to Tis Hazari, the Company transferred (May 2000) land measuring 7.679 acres (31,076 sq.mtrs.) purchased from the scheme funds to the Slum Department at the instance of the GNCTD on exchange basis. It was however observed that neither had any land in lieu thereof been given by Slum Department so far (June 2003) nor had the Company pursued the matter vigorously thereby resulting in blockage of funds of Rs.92.15 lakh (7.679 x Rs.12.00 lakh i.e. cost of acquisition of land per acre) meant for acquisition of land for re-location of industries.

Thus, while on the one hand the Company could not accommodate all the eligible applicants for want of sufficient land, on the other hand land acquired for the purpose of re-location of industries was diverted towards rehabilitation of displaced slum dwellers which defeated the very purpose for which the land was acquired.

Government stated (October 2003) that the land could not have been used for industrial plotting under the scheme and that the DMRC has now been approached for monetary compensation for this land.

Infrastructure Development

7.2.12 Services/facilities like provision of power, master plan roads, water supply, sewerage, storm water management, solid waste management, fire fighting system, horticulture were planned under the scheme. In order to expedite implementation of the scheme, the Company appointed (December 1998) consultants to plan its implementation, prepare estimates (quantitative and financial), call and evaluate tenders and provide technical control and supervision of the implementation work.

The structural plan i.e. land use approval was given by the Technical Committee of DDA on 13 January 1999. The layout plan was approved by different Government agencies as late as between January 2000 and May 2002. The dates of submission of the aforesaid plans to various Government authorities and its further follow-up with them had not been intimated to audit.

Cost Over-run

Delay in completion of technical and administrative formalities resulted in increase in project cost by Rs. 22.04 crore.

7.2.13 Audit analysis revealed that though the orders regarding re-location of industries were issued by the apex Court in April 1996, considerable time had been taken in acquisition of land (1996-97 to 2001-02) as discussed in para 7.2.9, appointment of consultants and issue of project report and in getting requisite clearances from various Government agencies for land use and layout plan approval. Consequently, the Letters of Award for development of land/plots to contractors could be placed only between December 2000 and March 2001. Further, the cost of the project had increased substantially and 6 contracts (one for construction of Master Plan roads and other 5 for development of five sectors) which were estimated to be completed at a cost of Rs 214.17 crore (August 2000) are now expected to be completed at a cost of Rs.306.35 crore (including departmental charges) i.e. at an extra cost of Rs.92.18 crore which inter alia includes Rs.22.04 crore on account of increase in cost/price index level which could have been avoided had the formalities been completed in a timely fashion.

Government stated (October 2003) that there was no delay in the implementation of the scheme given the magnitude of the project and the increase in cost was due to increase in land area and changes in specifications including use of specifications of Ministry of Surface Transport (MOST) in place of CPWD specifications in sector roads.

The reply was not tenable in audit since land acquisition took 4 years from April 1996 to October 2000 while work started in December 2000. Further, the increased cost included a sum of Rs.9.38 crore due to use of higher MOST specifications in place of CPWD specifications the justification of which was not available on record.

Grant of Mobilisation Advance in contravention of generally accepted norms

7.2.14 Clause 10B of the contract entered into with the contractors stipulates that mobilisation advance not exceeding 5 per cent of the estimated cost put to tender or tender value whichever was less could be given at the request of the contractor within one month of the order to commence the work. However, as per the 'CPWD Manual' whose norms have generally been followed by the Company, mobilisation advance can be given only in cases of certain specialized and capital intensive[*] works costing Rs.1.00 crore or above. The CPWD Manual further stipulates that interest at 10 per cent per annum would be charged on such mobilisation advances.

Interest free mobilisation advance to contractors in contravention of CPWD norms resulted in loss of interest of Rs. 1.04 crore.

It was observed in audit that the Company had granted interest free mobilisation advance to contractors to the tune of Rs.12.19 crore though neither large quantum of plant and machinery nor any special kind of material was required to be purchased for the execution of the works. Thus, giving of interest free mobilisation advances to the tune of Rs.12.19 crore to the contractors was not only in violation of the provisions of the CPWD Manual, but it also resulted in loss of interest of Rs.1.04 crore which amounted to undue favour to contractors.

Government contended (October 2003) contended that in view of the commitment given to the Supreme Court for completing the work by September 2002, all kinds of incentives/options were considered to motivate the contractors which also included interest free mobilisation advance.

The Government's contention is not tenable as provision for penalty as well as bonus for early execution of work has already been provided in the contract.

[*] *Capital intensive works are defined as those for the execution of which the contractor has to purchase a large quantum of machinery and equipment or for which substantial initial outlay is required for ordering special material which is required for execution of the work.*

Moreover, the Company management is charging interest on mobilistion advance in case of contracts awarded for construction of Combined Effluent Treatment Plants in the industrial area and the same should have been done in the instant case also in conformity with the norms.

Injudicious decision to construct Master Plan Roads passing through the Udyog Vihar, Bawana.

7.2.15 A review of the records of the Company revealed that it has constructed the Master Plan road-2 (80 mtr.) at a cost of Rs.7.99 crore for which there was no provision. The road was constructed as it was required in the zonal/structural plan approved by DDA. Master Plan roads are normally constructed by the Public Works Department (PWD) out of Plan funds after taking possession of land acquired by DDA.

Government stated (October 2003) that the Company had constructed the Master Plan road passing through the industrial estate as they were necessary for ensuring inter-connectivity between the sectors and no action had been initiated by DDA to construct these roads. It was added that the benefit of the road would accrue to the plot holders in the industrial estate.

Construction of master plan roads from re-location scheme funds instead of plan funds over-burdened the scheme by Rs.23.01 crore.

The reply is not tenable as besides the plot holders of the industrial estate, the people at large would also benefit from this road which is a public asset. Hence, the construction of these roads should have been done out of the Plan funds by the Delhi Government instead of from funds of the re-location scheme. Further, even the cost of the land used for the construction viz. Rs.15.02 crore has not been claimed by the Company from the Delhi Government.

Non-construction of Flatted Factory Complex at Bawana

7.2.16 A review of the layout plan of the Industrial Complex (Udyog Vihar) for re-location of industries at Bawana revealed that flatted factories were to be constructed in Pockets 'N' and 'C' of Sectors 1, 3 and 5 respectively. However, it was observed that contrary to the approved plan, no flatted factories had so far (June 2003) been constructed on the earmarked site. The area of the earmarked land for construction of the flatted factories was 34,407.00 sq.mts. The reasons for non-construction of flatted factories were attributed to lack of demand.

Government stated (October 2003) that the aforesaid land would be developed into industrial plots after revising the layout plans and obtaining approval from the competent authorities.

Non-utilisation of the land acquired for re-location of industries under the scheme when there were eligible applicants waiting for allotment reflected lack of adequate planning and resulted in blocking of funds to the tune of Rs.14.45 crore.

Electrification of the Bawana Industrial Area.

7.2.17 The work relating to electrification of Udyog Vihar, Bawana, was entrusted (6 January 2001) to the erstwhile Delhi Vidyut Board (DVB) by the Company on the condition that the Company would not pay more than Rs.300 crore (subsequently revised to Rs.280 crore) and that too in stages as per the progress of work at site and the balance funds required for the work would be managed by the DVB either through Plan funds or its own resources. It was also agreed that the Company and the erstwhile DVB would share the cost of 11 KV LT systems along with 11 KV transformers equally whereas the cost of 220 KV and 66KV line shall be borne by the Company. However, bearing of cost of 220 KV and 66 KV line by the Company was not necessary as such costs are normally to be borne by the electricity supplier viz. DVB in this case. Thus, inclusion of the cost of 220 KV and 66 KV line and sub-stations i.e. Rs.107.22 crore in the costing of the electrification of the industrial estate unnecessarily burdened the allottees.

Inclusion of cost of 220 KV and 66KV line and substations in cost of electrification burdened the allottees by Rs.107.22 crore.

Review of the records of the Company revealed that Rs.124.50 crore was released to the erstwhile Board by the Company on the basis of estimates received from time to time (January 2001 onwards). Audit scrutiny revealed the following:

Funds to the tune of Rs.124.50 crore were released to erstwhile DVB without utilisation certificates.

- As per terms of the agreement, payment was to be released on the basis of work done at site. However, payment of Rs.124.50 crore was released without reference to the work at site;
- The money received by the Board from the Company was to be kept in a flexi account so as to ensure that the funds which were not utilised by the Board earned some interest. Though Government stated (October 2003) that a flexi account had been prepared, it was verified in audit that no such account had been opened.
- Consequent upon the re-structuring of the DVB and privatization of the distribution function, all works above 66 KV along with provision of mains were to be executed by the private distribution companies. It was however observed that the work of electrification of Bawana Industrial Estate which was earlier started by the DVB was left midway and was thereafter neither being attended to by either TRANSCO nor by the private distribution company. The latter had

expressed its inability to finance and execute the electrification work on the plea that there were hardly any consumers at Bawana. It was also seen in audit that TRANSCO refunded the unspent balance of Rs.70.00 crore out of Rs.124.50 crore in November 2002. However, no account of the money utilised i.e. Rs.54.50 crore was furnished. The issue remains unresolved (May 2003).

Government stated (October 2003) that as per directions of the Delhi Electricity Regulatory Commission issued in June 2003, the cost of providing connection on 11 KV lines would be shared between the consumers (i.e. the Company) and the DISCOM {i.e. North Delhi Power Company Limited (NDPL)} on 50:50 basis. As NDPL had expressed their inability to finance the electrification work, NDPL approached the Company (August 2003) for loan. However, it was observed in audit that neither had any terms of loan been finalised nor had any payment been released to NDPL and as a result the electrification work remained incomplete.

- Payment schedule prepared, if any, with reference to the cost estimates though called for was not furnished to audit.

The Management informed (June 2003) that out of the 11 allottees who had applied for permanent power connections, seven had been provided with permanent connections by NDPL and connections to the remaining were in progress. It was added that the power connection, either permanent or temporary, is to be provided by the NDPL and the Company is only the coordinating agency.

The reply is not tenable as the Company is responsible for providing the infrastructure (including power) to the allottees in order to ensure the successful implementation of the scheme. Moreover, lack of power connection would be a major inhibiting factor for re-location of business.

Common Facilities

7.2.18 The Company had planned certain common facilities for the re-locating industrial units in Bawana Industrial Estate viz. wholesale market, product-cum-process development centre, truck terminal, industrial training institute, telephone exchange, police station, ESI hospital, fire station, social welfare department, documentation centre/Computer Aided Design and Computer Aided Manufacturing Centre, health care centre, restaurants, night shelter, boarding and lodging, convenient shopping, eating places, creche-cum-day centre, petrol pumps, etc. A review of the records of the Company revealed that four sites for setting up of telephone exchanges and six sites for setting up of petrol pumps and CNG station were earmarked in the layout plan of the Udyog Vihar, Bawana.

No common facilities were set up till March 2003.

It was, however, observed that though the work relating to the provision of the basic infrastructure (roads, drainage, sewerage, etc.) had been completed (March 2003), the process of allotment and subsequent handing over of the land for activities like setting up of the telephone exchange, petrol pumps, police station, Post & Telegraph office, ESI hospital, fire station etc., to the authorities concerned was still underway.

Government stated (October 2003) that the land has now been allotted and handed over to MTNL , Delhi Fire Services, Delhi Police and Indian Oil Corporation for the facilities to be provided by them.

Allotment

Slow pace of taking over possession of plots

Reasons for slow pace of possessions not analyzed by the Company/ Government.

7.2.19 Of the 27,028 eligible units, allotments have been made only to 16,410 (60.71 per cent) units. The balance 10,618 eligible units could not be given allotment for want of flats/plots. Of the 16,410 eligible units including 14,924 units at Bawana who have received allotment, only 9,766 units (59.51 per cent) have made 100 per cent payment. Possession letters have been issued to 3,882 units (39.75 per cent) and of these, 3,503 units have since taken possession. Out of 14,924 allottees of plots at Bawana, only 350 allottees had started construction of the buildings and out of this, only 10 had commenced operations. The Company/ GNCTD had not analysed the reasons for the slow pace of taking possession and completion of construction of buildings.

Government stated (October 2003) that there was no deficiency as far as infrastructure was concerned which could hinder the shifting of units to Bawana. However, the fact remained that out of 16,410 allotments made, only 3,503 units viz. 21 per cent had actually taken possession of the plots after completion of all formalities while at Bawana only 350 out of 14,924 allottees had actually started construction. It was evident that the objective of re-location of industries was far from being achieved.

Short Recovery from Allottees

7.2.20 A review of the cost records pertaining to cost of development of land revealed that based on the cost estimates prepared by the Company in November 1996, the cost of development of land worked out to Rs.2894/- per sq.m. which was rounded off to Rs.3000 per sq.m. for the purpose of recovery from the allottees. However, subsequently when the cost estimates for development of land (including land acquisition cost) were prepared by M/s RITES, the cost per sq. mt. was worked out to Rs.4246/- which was rounded off to Rs.4200/- per sq. mt. (May 2002) for recovery from the allottees of the

Recovery @ Rs. 4200 instead of Rs.4246 per sq. metre resulted in short recovery from allottees by Rs.14.06 crore.

plots. Thus, the short recovery from the allottees on this account worked out to Rs.14.06 crore (provisional).

Government stated (October 2003) that the Consultants had estimated the rate of land at Rs.4,246/- per sq.mt. which was reduced to Rs.4,200/- per sq.mt after changes in the scope and layout plan. The contention of the Government was not tenable as the rate has been arrived at by dividing the revised cost as intimated by the Management with the area available for sale.

Enhanced compensation amounting to Rs. 10.69 crore though paid had not been recovered from allottees.

7.2.21 Further, the landowners had demanded enhanced compensation in respect of land acquired from them due to increased market value of the land and judgments had been pronounced by the Additional District Judge for payment of enhanced compensation. On the basis of the judgement, the Company anticipated a likely extra burden of Rs.108.00 crore of which Rs.10.69 crore had already been released. Despite this assessment, the Company kept on giving possession at the price of Rs.4200/- per sq. mt. without taking into account the additional compensation paid thereby resulting in short recovery of Rs.10.69 crore from the allottees as on date which would ultimately increase to Rs.108 crore.

7.2.22 The latest revised cost estimates (May 2002) place the total cost of the re-location project at Bawana at Rs.1,298.00 crore which included a provision for interest of Rs.21.00 crore on the loan of Rs.100 crore from GNCTD. However, the interest actually paid is Rs.21.20 crore (October 2000). Thus, there will be a short recovery of Rs.20 lakh from the allottees of the plots at Bawana at the current rate at which land is being given.

Sale of Commercial Spaces at Udyog Vihar Bawana.

7.2.23 The Company had estimated a cash inflow of Rs.47.13 crore from 43.91 hectares earmarked for sale as commercial space. However, it was observed in audit that none of the commercial plots had been sold/allotted and no money on this account had been received by the Company (May 2003). Management has thus failed to achieve cash inflow targets anticipated on this account in its cash flow statement for the scheme. Non-achievement of the said target is likely to affect the pace of work under the scheme. Moreover, the Company may be compelled to meet its liabilities under the scheme out of its own funds.

Government stated (October 2003) that the space would be auctioned at an appropriate time so as to derive better prices.

Management Information System (MIS)

7.2.24 The Company had not evolved an efficient and reliable Management Information System (MIS) for reporting matters pertaining to its Re-location Division to the Board of Directors. The monthly progress reports prepared by the Re-location Division generally depicted inter alia the status of units declared eligible for allotment of industrial plots, allotment letters issued, possession letters issued, payment received, refund requests received and refunds made, etc. Such reports, however, did not indicate the targets vis-à-vis achievements which would have enabled effective monitoring and timely corrective action.

While the monthly progress reports prepared by Works Division, Bawana, of the Company indicated the targets as well as achievements of its main activities i.e. development of plots/roads, etc., these reports were generated as and when required/demanded by various authorities and not at regular intervals. Moreover, month-wise targets to be achieved were not framed even at Bawana.

The Management stated that this matter was discussed in the Board and better MIS was being introduced.

Conclusion

7.2.25 According to the directions of the Supreme Court, the work of re-location of industries was to be completed by 30 September 2002. It was, however, observed that the process of rehabilitation could not be completed even as of 30 June 2003 due to delay in acquisition of the required land coupled with lack of adequate infrastructure facilities. Out of 27,028 eligible units, allotment could be made to only 16,410 units as of March 2003. The implementation of the scheme was also marked by injudicious payments of interest (Rs.25.16 crore) as well as loss of interest (Rs.1.04 crore), acquisition of unsuitable land (Rs.3.18 crore), cost over-run (Rs.31.42 crore) and blockage of funds (Rs.84.37 crore).

7.3 Working of the Delhi Tourism and Transportation Development Corporation Limited

Highlights

The Delhi Tourism and Transportation Development Corporation Limited (Company) was incorporated in December 1975 with the main objective of promotion of tourism in the National Capital Territory of Delhi. Subsequently, the retail sale of liquor, Indian Made Foreign Liquor (IMFL) and Country Liquor (CL) was entrusted to the Company in 1979 and 1989 respectively.

(Paragraph 7.3.1)

As of March 2003, the accumulated profit of the Company stood at Rs.38.67 crore. However, the share of net profit from the liquor trade in the total profit generated during last five years ranged from 74 per cent to 210 per cent. The composition of turnover of the Company further revealed that share of liquor sale to the total sale amounted to 98 per cent during the last five years up to March 2003. These were indicative of the fact that the focus of the Company had shifted from its primary objective i.e. promotion of tourism in Delhi.

(Paragraphs 7.3.8, 7.3.22 & Annexure X)

Catering Division incurred loss of Rs.1.97 crore during the last five years ending 2002-03. All the 5 Coffee Homes and 2 canteens except the Connaught Place Coffee Home which earned profit during 1999-2000 and 2000-01 were incurring losses due to excessive expenditure on groceries and establishment as compared to total sales. The expenditure ranged from 84 per cent to 159 per cent of the total sales.

(Paragraph 7.3.10)

Tourism Division incurred a loss of Rs.1.29 crore despite a grant of Rs.1.16 crore during last five years ending 2002-03 due to less number of tours operated.

(Paragraph 7.3.15)

Transportation and Adventure Division also incurred loss of Rs.1.16 crore on account of lower utilisation of vehicles, less generation of business and non-closure of loss making boating sites.

(Paragraphs 7.3.19, 7.3.20 & 7.3.21)

Musical fountain was set up at a cost of Rs.0.90 crore at Karol Bagh without any feasibility report. This project incurred loss of Rs.37.58 lakh during the last five years ending 2002-03.

(Paragraph 7.3.26)

Introduction

7.3.1 The Delhi Tourism and Transportation Development Corporation Limited (Company) was incorporated as a Government Company on 12 December 1975 with the primary objective of promotion of tourism in the National Capital Territory (NCT) of Delhi. The retail sale of Indian Made Foreign Liquor (IMFL) and country liquor was subsequently entrusted to the Company by the Government in 1979 and 1989 respectively.

Objectives

7.3.2 Pursuant to its primary objective, the Company is engaged in the following activities:

- Construction, operation and maintenance of tourist information bureaus and centers in the NCT of Delhi and elsewhere;
- Organisation of all-inclusive tours;
- Establishment and management of transport units, travel and transport counters;
- Collaboration with the Archaeological Survey of India and other Departments for the development and promotion of tourism in the NCT of Delhi.

- Providing entertainment to tourists by way of cultural shows, tourist complexes, entertainment and amusement parks, dance/music concerts, films, son-et-lumiere spectacles and sports and games;

- Undertaking business of wine and liquor and sprits of all kinds, mineral water, beer and soft drinks;

- Acting as authorized full-fledged money changer approved by RBI; and

- Construction of flyovers, grade separators, subways, etc.

Scope of Audit

7.3.3 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996 relating to the Government of NCT of Delhi (GNCTD). The Management in their Action Taken Report had assured that the budget would be prepared on a yearly basis and that a Research & Development cell would be set up. An assurance was also given regarding proper utilisation of fleet (coaches/cars) in future. Audit scrutiny however indicated that the Company was not preparing the revenue and capital budget nor had any Research & Development cell been created even after lapse of 6 years. Its fleet utilisation was also on a decreasing trend. Hence, the assurances given were clearly not fulfilled.

Management stated (October 2003) that the Corporation was preparing a Business Plan for 2004-05 which was more suitable for the tourism industry. It added that the Planning & Project Cell of the Company performs the functions of the R&D cell.

The present review covers the working of the Company for the last 5 years spanning the period 1998-99 to 2002-2003. Test check was conducted of the records of the tourism, transportation, adventure, catering and liquor divisions of the Company. The review was discussed by the Audit Review Committee of Public Sector Undertakings in its meeting held on 26 September 2003. The Government was represented by the Principal Secretary (Tourism) and the Corporation was represented by its Managing Director. The results of audit are discussed in the succeeding paragraphs.

Organisational set-up

7.3.4 The Management of the Company is vested with a Board of Directors (BOD) comprising not less than 3 and not more than 15 directors including

Frequent changes of MD deprived corporation of continuity.

the Chairman and Managing Director who are appointed by the Lt. Governor of Delhi in accordance with Article 45 of the Articles of Association of the Company. The Managing Director is the Chief Executive (CE) of the Company and is assisted by a General Manager, Chief Engineer and Financial Controller who look after the general administration, construction/engineering work and financial portfolios respectively. During the last 5 years ending 2002-03, five persons held the post of Managing Director. Such frequent changes at the top level deprived the Company of the benefits of a steady leadership and continuity which is essential for growth and responsible management.

Cash Management

Funds flow statement not being prepared.

7.3.5 During audit, it was observed that the Company had not prepared any fund flow statement nor was there any centralised system to ascertain the exact position of available cash as on a particular date. Since the Company is engaged in the sale of liquor which generates most of the cash sales, a mechanism to ascertain the flow of cash on daily basis ought to have been devised. Moreover, the records relating to investment of funds were not being maintained properly. It was also observed that the cash position was ascertained only at the time of maturity of the FDRs and not on a daily basis. A scrutiny of the limited records made available to audit revealed that on two occasions, funds worth Rs.3.11 crore and Rs.2.00 crore matured on 21.05.2000 and 10.09.2001 respectively but were invested after a delay of 8 days resulting in loss of interest to the extent of Rs.1.06 lakh. The loss was attributable to delay in processing the case at different levels. It was evident that the cash management in the Company required strengthening.

Test check at different units where the cash book was being maintained also revealed that entries which were made by the cashier were not being authenticated by the senior officers. In addition, entries were found corrected without any authentication indicating a serious deficiency of internal control. There was no improvement in the system of maintenance of cash book till September 2003 even after being pointed out by audit.

Management stated (October 2003) that a fund flow statement was being prepared at least once a month while the cash position of the different units was being assessed on a weekly basis. In so far as the instances of delayed investment was concerned, Management stated that though the decision was delayed, the Company benefited by a higher rate of interest. Management added that a mechanism had since been instituted for physical verification of cash by management level officers and authentication of vouchers before payment.

However no records could be produced to audit for verification of the reply except one file for the period from November 2000 to September 2002 wherein also it was seen that the availability of cash position was not reported to the higher authorities at stipulated intervals. Further, no record relating to the Company ultimately benefiting by a higher rate of interest was produced to audit.

Budgeting

7.3.6 As mentioned in paragraph 3 above, no budgets were being prepared despite assurance given in the Action Taken Report. In the absence of budget, the actual performance could not be evaluated vis-a-vis pre determined targets. At present, no targets are set for any division except for selling liquor.

Management stated (October 2003) that Corporate Budget for the period from 1997-98 to 2002-03 was prepared. However, its focus was on elimination of arrears in accounts and now since that task had been completed, it was concentrating on preparation of a Business Plan.

However, verification in audit revealed that only a revenue budget for 1998-99 had been prepared.

Capital Structure

7.3.7 As on 31 March 2003 the paid up capital of the Company was Rs.6.28 crore against the authorised capital of Rs.10.00 crore. The entire capital has been subscribed by the GNCTD except for one share which was held by the Delhi State Industrial Development Corporation Limited. In 1998-99, Rs.50 lakh was released as equity capital fund. During the subsequent four years, no funds were released by the GNCTD.

Financial Position and Working Results

Contribution from other income ranged between 31 and 41 per cent during the last five years.

7.3.8 The financial position, working results and break-up of net profit generated from the activities of the Company for the last five years ending 31st March 2003 are given in Annexure 'A'. It may be seen therefrom that:

- the contribution from other income (income from interest on FDRs, rent/licence fee, sale of cartons, liabilities written back etc.) during the last 5 years ranged between 31 to 41 per cent which indicative of the fact that its income from the core business of the Company was on the lower side.

Contribution from activities other than liquor trade ranged between Nil and 25.57 per cent only.

- the contribution from activities other than liquor trade in the net profit during 1998-99 to 2002-03 before tax ranged between Nil to 25.57

per cent. During 2000-01 and 2002-03, the contribution from these activities was negative which eroded the earnings of the liquor trade. It was apparent that the contribution of the tourism sector to its finances was negligible while the Company boosted its profit earnings by the sale of liquor.

- the rate of return on capital employed was on a decreasing trend during the period from 1997-98 to 2000-01. It decreased from 15.51 per cent in 1998-99 to 1.29 per cent in 2000-01 and then increased to 7.75 per cent in 2002-03.

There has been heavy investment in fixed assets as gross block of the fixed assets increased from Rs.10.82 crore in 1998-99 to Rs.23.12 crore in 2002-03 but these were not supported by a corresponding increase in the turnover as the fixed assets turnover ratio decreased from 31.22 times in 1998-99 to 23.34 in 2000-01 and thereafter slightly increased to 25.01 in 2001-02. During the 2002-03, it again came down to 20.85. Even the improved turnover ratio of 2001-02 was lower than that of the ratio of 1997-98 which is indicative of the fact that either the fixed assets created were kept idle or the investment had been made without proper assessment of the possible revenue generation.

Management stated (October 2003) that the decrease was on account of heavy investment in projects like Azad Hind Gram, Ajmal Khan Park, Coffee Homes etc. and reduction in bank rates on FDRs. It added that the position had since improved in the subsequent financial year of 2002-03. However, the reply is not convincing because even after operation of these projects, there is no significant increase in the rate of return. In fact, the returns from Ajmal Khan Park Project and the Coffee Home were almost negligible during last few years. As such, the investment in projects was not being optimally utilized.

- ♦ Return on capital employed in absolute terms also decreased from Rs.4.06 crore in 1998-99 to Rs.49.77 lakh in 2000-01 and again increased to Rs.3.49 crore in 2002-03. This increase was mainly on account of interest on refund of tax and interest charged on loan to staff on accrual basis amounting to Rs.90.31 lakh. Otherwise, the return on capital was only Rs.2.59 crore.

Grants

Grants were not utilised fully and timely.

7.3.9 Government of India, Department of Tourism, and the GNCTD provide assistance to the Company in the form of grants for construction of

tourist complexes, organisation of fairs and festivals, construction of public conveniences, operation of tourist information centers, development of lakes, etc. Scrutiny of the grants received and utilised during the last five years ending 2002-03 revealed that in many cases, either the full sanctioned amount was not utilised due to abandonment of the project or the grant was utilised after prolonged delay. Details of the under and delayed utilisation of grants received from the Government of India as on 31 March 2003 was as under:

(Rs. in lakh)

Sl. No.	Year of Receipt of Grant	Purpose for the Grant	Amount of Grant Sanctioned	Grant Utilised/ Released	Grant Unspent	Remarks
(i)	1997-98	Way side amenities at NH-8	30.00	19.00	11.00	Only boundary wall constructed. Refer to Para No.7.3.25
(ii)	1998-99	Illumination of Naini Lake	10.93	5.46	5.47	Only Rs.5.46 lakh adjusted against another project at Hari Nagar and subsequently scheme dropped.
(iii)	1998-99	Public convenience at Jantar Mantar	8.90	2.40	6.50	Scheme dropped.
(iv)	1998-99	Public convenience at Qutab	8.00	2.10	5.90	Work was being awarded.
(v)	1998-99	Public convenience at Tuglakabad	8.00	2.40	5.60	Scheme dropped.
(vi)	1999-2000	Signages at Chandni Chowk	4.50	1.50	3.00	Work completed during 2002-03.
(vii)	1999-2000	Four festivals	20.00	5.09	14.91	Two festivals not organized
	Total		**90.33**	**37.95**	**52.38**	

Management stated (October 2003) as follows:

- It was subsequently decided to run the way side amenities at NH-8 on BOT basis and hence the balance of the sanctioned amount was not pursued;

- No agency came forward to meet the recurring expenditure on electricity for illumination of Naini Lake;

- Archaeological Survey of India (ASI) refused necessary permission for public conveniences at Jantar Mantar and Tuglakabad and hence the project had to be dropped;

- Work of public convenience at Qutub was delayed due to late receipt of necessary permission from ASI. It has now been awarded to Sulabh International, Delhi;

- Delay in the signages of Chandni Chowk was due to late receipt of requisite approvals from MCD and GNCTD; and

- Unspent balance from grant received for organization of 4 festivals was adjusted in organization of festivals subsequent years;

It was evident that the delay in utilization of grants were attributable largely to faulty conceptualization of the projects and lack of adequate co-ordination and effective pursuance with the other agencies involved.

Catering Division

All the Coffee Homes except one incurred losses. Total losses upto 2002-03 amounted to Rs.

7.3.10 The Company was operating 5 coffee homes and 2 canteens in different parts of Delhi. The operational performance of the Coffee Homes and the Canteens during the last five years has been given in Annexure XI. The total losses suffered during the 5 years up to 2001-02 amounted to Rs.1.97 crore.

Audit analysis of the functioning of Coffee Homes revealed that:

- All the Coffee Homes incurred continuous losses except for Coffee Home No.1 at Connaught Place which earned a profit during 1999-2000 and 2000-2001.

Expenditure towards grocery and establishment charges ranged between 84 and 159 per cent of sales.

- During the last four years, there was a continuous decline in the sales in the Coffee Homes Nos.2 and 4.

- The ratio of the groceries, salary and wages to sales ranged between 84 and 159 per cent. In case of the ITO Coffee Home and IGI Coffee Home, it was always more than the sale price and hence there was no scope of recovery of even the variable cost. High salary costs and costs of groceries being purchased from government agencies instead from other competitive market sources were the primary reasons for lack of profitability of these Coffee Homes.

The Management stated (October 2003) that concerted efforts were being made to overcome the losses including better management of raw materials

and input/output ratio of food items, revision of rates, addition of more services and facilities to attract customers.

Recurring Loss at IGI Coffee Home

7.3.11 The Company had set up in May 1996 a Coffee Home at the Indira Gandhi International (IGI) Airport, Delhi, at a cost of Rs.90.47 lakh. Since inception, this Coffee Home had been incurring losses and it was finally closed on 15 June 2000. Though the Coffee Home was not operational, fixed charges of lease rent, property tax, minimum electricity charges and the salary of watch and ward amounting to approximately Rs.5.68 lakh per annum were being incurred. The Company, in its Action Taken Note dated 18.7.2002 to the para No.7.17 of the Report of CAG of India for the year ended 2001 relating to the GNCTD, had stated that the Company was exploring the possibility of its alternate use. However, the space was still lying vacant as of 31 March 2003.

It was noted in audit that the Company was paying a rent of Rs.2 lakh per month for a accommodation hired at Mayur Bhawan for the Engineering wing of the Company and the space available at IGI Airport was more than that of the space at the Mayur Bhawan office. Therefore, it could have explored the possibility of utilising the vacant space for the Engineering Wing thus saving Rs.24 lakh per annum.

Infructuous expenditure of Rs. 17.04 lakh due to non utilization of space.

Management stated (October 2003) that it was not possible to shift the Engineering Division to the IGI Airport as the projects of the Company were at Lajpat Nagar and Madhuban Chowk and IGI airport was too far to enable close monitoring. Further, female staff had made a specific request for not shifting due to commuting problems.

The fact remained that the Company was unable to find an alternate use of the vacant space despite lapse of over 3 years and infructuous expenditure of Rs.17.04 lakhs till June 2003 and continuing expenditure of Rs.5.68 lakh per annum.

Loss at Delhi Sachivalya Canteen.

7.3.12 The Company offered in July 2000 its services to the GNCTD to run the canteen at the new Secretariat building. The canteen was started w.e.f. 6 September 2000 without entering into any formal agreement. On 12 September 2000, some terms and conditions were settled but the aspect of reimbursement of salary of staff was kept pending. Initially, the Company demanded 100 per cent reimbursement of salary costs of staff employed at the canteen on the ground that the food items were to be provided at subsidized rates. But, the GNCTD expressed its inability to reimburse 100 per cent salary

Operation of canteen at Delhi Sachivalya without formal agreement resulted in loss of Rs. 21.39 lakh.

of the staff and informed (9 October 2001) the Company that only 70 per cent of the salary portion could be reimbursed as per instructions of the Government of India. However, no final decision was taken. Finally, the Company revised the rates of the food items w.e.f. 1 July 2002 and started recovering the entire salary of the staff posted at the canteen

The Management stated (October 2003) that a sum of Rs.13.99 lakh had since been reimbursed by GNCTD towards the salary bill for the period from 1.9.2000 to 31.1.2002 and the Company was pursuing the matter for reimbursement for the period from 1.2.2002 to 30.6.2002.

It was observed in audit that the actual expenditure incurred by the company on salary and wages during the period 1.9.2000 to 31.1.2002 was Rs. 35.38 lakh whereas reimbursement was of only Rs. 13.99 lakh. Hence the company suffered a loss of Rs. 21.39 lakh. It was further observed that reimbursement to the extent of 70 per cent admissible as per Government of India's instructions cited by GNCTD in October 2001 could also not be obtained. The expenditure incurred on salary and wages during the subsequent period from 1.2.2002 to 30.6.2002 was Rs. 11.67 lakh, the reimbursement of which was awaited. Had the terms been finalized in advance or the rates fixed so as to recover at least the salary/wages cost (as was done w.e.f. 1.7.2002) then this loss could have been avoided.

Loss at Bikri Kar Bhawan Canteen

7.3.13 Sales Tax Department, GNCTD, requested (18 August 2000) the Company to provide catering services at the Sales Tax Bhawan on a pattern similar to Delhi Sachivalaya. The Company agreed (December 2000) to operate a canteen on the condition inter alia that the Sales Tax Department would meet the expenditure incurred on furniture and fixture and that staff salary will be reimbursed to the extent of 70 per cent. All the conditions were agreed to by the sales tax authorities except for reimbursement of staff salary which would be reimbursed as per the guidelines of Government of India subject to the approval of the Finance Department of GNCTD. Without finalising the terms with regard to reimbursement of salary, the Company started the canteen from 1 December 2000. The canteen started incurring losses from its inception and was closed on 31 March 2002 after sustaining a loss of Rs.6.17 lakh mainly due to non-finalisation of the terms relating to reimbursement of salary.

Management stated (October 2003) that since GNCTD had reimbursed the salary bill in respect of Delhi Sachivalya Canteen, a similar reimbursement was expected in this case also. The matter was being pursued with the Department.

Non-recovery of amount for outdoor catering

Bills amounting to Rs. 15.30 lakh for catering remained outstanding.

7.3.14 Apart from operating cafeterias and canteens, the Company was also engaged in outdoor catering and for this purpose empanelled some caterers. The Company charged service charges at the rate of 25 per cent on the caterers' bills. A test check of the records relating to such outdoor catering services revealed that most of the orders had been booked by different departments of the GNCTD. However, bills amounting to Rs.15.30 lakh were still outstanding for the period from 1997-98 to 2000-01. In addition, no bill had been raised in respect of 3,800 food packets disbursed on 53 occasions. The amounts due had not even been quantified by the Company.

Management stated (October 2003) that the amount outstanding for the period from 1997-98 to 2001-02 are the amounts disputed by the various departments and was mainly on account of deductions made by the respective departments and the Company was thinking of writing it off. It added that the amount outstanding was only Rs.1.07 lakh which constituted only 2.9. per cent of business of Rs.36.92 lakhs achieved by the Company during the period. As regard the food packets, Management stated that no bills had been raised because these were distributed in various fairs and festivals organised by the various divisions of the Company.

The reply of the Management was not acceptable in audit since the total amount outstanding as per records scrutinised by audit was Rs.15.30 lakh which would be 42 percent of the business done during the same period. Such a figure cannot be deemed to be immaterial. Further, many of the food packets were supplied for functions at Raj Niwas, Chief Minister's office and for various departmental conferences and hospitality. It was evident that since the Company was expected to function on commercial lines, the cost of such services should be recovered from the departments. Further, controls also need to be exercised on supply of free packets etc. at the time of organization of fairs and festivals so as to obviate the possibility of wastage and misuse of the facility.

Tourism Division

Tour operation activities were declining.

7.3.15 Tourism and Transportation Division of the Company was engaged in the operation of local tours, package tours, LTC tours and providing of transportation services. The operating results of the tourism division have been given in Annexure XII.

Audit scrutiny of the performance of the Company in organising tours revealed that this business was on a steep decline though the number of staff engaged and the infrastructure remained the same. The number of tours operated in 1998-99 were 886 which decreased to 355 in 2002-03. Though the

Tourism Division showed an operational profit, the figure would be a loss if the establishment expenditure of the division of approximately Rs.35 lakh per annum was taken into account. The operational profit as a whole had also decreased from Rs.10.59 lakh in 1998-99 to Rs.5.97 lakh in 2002-03. The Company receives an annual grant from the GNCTD for strengthening the tourist information counters and the total grant received during the last five years ending March 2003 amounted to Rs.1.16 crore.

Management stated (October 2003) that the overall turnover of the Division had increased during the subsequent year of 2002-03 and the Division had earned a net profit from travel services provided to international conferences and delegations. The main reason for decline of the tour activities during the earlier period was restriction on operation of their coaches and decline in LTC travelers. It was added that no demands had been received for starting new tour routes except one for Char-Dham tour which was being shortly introduced.

Tourism Division suffered loss of Rs. 1.29 crore during the five years ending 2002-03.

It was, however, observed in audit that the share of LTC tour was less than 10 per cent of the entire tours operated from 1998-99 onwards and hence it could not be a significant factor for the decline in the number of tours. Further non-fixation of targets based on incentives scheme deprived the Company of more booking of tours. Moreover, the Company did not take any initiative to start any new tour route in order to attract more passengers when the traditional routes being followed by the Company were not attracting adequate patronage. The Company had evidently failed to project and organize its activities purposefully during the years covered in audit.

Thus, the Company suffered an operational loss of Rs.7.66 lakh during the last five years by not maintaining the operational standard of 1998-99. If one takes into account the establishment expenditure of Rs.1.75 crore, the net loss suffered by this Division during the five years ending 2002-03 worked out to Rs.1.29 crore..

Hotel Reservation

Business of hotel reservation was on declining trend.

7.3.16 Though the Company did not have any hotel of its own, it carried out the business of hotel reservation through its counter staff on commission basis for hotels registered on the panel of the Company. The earnings of the Company through hotel reservation during the last four years ending 2002-03 (upto December 2002) amounted to Rs.3.67 lakh, Rs.4.13 lakh, Rs.2.41 lakh and Rs.1.33 lakh respectively. It was evident that the business of hotel reservation from 2001-02 onwards was on a declining trend. Scrutiny revealed that this was mainly on account of a decision taken by the Company on 28 August 2001 that, bookings will be done only for India Tourism Development

Corporation (ITDC) hotels. In this regard, it is pertinent to mention here that as on date Delhi has only one ITDC hotel whereas the rest of the hotels are private.

On this being pointed out in audit, private hotels are being empanelled from April 2003.

Non-reconciliation of Commission Accounts

7.3.17 A test check of reservation done from the IGI Airport Information Counter revealed that commission @10 per cent was being charged from the empanelled hotels on the assumption that tourist would stay in the hotel for only one day. There was no mechanism to ensure the duration of stay of tourist in hotels which adversely affected the collection of proportionate commission due to the Company from these hotels. In addition, during the last 12 years, the accounts of commission charges had not been reconciled with the hotels.

Management stated (October 2003) that the accounts for the period upto financial year 2001 had since been reconciled and the issue of payment of commission charges for the extended stay had been taken up with the hotels.

Leasing of Restaurant

Arrear of Rs. 7.21 lakh not collected.

7.3.18 The Company owns a restaurant at Qutub which was leased to M/s Leman International Pvt. Ltd. (Firm) on 6 December 1988 at a license fee of Rs.10,000 per month, royalty commission @ 11 per cent of the sales and the actual property tax. The lessee paid the dues up to October 1990 and stopped payment thereafter. In 1993 i.e. after nearly 3 years from stoppage of payment by the Firm, the Company filed a legal suit. The Court directed that the matter should be referred to an arbitrator who while deciding the award asked the Company to submit the arrears due from the Firm. Accordingly, the Company calculated the dues as Rs.66.22 lakh including a penal interest at the rate of 15 per cent as provided in the lease agreement. The arrears as calculated at the instance of arbitrator were accepted and paid by the Lessee.

Scrutiny of the arrears calculation sheet revealed that arrears of Rs.7.21 lakhs pertaining to the period from November 1990 to May 1992 had been completely ignored while calculating the arrears.

Management stated (October 2003) that the arrear for the period from November 1990 to May 1992 was not taken into consideration at the time of settlement because this period was time barred as per the Limitation Act when the case was filed.

The reply is not tenable because as per Section 3 read with Entry No. 26 of the Schedule of the Limitation Act, 1963, a claim for money payable to a plaintiff from the defendant becomes time barred after three years. The period of limitation starts from the date the dues became payable viz November 1990 in this case. Hence, if the period from November 1990 to May 1992 was time barred then the period from June 2002 onwards would have also been time barred had the suit not been filed before expiry of the period of limitation. Since the suit was apparently filed before the period of limitation expired, the whole of the sum due was recoverable and was not time barred.

Transportation Division

Loss of potential revenue of Rs.30.09 lakh due to vehicles not being put to purposeful use.

7.3.19 The Company owned a fleet of 2 air-conditioned coaches and 1 non-air conditioned coach for organising package tours, LTC tours and daily sight seeing tours. The Company also owned 12 different types of cars/matadors which were provided to tourists or general public on demand.

A comparative analysis (Annexure XIII) of the revenue loss suffered by the Company due to vehicles not being put to purposeful use revealed that the Company lost a potential revenue of Rs.30.09 lakh during the last 3 years. The vehicle utilisation in case of cars would have been even lower but for the business earned from the Union Ministry of Environment & Forest for a total value of Rs.43.99 lakh for a conference. It was also observed that no targets had been fixed for utilisation of vehicles. The details of vehicle utilisation for the years 1998-99 and 1999-2000 was stated to be not available.

Management stated (October 2003) that the lower utilisation of vehicles was on account of attack on World Trade Centre in America and attack on Indian Parliament. It was added that a number of touts were operating near the information counters of the Company who are able to lure away tourists by offering lower rates and the staff of the Company was finding it very difficult to secure maximum business.

The plea of the Management is not acceptable because these are business hazards and Company has to be able to take effective steps to protect its commercial interests. While admitting the observations of the Audit regarding non-fixation of targets for securing business, Management stated that in future targets would be fixed for business.

Adventure Division

7.3.20 Adventure Division of the Company undertakes activities such as para sailing, rock climbing, outside tours/trekking. The Azad Hind Gram (AHG) tourist complex developed at NH-10 was handed over to this division. Though the full-fledged division of adventure has been brought in existence, the

business volume during the last five years was negligible. The details of business secured by this division during the last five years were as under:

(Rs. in Lakh)

Year	Number of employees	Emolument per employee per annum	Total Exp. of Adv. Divn. Per annum	Parasailing	Rock climbing	Outside tours/ tracking	Azad Hind Gram	Total Business Volume*
1998-99	12	1.08	12.96	0.19	0.37	1.84	-	2.40
1999-2000	12	1.17	14.04	0.16	0.18	-	-	0.34
2000-2001	10	1.20	12.00	0.90	0.44	2.34	-	3.67
2001-02	12	1.48	17.76	0.72	0.76	7.55	1.88	10.92
2002-03	16	1.38	22.08	0.24	0.96	12.78	8.05	22.03
Total			**78.84**					**39.36**

* This volume includes the cost of services such as transportation, refreshment and equipments for activities.

The business volume was always less than establishment expenditure of the division.

It was observed in audit that the Company was not in a position to recover even the establishment expenditure of the division. No market strategy had been prepared and only recently a marketing cell had been created to tap potential business especially from the educational institutions. The increase in the business for 2001-02 was mainly on account of outside tours and package tours undertaken by the Azad Hind Gram (AHG).

Management stated (October 2003) that the adventure activities were undertaken by the Company on the initiative of the Government of India. These are purely promotional in nature and commercial aspect could not be thrust upon them.

The reply of the Company is not entirely acceptable in audit since the Company is expected to run on commercial lines and even where the Company has been asked to undertake a promotional activity, it should at least recover its costs. The total business secured by this Division was not even equal to the establishment expenditure of this division and the division suffered a cash loss of Rs.39.48 lakh during last five years ending 2002-03.

Boating activities

Adventure division suffered a loss of Rs. 39.48 lakh.

7.3.21 The adventure division was also engaged in the boating activities at six sites as follows:

(Figures Rs. In lakh)

Sl. No.	**Site**	**Date of starting**	**Profit (+)/ Loss (-)**		
			Upto 2000-01	**For 2001-02**	**For 2002-03**
1	India Gate	June 1991	(-) 2.76	(-) 0.63	(-) 2.63
2	Bhalswa Lake	May 1992	(-) 32.27	(-) 9.19	(-) 10.29
3	Old Fort	June 1992	(+) 19.59	(-) 2.03	(-) 2.35
4	Parsad Nagar	November 1992	(-) 12.19	(-) 0.07	(-) 1.88
5	Nainin Lake	January 1993	(-) 13.30	(-) 7.33	(-) 4.41
6	Hari Nagar	January 1997	(-) 32.23	(-) 4.38	(-) 1.43
		Total	**(-) 44.16**	**(-) 23.63**	**(-) 22.99**

Up to March 2001, the Company had suffered a loss of Rs.44.16 lakh as a whole on boating activities. Out of the total 6 sites, only one site was in profit up to 2000-01. A review of these sites revealed that inspite of heavy losses, a sum of Rs.76.78 lakh had been spent in the last 5 years ending 2002-03 on lake development. In March 2001, an agenda was submitted before the Board of Directors of the Company for closing down the loss making boating sites. But no decision could be taken even after the expiry of more than 2 years. In the meantime, the cumulative loss had risen to Rs.90.78 lakh. In order to arrest the losses, the Company has reduced the manpower at some of the boating sites and telephone installed had also been disconnected but these measures were not enough to contain the losses and a final decision has to be taken to either close down these sites or to make them financially viable.

Delay in decision resulted in loss of Rs. 46.62 lakh.

Management stated (October 2003) that the Company was implementing the "Development of Lakes" scheme as directed by the GNCTD. At one point of time, it had been decided to close down 2 boating sites. However, these had to be kept operational in view of the requests received from public representatives and Government directives. It was added that the Corporation needs some more time to sustain the activity.

Liquor Trade

7.3.22 The retail sale of Indian Made Foreign Liquor (IMFL) and Country Liquor (CL) was entrusted to the Company by the Government in April 1979 and May 1989 respectively. In March 2003, DTTDC was running 90 IMFL and 38 CL vends in Delhi. The sale price and the profit margin of the Company are fixed by the Government. The major part of the Company's revenue comes from the sale of liquor. The composition of liquor turnover of the Company during the last 5 years was as under:

(Rs. in crore)

	1998-99	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
Total Turnover	337.79	338.60	341.46	384.24	482.13
Number of IMFL vends	58	61	60	73	90
Turnover of IMFL liquor	184.83	178.67	179.32	195.56	266.35
Turnover of country liquor	146.74	153.21	156.33	182.51	207.32
Liquor Turnover	331.57	331.88	335.65	378.07	473.67
percentage of liquor turnover to total turnover	98.16	98.01	98.30	98.39	98.24

The percentage of sale of liquor to total turnover was over 98 per cent

The percentage of sale of liquor to the total turnover of the Company ranged between 98.01 and 98.39 during last 5 years ending 2002-03. It signified that the Company was sustaining itself mainly on the revenue/income earned from liquor.

A review of the operating results of IMFL for the years from 1998-99 to 2002-03 revealed that the turnover in absolute terms had not increased significantly whereas, the number of vends had increased significantly from 58 to 90 during the same period. The year-wise details of opening and closure of IMFL vends during the last 5 years were as under:

Year	1998-99	1999-2000	2000-01	2001-02	2002-03
No. of vends in the beginning	**56**	**58**	**61**	**60**	**73**
No. of vends closed	**2**	**-**	**2**	**2**	**-**
No. of new vends opened	**4**	**3**	**1**	**15**	**17**
Vends at the close of year	**58**	**61**	**60**	**73**	**90**

Increase in number of vends did not increase the sale volume.

Had the performance standard of 1998-99 been maintained, then the turnover in 2002-03 should have been Rs.286.81 crore against the actual sale of Rs.266.35 crore. Inspite of lesser corresponding increase in the sale of IMFL on account of new vends, the Company was continuously increasing the number of its vends. During 2001-02, though 9 IMFL vends were incurring losses, the Company opened 17 more vends during 2002-03 out of which 6 were incurring losses.

Management stated (October 2003) that in 1997-98 there was prohibition in Haryana which resulted in hike in sales of liquor. The prohibition was lifted in 1998-99 which affected the sales. Moreover, a number of vends were opened

in Delhi during this period especially by the Delhi State Civil Supplies Corporation Ltd. which also adversely affected the sales of the Company. These factors were beyond the control of the Company.

The reply of the Management is not acceptable because there was no special circumstance during and after 1998-99 which inhibited the liquor trade in Delhi. The factors cited by the Company are simply market factors and the Company has to be able to compete in a market environment if it decides to stay in the business. Further, any decision regarding opening of new vends ought to have been taken after analysis of market conditions and ensuring their financial viability.

Violation of Excise Guidelines

7.3.23 The Excise Department decided (22 November1999) that if the stock of any brand other than a popular brand remained unsold after three weeks of ordering, their sale order would be reduced proportionately and the same would be distributed equally amongst other brands whose stock had been sold.

Excise Department guidelines were not adhered to.

A review of the ordering file of IMFL and beer for the period from December 1999 to July 2000 revealed that the above guidelines were not being adhered to strictly. The reduced order of brand whose stock could not be sold within 3 weeks was distributed amongst other brands whose stock had been sold in the original proportion instead of dividing it equally. During December 1999 to July 2000, 26,544 cases of IMFL involving Rs.5.57 crore and 11,400 cases of beer involving Rs.38.30 lakh were purchased in violation of the excise instructions.

Management while admitting the deviation from the excise guidelines stated (October 2003) that there it was done purely in the interest of the Corporation and that there was no loss either to the Corporation or to the Excise Department and that this policy had since been withdrawn.

The fact remains that the Corporation had no authority to deviate from the mandatory instructions of the Excise Department unless prior relaxations were obtained or the policy got withdrawn. The fact of subsequent withdrawal of the policy does not justify its earlier violation and that too by a Government company which would have the effect of benefiting some suppliers to the detriment of other suppliers.

Excess cash in safe than the cash insurance limit

7.3.24 A review of the cash in safe and the cash insurance limit of 4 country liquor vends revealed that the cash in safe was in excess of the varying cash insurance limit of liquor vends ranging from Rs.2 lakh to Rs.29 lakh on 6 occasions during 2000-01 and 2001-02. At the instance of audit, the cash insurance limit of the vends has been now been increased.

Non utilization of land at National Highway No. 8

Land has not been utilised for the last 15 years resulting in blockage of funds of Rs. 19 lakh

7.3.25 The Company was allotted (1988) a land measuring 2.08 acres by PWD at National Highway No.8 for construction of a motel. After taking possession of the land, the Company submitted a proposal for setting up a motel in 1990-91 which was not accepted by the Delhi Development Authority. After the rejection of the proposal, the Company approached the Municipal Corporation of Delhi in 1995-96 for setting up wayside amenities for which approval was accorded on 26 January 2000. Grant of Rs.30.00 lakh was sanctioned by the Government of India out of which a sum of only Rs.19.00 lakh could be utilised for construction of boundary wall, tube well and chowkidar room. The remaining grant remained unutilised. Though no objection certificate for setting up wayside amenities was given in June 2000 nothing concrete has been done for implementation of the project except for inviting tenders for this project on (Build Operate Transfer) BOT basis.

Management stated (October 2003) that it was subsequently decided to undertake the project on Built-Operate-Transfer basis for which tenders were invited during 2001-02. However, despite postponement of the date for submission of the tenders several times, no tender had been received

It was evident that the Company did not have a concrete plan for utilization of the land at the time of its acquisition in 1988 and it failed thereafter to properly conceptualise a viable project wavering between construction of way side amenities and motel. Further, failure to attract tenders for way side amenities even on a National Highway casts doubt on the viability of the project. This resulted in delay in the implementation of project and locking up of funds of Rs.19.00 lakh.

Non viable project of Musical Fountain at Karol Bagh.

7.3.26 The Company decided (1994) to set up a musical fountain at Ajmal Khan Park Karol Bagh without preparing any feasibility report. The decision was based only on the report of a committee constituted for a detailed study of musical fountains at Kolkata. The Committee had stated that a musical fountain alone would not be sufficient to generate funds for repair and maintenance and in order to make the project viable some other activities

No feasibility report was prepared for musical fountain project.

were also required to be undertaken. Accordingly, a coffee home at a cost of Rs.21.26 lakh was set up in July 2000. The musical fountain was inaugurated on 1 December 1995 at a cost of Rs.90.00 lakh.

Scrutiny of records revealed that the coffee home had not been made functional up to April 2003. The total earning from the musical fountain from 1998-99 to 2002-03 amounted to only Rs.4.58 lakh against an expenditure of Rs.42.16 lakh thereby resulting in loss of Rs.37.58 lakh. It was also observed that the earnings had declined from Rs.1.32 lakh in 1998-99 to Rs.0.58 lakh in 2002-03.

The entry ticket of musical fountain has been abolished and it will remain a cost centre in future.

Management stated (October 2003) that this project had been taken up in the greater public interest as part of efforts for beautification of the city. Hence, profit earning should not be a criteria for judging its success. It added that the Coffee Home was made functional from August 2003.

The fact remains that the activities of the Company must be on commercial lines and in cases where it, has to undertake activities with social or civic objectives, it should at least be ensured that no additional financial burden is cast on its resources. In the instant case, while the Coffee Home has become operational, entry ticket for musical fountain has been abolished and hence it is unlikely to become financially self-sustaining and it would continue to be a burden on the Company.

Management Information System

Company did not have well defined MIS.

7.3.27 Management Information Systems (MIS) envisages the flow of information regarding the total activities of the Company from operational level to top management. Such information facilitates timely decisions by the management. The Company did not have any well defined MIS except for an enforcement wing which conducted internal check on the working of the various units of the Company. The Enforcement division had devised its own format to obtain information from the different units on visits. The inspections carried out by this wing during the last three years ending 2002-03 were as under:

Sl. No.	Units	2000-01	2001-02	2002-03	Total	Percentage of total
1	Liquor shops	161	137	173	471	84
2	Catering	12	06	06	24	4.3
3	Tsm & Inf. Counter	12	12	09	33	5.9
4	Adventure	10	10	03	23	4.1
5	Transport	01	01	-	02	0.4
6	Dilli Haat.	04	01	-	05	0.9
	Total	**200**	**167**	**191**	**558**	**100**

It would be seen from the above that the Enforcement division concentrated mainly on liquor shops. There was no effective internal check on the other units of the Company.

Management stated (October 2003) that it had an adequate MIS which covers all the activities of the Company. Regarding more weightage to the Liquor division, it was stated that this was mainly due to the fact that this division contributes more than 95 per cent of turnover of the Company.

The reply of the Management is not convincing because in a well defined MIS, the flow of information from operational level to top management should be automatic at pre-determined intervals. The actual system is quite different. Moreover, the essential functions of an Enforcement Cell is quite different from what is required for a meaningful MIS.

Internal Audit

7.3.28 The Company did not have its own internal audit system and the internal audit was being conducted by a firm of Chartered Accountants. Till 1999-2000, only a single chartered accountant firm was being appointed for internal audit. However, from 2000-01 onwards, four to five firms were being appointed for division-wise audit. Internal audit reports for the period from 1998-99 to 2001-02 were not produced to audit as the same were reported to have been destroyed in fire. In view of the non-availability of the reports, audit is not in a position to verify the assertions of the Management as to the adequacy of the internal audit in the Company till 2001-02. It was however noticed that the internal audit reports for 2002-03 were not submitted timely which was indicative of a lax internal audit system.

Accounts Manual

7.3.29 Accounts Manuals contain rules and procedures for accounting of various transactions of the Company. A well framed manual ensures clarity of rules, procedures and authority of various officers. However, the Company did not have any Accounting Manual even after 27 years of existence.

Management stated (October 2003) that a Chartered Accountant firm had been appointed for preparation of an Accounting Manual and it was expected to be prepared by the end of 2003.

Conclusion

The Company was incorporated with the basic objective of promoting tourism and allied activities in Delhi. However, during the last five years package/daily tours undertaken by tourism division were declining, adventure activities undertaken were not recovering even the establishment charges, transport fleet was not being utilized to the maximum extent and sales in catering division were declining. The Company was surviving mainly on earnings from its subsidiary activity of sale of liquor. There is an evident need to take effective measures to control costs on tourism, transportation, catering and adventure division while at the same time evolve an effective marketing strategy to maximise business to make these activities profit generating and financially viable.

These observations were referred to the Government in August 2003; their reply was awaited as of November 2003.

Department of Power

7.4 Privatisation of Electricity Distribution in Delhi

Highlights

Requirements and scope of work not defined prior to selection and appointment of consultants. Hence, all offers received could not be evaluated on a transparently comparable basis.

(Paragraph 7.4.6)

There was a difference of Rs.3,107.62 crore between the figure of total receivables depicted in the Balance Sheet ending 31 March 2002 of DVB and that worked out by the Consultant

(Paragraph 7.4.8)

Government of National Capital Territory of Delhi carried out significant modifications and addition in the Transfer Scheme after the receipts of bids without the approval of competent authority.

(Paragraph 7.4.10)

TRANSCO raised bill for Rs.77.47 crore for stores transferred to DISCOMs but could not realize any amount so far. Further, Rs.2.06 crore worth of scrap/dead items recoverable from DISCOMs was not taken into account.

(Paragraph 7.4.11)

Excess rebate was deducted by the DISCOMs in respect of payments to be made to TRANSCO under the Bulk Supply Agreement resulting in short payment of bills. The excess rebate recoverable was Rs.33.31 crore of which Rs. 5.54 crore is still to be recovered. TRANSCO also failed to levy LPSC amounting to Rs. 6.80 crore for the period from August 2002 to September 2003 for such short payment of dues.

(Paragraph 7.4.12)

There was significant dilution of the targets of AT&C losses from that as envisaged in the Request for Proposal (RFP) which may have an adverse impact on tariffs

(Paragraph 7.4.13)

Introduction

7.4.1 The Delhi Vidyut Board (DVB) was constituted on 24 February 1997 under Section 5(1) of the Electricity (Supply) Act, 1948. The Board was responsible for generation, transmission and distribution of power in the National Capital Territory (NCT) of Delhi. The Board had been incurring losses since its inception and had accumulated losses of Rs.7,190 crore as on 31 March 2002. In February 1999, the Government of National Capital Territory of Delhi (GNCTD) brought out a strategy paper on Power Sector Reforms which envisaged:

- setting up of a Delhi Electricity Regulatory Commission;
- unbundling of DVB;
- privatisation of distribution;
- reduction in Transmission and Distribution losses (T&D); and
- tariff rationalisation.

On 23 November 2000, the Legislative Assembly of NCT of Delhi approved the Delhi Electricity Reform Bill, 2000, which was subsequently notified as the Delhi Electricity Reform Act, 2000 (Reform Act), on 8 March 2001 which came into force from 3 November 2000.

Objectives of Privatisation

7.4.2 The stated objectives of privatisation of the distribution functions of the DVB were:

- to improve the quality of service to consumers in Delhi and to make available electricity at a competitive price;
- to improve operational efficiencies and to reduce transmission and distribution losses by reduction in fraudulent extraction of energy by consumers on metered supply and reduction in misuse or theft;
- to reduce the need for Government funding of the electricity sector in the long run and to attract private investment into the distribution business; and
- to protect the legitimate interests of employees of DVB.

Organisational set-up for Reforms.

7.4.3 The Reforms and Re-structuring Division of the Board, headed by a Chief Engineer, was responsible for preparing and coordinating the implementation of the reform measures under the overall supervision and guidance of the Department of Power, GNCTD.

DVB was unbundled and re-structured into five companies which were responsible for generation, transmission and distribution of power in NCT of Delhi; viz. (a) the Indraprastha Generation Company (GENCO) for operation of the power stations of the erstwhile DVB, (b) the Delhi Power Supply Company (TRANSCO) which was entrusted with transmission of power and (c) three distribution companies (DISCOMs) which were entrusted with the distribution of power to the consumers. In addition, there was the Delhi Power Company which was constituted as a Holding Company to handle the unserviceable liabilities of the erstwhile DVB. All the companies were constituted with effect from 4 July 2001 as shell companies and actually started functioning from 1 July 2002. The three DISCOMS stood privatized with effect from 1 July 2002 while the other companies remained Government companies.

Scope of Audit

7.4.4 The present review examines the process of unbundling of DVB, the modalities of transfer of assets, reduction of T&D losses, the reasonability of incentives provided and the impact of various assumptions on tariff.

The review was discussed by the Audit Review Committee of Public Enterprises in its meeting held on 26 September 2003. The Government and Management was represented by the Principal Secretary (Power) who is also holding the charge of CMD TRANSCO and the Director (Finance), TRANSCO and their views have been incorporated

Implementation of Reform Programme

Delhi Electricity Regulatory Commission

7.4.5 On 3 March 1999, the GNCTD constituted the Delhi Electricity Regulatory Commission (DERC) which became operational with effect from 10 December 1999 with the appointment of its Chairman. The primary responsibility of DERC is to determine the tariff for electricity and the tariff payable for the use of transmission facilities. It also regulates power purchase and procurement process of the licensees and of transmission utilities including the price at which the power shall be procured from the generating companies, generating stations or from other sources for transmission, sale, distribution and supply in the NCT of Delhi.

Appointment of Consultant for Re-structuring

7.4.6 While approving the formation of the generation and transmission companies, the GNCTD also approved (June 1998) the appointment of the Administrative Staff College of India (ASCI), Hyderabad, as consultant for the power sector reforms. ASCI submitted(November 1998) its offer of Rs.75 lakh for undertaking the consultancy work which was subsequently (October 1999) reduced to Rs.60 lakh. In the meantime in October 1999, two more offers were received from M/S SBI CAP and ICICI for undertaking the consultancy work. The details of the three offers received were as follows:

Name of the Party	Original Offer	Revised offer
SBI Caps	Rs.95 lakh + 1 per cent of total value of sale of DISCOMs + prescribed out of pocket expenses (received on 07 October 1999).	Rs.70 lakh + 0.5 per cent of total value of sale consideration realized from DISCOMs + out of pocket expenses limited to Rs.5 lakhs.
ICICI	Rs.75 lakh + 0.5 per cent of the total asset value of the distribution business + out of pocket expenses for actual amount incurred (received on 18 October 1999).	Revised offer neither invited nor received.
ASCI	Rs.75 lakh + amount paid to the consultant hired for preparation of accounting work (received in November 1998).	Rs.65 lakhs (received on 28 March 1999). Further revised to Rs.60 lakhs on 26 October 1999 when DVB informed that SBI CAP would be separately appointed for certain items like valuation and allocation of assets, financial re-structuring, etc.

GNCTD accepted the offer of SBI CAP and an agreement was signed on 24 January 2000.

Offers for appointment of consultants not properly evaluated.

It was observed in audit that no discernible procedure or method was followed for selection of consultants. There was no effort to invite competitive bids from the open market nor was there any attempt to first assess and define the scope of work to be assigned to the consultants which would have enabled a systematic and transparent comparison of the offers received. Prima facie, all the three parties were reputed and eligible and the offers received were comparable but thorough consideration was in fact given only to the offer of SBI CAP.

Government stated (October 2003) that there was never any intention to invite competitive offers and that SBI CAPs had been proactively contacted in view of their experience in Kanpur and their adoption of the Business Valuation Method for valuation of assets. It was added that the ASCI offer did not include assistance right through the entire process as offered by SBI CAPs and that their scope of work was limited to a one-time document. Further, the work of financial re-structuring in the ASCI offer would have to be attended to by another consultant which would have added to the cost. As regards the offer of ICICI, the Government stated ICICI did not have a good track record. Moreover, its offer was found to be costlier than that of SBI CAPs as it was for a fixed fee plus success fee of 0.5 percent of the total asset value of the distribution business which would have worked out to about Rs.13.60 crore viz. 0.5 percent of Rs.2,719 crore being the total asset value of the three DISCOMs. On the other hand, SBI CAPs had asked for a success fee of 0.5

percent of the total consideration realised by sale/disinvestment which had ultimately worked out to Rs.2.50 crore.

A scrutiny of the offers received revealed that the scope of work indicated in all the three offers were comparable though specific items differed; for example, the ASCI had offered to prepare a demand forecast for 10-15 years under different scenarios as well as a capacity planning and systems development plan. They had also offered to undertake tariff studies and tariff models for the future. None of these items were in the offer of SBI CAPs. On the other hand, some items featuring in the SBI CAPs offer did not find mention in the ASCI offer. Further, while ASCI did indicate that separate payment would be required for engaging a financial consultant for preparation of details of assets in case such data was not readily available with DVB, such payment amounting to Rs.10 lakh for collection of data was in any case ultimately paid to SBI CAPs under `out of pocket expenses' though it was not specifically provided for in their offer. The Business Valuation Method had also been offered by ICICI who had been involved in re-structuring of State Electricity Boards in a number of States. ICICI could also have been asked to quote with reference to total consideration realised instead of fixed asset value so as to enable a comparative assessment. Hence, the point remains that given the magnitude and complexity of the exercise and its criticality to the entire privatisation effort in as much as it provided the road map for the entire privatisation of the distribution function, the requirements and scope of the work should have been first defined to the extent possible and then all the three eligible bidders asked to submit detailed offers with reference to the defined requirements/ scope of work. This would have provided a credible assurance as to the cost benefit and of the transparency of the entire process.

It was further seen that SBI CAPS was engaged by DVB in December 2001 as consultants on single quotation basis for filing tariff application with DERC for determining bulk tariff at which TRANSCO would sell power and the opening loss levels of the three DISCOMs for the year 31 March.2002 at a fee of Rs.40 lakhs. The same work for the year 2002-03 had been awarded to ASCI at a total fee of Rs.12 lakh.

Government stated (October 2003) that there were major differences between the two works of filing Annual Revenue Requirement (ARR) with DERC by SBI Caps in December 2001 and by ASCI as given below:

- ARR was to be filed by SBI CAPs for five future companies before they become operational on the basis of DVB data while in the case of ASCI, the ARR was to be filed only for TRANSCO;

- For determining the ARR for the five future companies, SBI CAPs had to collect data direct from various offices of DVB while ASCI could use data available from TRANSCO; and
- Aggregated Technical & Commercial losses (AT&C) had to be worked out for prospective DISCOMs by SBI CAPs while this was not required in case of ASCI.

The reply of the Government is not tenable as the data required by SBI CAPs for the ARR had already been collected by them earlier at the time of preparation of the final report and detailed calculation for support loan required in July 2001. Further, the data required was cycle summaries which were available in the EDP Section of DVB. The additional data collected was for only three months i.e. August 2001 to October 2001. The AT&C losses had also been worked out in the final report and SBI Caps had to collect only three months additional data for calculation of AT&C losses for filing of tariff application and for filling up the data in the prescribed formats. Hence, the gross difference in the amounts paid to SBI CAPs and subsequently to ASCI was not justified given the work actually involved.

Unbundling of DVB

Valuation of Assets

7.4.7 Government decided to use the Business Valuation (BV) method for valuation of assets[3]. The consultant had advised that the value of assets using the BV method cannot be compared with the book value of the DVB assets as depicted in their accounts. The consultant furnished details giving the book value for various years as per DVB's books of accounts (unaudited) as well as the re-stated book value of net fixed assets as calculated by SBI CAPS (with accumulated depreciation) as follows:

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[3] The essence of this valuation process is to set targets for five years in terms of efficiency gain, make plausible assumptions about retail tariff increases and expenses and then calculate the value of the liability which can be met though the earnings projected and the value of the asset is derived on that level of liabilities that can be serviced

(Rs. in crore)

	With accumulated deprecation by SBI CAP	Book Value as per Balance sheet
March 2000	2804	3126.69
March 2001	2997	30470.25
March 2002	3182	3576.16
March 2003	3290	Not available

Work-in-progress not included in book value

The book value has been re-stated because the capital work in progress have not been capitalised in the books of DVB for many years and the requisite depreciation was not charged on uncapitalised portion of the assets. To that extent, the book value did indicate the true value of the assets.

The asset value assigned to each Company was as follows:

(Rs. in crore)

	GENCO	TRANCO	Central East	South – West	North – North West	Total
Gross Block	510	650	360	1533	1210	4263
Accumulated depreciation	160	200	70	383	290	1103
Net Block	350	450	290	1150	920	3160

In response to an audit query as to the basis for the valuation of the assets, Government stated (October 2003) that the details of the calculation was available only with the consultants in their computer modelling which were not available with the Government. It was added that the consultants did not normally disclose their computer modelling as they regarded it as their business secret. However, the Government furnished a note on the methodology adopted in asset valuation.

A scrutiny of note indicated that while the general methodology has been explained, the basic figures adopted, the weightages given and assumptions made were not indicated and hence the basis of arriving at the final figure of Rs.3,160 crore could not be verified. The Government had evidently relied solely on the report of the consultant.

Outstanding Receivables of DVB

7.4.8 The consultant proposed to transfer all except one month's receivable to the Holding Company with 20 per cent collection charges being allowed to the DISCOMS for collecting these dues from non-Government agencies. The

consultant worked out the outstanding receivables of DVB up to October 2000 as follows:

(Rs in crore)

Consumer Category	Amount
Large Industrial Power (LIP)	59.42
Small Industrial Power (SIP) & non domestic	583.73
Domestic	905.05
Water	624.60
Agriculture	68.63
Public lighting	93.34
Total	**2334.77**

Scrutiny in audit revealed the following:

Holding Company failed to intimate details of receivables as per the Transfer Scheme.

- the receivables from LIP consumers related to the outstanding amount for the year 2000-01 only. This contributed to a difference of Rs.3,107.62 crore between the figure of outstanding receivables of Rs.5,442.39 crore reflected in the Balance Sheet for the year ending 31 March 2002 of DVB and that worked out by the consultant;

- the amount of bulk supply arrears had been worked out in June 2003 after one year of privatization whereas it should have been done by 30 June 2002. Further, the amount was calculated by adding the arrears on 31 March 1994 to the arrears of 30 June 2002 as shown in the bills for the month of June 2002 instead of adopting the ledger figures. No adjustments had been carried out on account of recovery, settlement of court cases, fuel price adjustments, etc. during the intervening period of more than 8 years and consequently the accuracy of the arrears calculated were doubtful; and

- the DVB arrears were calculated for other than bulk supply on the basis of bill arrears of more than Rs.10 for all the consumers. The adjustment made on account of assessment made on average billing, premises locked, disconnection, court cases and misuse withdrawn/levied were to be intimated under a particular code but the DISCOMs made the adjustments under the earlier code instead of the code intimated.

Government stated (September 2003) that the total figure of Rs.3,600 crore was extracted on the basis of data available in the EDP Centre of DVB as on 30 June 2002 in respect of outstandings pertaining to SIP, Bulk and Domestic consumers. A team of Chartered Accountants was being appointed by the

Holding Company for the purpose of checking the authenticity of the amounts and ensuring that the DISCOMs were making all efforts for such recovery. A separate software was also being developed for segregating the DVB arrear components and these amounts along with consumer-wise details had been furnished to each DISCOM for verification and recovery. It was added that during the period 2002-03 (July 2002 to March 2003), arrears collected by DISCOMs amounting to Rs.104.64 crore (80% of Rs.130 crore) had been remitted by them to the Holding Company.

The fact remains that it is the responsibility of the Delhi Power Company Ltd. (Holding Company) to recover all outstanding arrears of DVB period from the DISCOMs as per the Transfer Scheme and Agreement signed with them. The Holding Company had failed to recover any amount of bulk supply arrears from DISCOMs till 31.March.2003 and was also not in a position to provide details of arrears of DVB consumer wise as on 30.June.2002. Moreover, the opening Balance Sheet of the Holding Company did not depict the complete picture as old debt recoverable were not shown in the Balance Sheet since the opening Balance Sheet was in statement form only.

Inviting bids for pre-qualification

7.4.9 GNCTD had invited Statements of Qualification (SOQ) for selling majority equity of the DISCOMs vide advertisements published on 15 February.2001 through three national/international dailies. The last date for the issue of Request for Qualification (RFQ) document was fixed as 30 March 2001 and the deadline for submission of the SOQ was 16 April 2001 which was extended upto 15 May 2001. Thirty two companies had purchased the RFQ but only seven companies (six national and one international) had submitted the SOQ along with relevant documents.

The Bids were examined by a Committee constituted by the GNCTD. One bid was rejected due to violation of conditions of RFQ. GNCTD pre-qualified six companies for the issue of Requests for Proposal (RFP) on the basis of SOQ submitted by them.

Bids Evaluation

7.4.10 GNCTD issued (November 2001) RFP to the six pre-qualified companies. The RFP included the minimum Aggregate Technical and Commercial loss (AT&C) reductions to be achieved each year for the next five years. Only two bidders i.e. Tata Power Co. Ltd. and BSES Ltd. had submitted their bids (10 April 2002). Tata Power Co. had submitted its bid for DISCOM-2 and DISCOM-3 while BSES Ltd. submitted bids for all the three companies. The Council of Ministers concluded (11 April 2002) that the

bids were not acceptable "in their present form." Various new conditions proposed by the bidders along with their bids were also not found to be acceptable. The Council of Ministers authorised (11 April 2002) the Core Committee to explore all other options including negotiations with the bidders before taking any further decisions. The Core Committee decided to negotiate with the bidders. The GNCTD subsequently accepted revised bids from both the bidders viz. BSES Ltd. for DISCOM-1 and DISCOM-2 and Tata Power for DISCOM-3 in May 2002.

Significant changes effected in the Transfer Scheme without approval of the competent authority.

It was noticed in audit that the Transfer Scheme along with its specific stipulations and conditions had been approved by the competent authority viz. the Lt.Governor of Delhi on 12 November 2001. After receipt of the bids, the GNCTD carried out significant modifications and additions in the Transfer Scheme. These modifications were however not submitted to the competent authority for approval. The terms of the Scheme modified/added and its impact is given in the table below:

Sl. No.	Clause in original transfer scheme/policy directions	Modifications carried out after negotiation	Impact of Modifications
1.	There should be moratorium for the first three years on both interest and principal repayment of the debt of Holding Company by DISCOMs. Thereafter, interest was leviable at the rate of 12 percent.	Moratorium on repayment and interest recovery on repayment of debt extended to fourth year and to the fifth year in case of under-achievement in the fourth year.	Enhancement of moratorium period will result in depriving the Holding Company of interest amount of Rs.339.84 crore which would have accrued after the third year. Moreover, it enables utilisation of loan amount of Rs.1,416 crore for two additional years without interest.
2.	-	Liabilities arising out of litigation, suits, claims, etc. pending on the date of take over and/or arising due to events prior to take over shall be borne by the concerned DISCOMs subject to a cap of Rs.1 crore per annum. Any amount beyond this cap shall be to the account of the Holding Company if the same has not been allowed by the DERC.	As there was no mention of such a stipulation earlier, such liabilities arising out of litigation was liable to be borne by the successor companies. By addition of this stipulation, the liability of the DISCOMs was limited while the Holding Company was exposed to the possibility of additional liabilities which would otherwise have had to be borne by the DISCOMs.
3.	The minimum loss reduction levels stipulated in the RFP document issued to all prospective buyers.	The minimum loss reduction levels stipulated in the RFP document had been changed as detailed in annexure XIV.	TRANSCO sells power to the DISCOMs. If the realisation by the DISCOMs is less, then the amount which is remitted to TRANSCO by the DISCOMs

			would be correspondingly lower. By reducing the loss reduction levels from 20.75 for DISCOM I and 19.25 per cent for DISCOM II & III to 17 per cent for all, TRANSCO is deprived of an accrual of Rs.3,929 crore. The details of the figure is as worked out in annexure XVI.
4.	The effect of over-achievement/ under-achievement for the period 2002-03 to 2006-07 in reduction in AT&C losses should be taken on annual basis. The support level of TRANSCO was Rs.2,600 crore.	The effect of over achievement/under-achievement for the period 2002-03 to 2006-07 in the reduction of AT&C losses should be taken on cumulative basis till the end of the relevant years instead of on annual basis. The support level was increased to Rs.3,450 crore.	This will result in extra burden of Rs.850 crore in the form of support loan to TRANSCO to bridge the gap of cost of power and realization there against. Even this support of Rs.3,450 crore was not adequate to compensate for the loss that would be incurred by TRANSCO in view of the assumption made for increase in consumer tariff every year @ 10 per cent. The average consumer tariff required to be increased would now have to be in the range of 20 percent to 30 percent in order to cope with the loss.(Annexure XV)
5.		A mechanism be put in place to ensure that DISCOMs receive timely payment of electricity dues from Delhi Jal Board only in respect of HT connections.	The dues of the Delhi Jal Board was a secured debt and such a debt should be excluded from the outstanding for calculation of collection efficiency.

Government stated (October 2003) that the directions of the Council of Ministers had been adhered to and that the Council had approved the recommendations made by the Core Committee. It was added that such matters did not require the approval of the Lt.Governor. However, the relevant notes of the Law Department on this aspect were not readily available.

The reply of the Government is not tenable. The Transfer Scheme had been framed under the provisions of the Delhi Electricity Reforms Act which vests the authority to frame the Scheme in the Government. Section 2(d) of the Act stipulates that "Government" means the Lt.Governor of the NCT of Delhi. It was under these provisions that the GNCTD had sought and obtained the specific approval of the Lt.Governor for the Transfer Scheme on 12

.November.2001. Hence, any substantial changes to the terms of the Transfer Scheme should have been re-submitted to the Lt.Governor for approval.

Stores

7.4.11 According to the Shared Facility Aggrement, all material lying in the centralised stores pertaining to distribution functions shall be divided amongst the three DISCOMs in equal share with a right to the DISCOM to adjust amongst themselves the stores based on their mutual agreement. TRANSCO shall bill the DISCOM for these stores on actual cost. According to clause 12 of the SFA, the actual book value of the stores & spares and the loans to personnel as specified in the relevant provisions of the Transfer Scheme shall be determined based on an audit by an independent auditor to be appointed by each DISCOM on the basis of names suggested by TRANSCO. Effort was to be made to complete the whole process within six months of the date of the transfer.

TRANSCO raised bill for Rs.77.47 crore for stores transferred but could not recover any amount so far.

In pursuance of these provisions, M/s T.R.Chadha & Company was appointed as independent auditors. As there was delay on the part of the auditors in furnishing their report, TRANSCO decided in November 2002 to carry out an evaluation of the stores as on 30.June.2002 on actual cost basis in-house. Based on this exercise, TRANSCO raised a bill for Rs.77.47 crore on 13.March.2003. However, no payment has been received till date. In the meantime, the independent auditors furnished their report on 09.October.2003 wherein the total cost of capital stores was valued at Rs.87.99 crore in addition to the value of other items including sub-stores of Rs.15.66 crore.

Blockage of funds of Rs.105.71 crore with consequential loss of interest of Rs.3.48 crore.

Audit scrutiny of the valuation done by TRANSCO as well as the report furnished by the independent auditor revealed that the scrap/dead items valued at Rs.2.06 crore lying in the centralized stores as on 30.June.2002 which were also recoverable from the DISCOMs had not been taken into account. Moreover, failure to settle the issue and raise the bill within six months as contemplated in the SFA coupled with failure of the DISCOMs to pay the bill raised by TRANSCO together with non-inclusion of the value of dead items/scrap has resulted in blockage of funds of Rs.105.71 crore as well as a consequent loss of interest of at least Rs.3.48 crore calculated at minimum bank rate of interest of six per cent.

Government admitted (October 2003) that there was a delay of two and half months in raising the bills by TRANSCO. However, the DISCOMs raised a legal dispute claiming that the stores covered by the above stated provision of the Transfer Scheme Rules did not include stores that were relateable to capital work-in-progress. The matter was referred to GNCTD on 17/20 June 2003. The matter has now been resolved and Government has since decided

on 22.October.2003 that stores would include capital works and maintenance works and action was being taken accordingly.

Bulk Supply Agreement

Rebate

Excess rebate was repeatedly deducted by DISCOMs resulting in short payment of dues. Excess rebate recoverable was Rs. 33.31 crore of which Rs. 5.54crore is still to be recovered.

7.4.12 According to Article 5 of the Bulk Supply Agreement signed by TRANSCO with the three DISCOMs, TRANSCO shall from the month of the date of the transfer intimate through four monthly invoices the amounts payable by the DISCOMs to TRANSCO for energy charges which shall become payable on the date falling 20 days after the date of delivery of such invoice. After the first four monthly invoices, the DISCOMs shall start releasing the payments to TRANSCO without waiting for the monthly invoice. It is specifically stipulated in clause 5.2(d) that the DISCOMs shall pay the full amount to TRANSCO without deduction, set-off or withholding on any account whatsoever unless otherwise agreed upon. Where the DISCOMs make payment in full before the due date, TRANSCO shall allow a rebate of 2.5 percent in accordance with the provisions of the Bulk Supply Tariff. It is also stipulated, that in case the DISCOMs fail to pay the amounts due to TRANSCO on or before the due date of payment; then for the period of delay, the DISCOMs shall be required to pay a Late Payment Surcharge (LPSC) at a rate equal to 2.5 per cent per month on the amount delayed.

LPSC of Rs. 6.80 crore not recovered.

It was observed in audit that excess rebate was being calculated and deducted by the DISCOMs resulting in short payment of bills. The total amount of excess rebate recoverable from the DISCOMs worked out to Rs.33.31 crore for bills raised during July 2002 to April 2003. On it being raised in audit in March 2003, TRANSCO recovered Rs.9.48 crore and adjusted Rs.18.29 crore against the grant/loan payable to the DISCOMs under the Accelerated Power Development Reform Programme (APDRP) on 12 September 2003. The balance amount of Rs.5.54 crore has not been recovered so far (April 2003). TRANSCO had also failed to levy LPSC amounting to Rs.6.80 crore for the period from August 2002 to September 2003 with the DISCOMs on short payment of billed amount.

Government stated (October 2003) that the DISCOMs were regularly making payment of monthly bills and that there was no delay in receipt of payment from them. In cases where it was noticed that the rebate claimed was more than what was admissible, the DISCOMs have been asked to refund the excess rebate and the same has been recovered. Levying of 2.5 per cent LPSC on an incorrect rebate calculation which results in full cancellation of rebate for that particular month would have amounted to double penalty.

The reply of the Government is not tenable as rebate was an incentive or benefit granted for early payment of the billed amount and cancellation of the same for failure to remit the full amount by the stipulated date was not a penalty. It was only rectification of an error in allowing an incentive which was actually not due. Further, rebate was to be granted only after full payment was received by TRANSCO from the DISCOMs who were to remit the amount due from them without making any deductions. Deduction of excess rebate amounted to short payment of dues. LPSC was a penalty to be levied on the buyer for default in timely payment of full amount due, i.e. for any short payment of dues. Hence, cancellation of rebate and levying of LPSC were two entirely different issues and in the instant case, levying of LPSC cannot be treated as double penalty as cancellation of rebate was clearly not a penalty. Hence, incorrect and arbitrary deduction of rebate by DISCOMs amounted to short payment of their monthly dues attracting levy of LPSC. Failure to levy LPSC amounts to an undue benefit to the DISCOMs at the cost of TRANSCO.

Aggregate Technical and Commercial Losses

Requirement of reduction in AT&C loss reduction targets reduced from 20.75 and 19.25 percent for DISCOM I and DISCOM II/III respectively to 17 percent.

7.4.13 Aggregate Technical and Commercial Loss (AT&C) is the difference between units put into the system and the units for which the payment is collected. At the time of the RFP, the total AT&C losses were to be reduced by 20.75 percent for DISCOM I and 19.25 percent for DISCOMs II and III. At the time of the share acquisition agreement, consideration of collection efficiency was included in the calculation of AT&C and requirement for reduction in AT&C losses was diluted to 17 percent over a period of five years.

One of the primary objectives of the privatisation of distribution was to reduce non-technical losses. The total non-technical losses are estimated by reducing from the total AT&C losses the technical loss and collection efficiency. The technical loss allowed by the DERC and the technical consultant (TCE) along with collection efficiency was as follows:

(Figures in percentage)

Sl. No.	Particulars	Tata Consultancy Engineers (TCE)	Technical losses allowed by DERC	Total technical losses allowed to DISCOMs	Total AT&C losses to be reduced
1.	Losses at 220 KV to 66 KV	1.47	-	1.47	17
2.	Average loss at 66 KV to 11 KV	1.36	6.20	6.20	-
3.	Losses below 11 KV in the distribution system	5.85	-	5.85	-
4.	**Total**	**8.68**	**6.2**	**13.52**	**17**
5.	Less loss to be reduced by 1.25 per cent during five years by installing capacitors	1.25	-	-	-
6.	**Total**	**7.43**			
7.	Losses on account of collection efficiency	-	5.11	5.11	-
8.	Total losses on account of technical loss and collection efficiency	-	-	18.63	-
9.	Technical losses and collection efficiency allowed (18.63 – 7.43)	-	-	11.20	11.20
10.	Non-technical loss to be reduced during five years (Row 4– Row 9)	-	-	-	5.80

Dilution of loss reduction targets from that envisaged in RFP

Audit scrutiny revealed that if we consider the collection efficiency along with only the technical losses as allowed by the DERC and the technical consultants, the loss on these two factors viz. technical loss and collection efficiency was 18.63 per cent. Taking into account the acceptable technical loss of 7.43 per cent, the total extra loss allowed to the DISCOMs on account of technical loss and collection efficiency was 11.20 per cent. The non-technical loss viz. primarily theft reduction and misuse which was one of the primary objectives of privatization was thus only 5.80 percent in five years viz. 1.16 percent per year as against 3 percent per year on an average envisaged in the RFP . This resulted in a significant dilution of the loss reduction targets as originally envisaged in the RFP thereby undermining one of the primary objectives of the privatization process.

The Government stated (September 2003) that reduction of technical losses below 11 per cent has virtually impossible since during the next five years the size of system would expand and the cost of improvements which could reduce the technical loss level was very high to the point that it was not always regarded as cost effective.

The reply was scrutinised in audit. It was seen that the figure of acceptable technical loss was only 7.43 percent as per the technical consultant's report

and ranged between 8.04 and 5.80 for the different circles according to the SBI CAPS Report. The figure of reduction of AT&C loss envisaged in the RFP was by 20.75 percent for DISCOM I and 19.25 percent for DISCOMs II and III. The opening loss for DISCOM I was 57.2 percent and 48.1 percent for DISCOMs II and III. Since the technical losses cannot be reduced beyond 11 percent as stated by Government, the stipulated loss reduction can be achieved only by reducing the losses on account of collection efficiency and non-technical losses. Loss on account of collection efficiency was 5.11 percent which was to be reduced to zero over a five year period. Deducting this from the total loss reduction to be achieved, the total reduction to be achieved on account of non-technical loss worked out to 15.64 for DISCOM I and 14.14 percent for DISCOMs II and III over a five year period against 5.80 percent arrived at after taking into account the technical consultants losses and transmission loss allowed by DERC to the DISCOMs. The level of loss reduction targets envisaged in the RFP should have been ensured. Failure to do so may have an adverse impact on tariffs.

Conclusion

The actual implementation of the privatisation process was not in conformity with either the initial Inception Report as approved by the GNCTD or with many of the conclusions and recommendations made by the Consultant. There was no effort to assess the actual requirement and scope of work before selection and appointment of consultant, which would have enabled a systematic and transparent selection. The provisions of the Transfer Scheme were substantially modified to allow additional concession to DISCOMs which exposed the Government and the Holding Company to additional liability. The provisions of the Transfer Scheme and other agreements like the Bulk Supply Agreement were not strictly adhered to. There was also a significant dilution in AT&C loss reduction targets from that originally envisaged

7.5 Paragraphs

Statutory Corporations

Delhi Financial Corporation

7.5.1 Non-recovery of loan

Non-demarcation of collateral security and failure to verify vacant premises, coupled with laxity on the part of Corporation to dispose of mortgaged assets and invoking personal guarantees of directors resulted in non-recovery of Rs. 2.03 crore.

Delhi Financial Corporation (Corporation) sanctioned (December 1995) a term loan of Rs. 0.59 crore to a private company viz. Aar Em Alloys Private Limited Delhi (loanee unit) promoted by 'A' and his father 'B' (promoter directors) for purchase of plant & machinery for setting up of a stainless steel wire project. The loan was sanctioned subject, inter alia, to the condition that before disbursement of loan, the loanee would take 3000 sq. ft. covered area on rent for eight years at 1/342, Friends Colony Industrial Area, Shahdara and show vacant premises thereof which was at that time being occupied by a sister concern. The loan was secured against first legal equitable/registered mortgage of all the existing as well as future assets of the unit and personal guarantees of the directors. The loanee offered half portion of property bearing No. 1/342, Friends Colony Industrial Area, Shahdara, which was owned by another son 'C' of 'B' (promoter director) as collateral security. The loanee unit was set up in this portion. The other portion of the abovesaid property was owned by 'B' himself and given on rent to a sister concern.

It was observed in audit that the Corporation disbursed Rs. 0.54 crore during March 1996 to January 1997 without verifying the clear demarcation of collateral security and without getting the existing sister concern running in the same premises shifted to another place as stipulated in the conditions for grant of the loan.

The loanee unit was in default since the beginning. On request of the loanee unit, the Corporation rescheduled the repayment of the loan from 1 February 1997 onward to end on 1 February 2002. But the loanee again could not honour the commitment. Consequently, the Corporation issued (September 1997) a notice recalling the entire loan of Rs. 0.55 crore when the amount in default was Rs. 9.62 lakh excluding interest. The realisable value of plant and machinery was assessed at Rs 15-16 lakh in January 2001 against book value of Rs. 22.00 lakh.

The efforts made by the Corporation up to March 2001 to take over the possession of collateral security under Section 29 of the SFC Act proved futile due to non-demarcation and construction of wall between the two portions of the property and the fact that another unit was running in the premises owned by 'A' and 'D' (his wife). The Management admitted (December 2002) that the attempts made to take over the collateral security was unsuccessful as the unit was found locked/blocked being common passage and the party had also not put up any demarcation wall in the common passage which prevented the Corporation from taking possession. No further action was taken by the Corporation to recover its dues by way of invoking the personal guarantees of the directors or by seeking disposal of the mortgaged assets.

The loan dues outstanding against the concern accumulated to Rs. 2.03 crore (principal: Rs. 54.50 lakh and interest: Rs. 148.28 lakh as of 31 May 2003).

Thus, non-demarcation of collateral security and failure to get the existing unit running in the same premises shifted to another place before disbursement of loan as stipulated in the loan conditions coupled with laxity on the part of Corporation in the disposal of mortgaged assets and invoking personal guarantees of directors resulted in non-recovery of Rs. 2.03 crore.

The matter was reported to the Government and the Management in August 2003; their reply was awaited (November 2003).

7.5.2 Improper appraisal of a loan case

Improper appraisal of a project report coupled with failure to timely invoke personal guarantee of loanee resulted in non-recovery of Rs. 1.31 crore

Delhi Financial Corporation (DFC) sanctioned (January 1997) a loan of Rs. 70.75 lakh (term loan of Rs. 42.50 lakh and working capital loan (WCL) of Rs. 28.25 lakh) to a unit for a new project for manufacture of adhesive

tapes and injection moulding containers. The appraisal note mentioned that the demand of adhesive tapes was increasing as more and more industries were giving importance to packaging. While approving the above case, the Executive Committee of the Corporation had expressed doubts about the functioning of self fabricated machines (adhesive tape machine) as the proprietor did not have adequate experience and hence their workability was doubtful. However, the loan was released on the basis of satisfactory performance report of machines given by the technical officers of the Corporation.

An amount of Rs. 62.04 lakh (term loan of Rs. 39.16 lakh and WCL of Rs. 22.88 lakh) was disbursed during 19 March 1997 to 26 June 1998. The balance amount of term loan and WCL was cancelled due to non-submission of completion certificate of building and non-utilisation of disbursed WCL in full. The loan was repayable in 26 instalments starting from 1 November 1997 and ending on 1 December 2004. However, the repayment schedule was revised from the very beginning on the request of the party due to delay in implementation of the project.

The unit commenced production of adhesive tapes in October 1997 but stopped (October 1998) the same due to severe competition and low margin of profit. The unit besides taking up job work, also started manufacturing components for automobiles thereby changing the original line of manufacturing without any approval of the Corporation as required.

The Corporation served (October 1998) notice under Section 29 of State Financial Corporation (SFCs) Act, to take over possession of the unit but subsequently, on the loanee making some payment and furnishing an undertaking to pay future payments, the action u/s 29 was kept in abeyance. It was further observed in audit that against the projected sales of Rs. 2.00 crore, Rs. 2.33 crore and Rs. 2.66 crore, the actual sales amounted to 4.5, 6.4, 14.3 per cent only of the projections during the first three years i.e 1997-98, 1998-99 and 1999-2000 respectively. The unit subsequently became sick and was closed in April 2000.

The Corporation took over the possession of the unit on 26 April 2000. A sale notice was advertised (June 2000) against which single offer of Rs. 22.00 lakh received was rejected, being low compared to the assessed value of Rs. 62.12 lakh. In view of loanee's proposal (June 2000) for revival, the possession was restored (November 2000) to the loanee subject to down payment of Rs. 2.00 lakh and Rs. 1.00 lakh per month. However, the party failed to honour the commitment but was nevertheless granted time. Ultimately, revival scheme (December 2001) could not be implemented as the loanee did not supply the requisite information.

The Corporation took the decision as late as in April 2002 to again take over mortgaged assets when part of the machinery was found missing for which criminal complaint u/s 406 of IPC was filed. In the meantime, Assistant Collector (Revenue) informed (June 2002) the Corporation that the loanee was not traceable.

Thus, improper appraisal of a project coupled with failure to take meaningful action like invocation of personal guarantee of loanee resulted in non-recovery of Rs. 1.31 crore including interest of Rs. 67.39 lakh as on 1 February 2003.

The matter was reported to the Government and Management in July 2003, their reply was awaited (November 2003).

7.5.3 Faulty appraisal of a loan case

Disbursement of loan against faulty appraisal of the loanee project resulted in non recovery of Rs. 0.56 crore

The Corporation sanctioned (September 1993) a loan of Rs. 40 lakh to M/s Gagan Garments (P) Limited for setting up a unit for manufacture of knitted hosiery cloth. The loan was secured against all the machinery in the premises of the unit. In addition, the Corporation also obtained collateral security of a residential house constructed on a plot measuring 144 sq. meters. Loan of Rs. 39.10 lakh was disbursed during Feburary 1994 to September 1994 and balance loan of Rs. 0.90 lakh was cancelled. The loan alongwith interest thereon was repayable in 18 quarterly instalments commencing from November 1994. The Corporation while appraising the project took the installed capacity as 700 Kgs. per day instead of optimum capacity of 490 kgs. per day i.e 70% of 700 kg per day on double shift basis under production conditions in India as per project profile submitted by the loanee unit. Accordingly, the Corporation estimated the total profit upto 5 years (repayment period) at Rs. 44.87 lakh whereas it should have worked out to be an estimated loss of Rs. 1.98 lakh after taking into account the attainable capacity of 490 kg per day i.e 70 per cent of 700 kg. Consequently, total surplus (profit plus depreciation) available for repayment of loan instalments was Rs. 30.63 lakh against Rs. 39.10 lakh required for repayment of loan.

The loanee was not regular in repayment of loan instalments. Though the Corporation issued notices including under Section 29 of the State Financial Corporations Act, it did not take effective follow-up measures to take over

and dispose of the mortgaged assets resulting in Rs. 0.56 crore (Principal Rs. 24.23 lakh, Interest Rs. 31.62 lakh) becoming overdue as on February 2003.

On this being pointed out by Audit, the Management stated (June 2002/ August 2003) that the capacity of the project was assessed on the conservative side as 700 kgs. per day instead of the capacity of 1050 kgs per day as per the catalogue submitted by the party and that the project had been evaluated as per the prescribed norms. The reply of the Management is not tenable in view of the fact that while the installed capacity of the three machines as per catalogue was 1050 kgs (300+300+450) per day on three shifts basis, the project report of the loanee clearly indicated that operation would be on two shifts basis and maximum attainable capacity was 70 per cent of the installed capacity (i.e 70 per cent of 700 kgs. on two shift basis). As such the maximum attainable capacity at any stage was 490 kgs. per day on double shift basis whereas the Management evaluated the installed capacity of the project as 700 kgs per day.

Thus, faulty appraisal of the project resulted in irregular sanction and disbursement of loan to an unit recovery from which was doubtful ab-initio, as the surplus generated was not adequate to make repayments of loan. Total amount outstanding against the loanee as of February 2003 was Rs. 0.56 crore including interest of Rs. 31.62 lakh.

The matter was reported to the Government in June 2003, their reply was awaited (November 2003).

Delhi Transport Corporation

7.5.4 Non-recovery of hire charges of Rs. 11.61 lakh and interest Rs. 8.36 lakh thereon on account of dead kilometers.

Injudicious waiver of hire charges amounting to Rs. 11.61 lakh and interest of Rs. 8.36 lakh thereon on account of dead kilometers resulted in undue favour to Parent Teacher Association of two Schools.

The Delhi Transport Corporation (Corporation) is established under Section 3 of the Road Transport Corporations (RTC) Act, 1950 as a separate and independent Corporation to be run on sound business principles.

The Corporation provides buses to various schools on chartered basis at the rate of Rs. 25 per km. The kms for which no revenue is realised in operation of the bus are termed as dead kilometers. While calculating the route length

of a trip, 5 kms are added as dead kms (distance covered by the empty bus from the school to the starting point of the routes and vice-versa in the afternoon). The agreements entered into with parties for hiring of buses provided that the hire charges were to be paid in advance by 20th of the preceding month failing which interest at the rate of 2 per cent per month was recoverable from the hirer.

Scrutiny of the records of the Corporation revealed that Parents-Teachers Association (PTAs) of two schools viz. Shaheed Basant Kumar Vishwas Sarvodaya Vidayalaya, Civil Lines, and Shaheed Bhai Bal Mukand Sarvodaya Vidayalaya, Shankracharya Marg, had not paid the hire charges relating to the dead kilometers portion amounting to Rs. 3.47 lakh and Rs. 8.14 lakh respectively for the period from August 1999 to August 2001. They started paying the dead kms hire charges only from August 2001 onward. On the recommendations of the Hon'ble Transport Minister as well as the Hon'ble Chief Minister (April 2000 and September 2002 respectively), the Corporation decided (February 2003) to condone the past arrears of Rs. 11.61 lakh subject to the Government of NCT of Delhi reimbursing the amount. However, the provisions under which the instructions were issued were not mentioned.

It was observed in audit that the decision of the Corporation to waive the amount was against its commercial interests and not only lacked adequate justification but being discriminatory in nature, also resulted in undue favour to two Parent Teacher Associations. It may be added that the Government has subsequently refused to reimburse the loss as intimated (July 2003) by the Corporation. It was also observed in audit that the Corporation has not claimed interest amounting to Rs. 8.36 lakh @ 2 per cent per month on unpaid amount despite an enabling provision, thereby, resulting in total loss of revenue to the tune of Rs. 19.97 lakh (Rs. 11.61 lakh+Rs. 8.36 lakh).

The matter was reported (August 2003) to the Government, which replied (September 2003) that DTC had since recovered Rs.6.19 lakh (Rs.3.47 lakh as principal amount and Rs. 2.72 lakh interest thereon) from PTA of Shaheed Basant Kumar Vishwas Sarvodaya Vidalaya while bus service to the second PTA had been discontinued w.e.f. 25 August 2003 and efforts were on to recover the pending amount.

7.5.5 Injudicious waiver of recoverable amount of Rs. 19.99 lakh

The Corporation did not act on sound business principles and injudiciously waived recovery of Rs. 19.99 lakh instead of enforcing recovery as per Court decree in its favour.

The Delhi Transport Corporation (Corporation) is established under Section 3 of the Road Transport Corporations Act, 1950, as a separate and independent Corporation to be run on sound business principles.

The Corporation provided (May 1987) 723 buses on special hire basis to a political party in connection with a rally held at the Boat Club. After adjusting an advance of Rs. 3.25 lakh, the Corporation raised (July 1987) a bill of Rs. 1.68 lakh. Since the amount remained unpaid despite reminders, the Corporation filed (April 1990) a suit for recovery of Rs. 2.66 lakh including interest @ 21 per cent per annum. The Court of Additional District Judge awarded (March 1996) a decree for Rs. 2.66 lakh ex-parte in favour of the Corporation and future interest @ 21 per cent per annum from the date of filing of suit till realisation. The warrant of attachment of movable property in execution of decree for Rs. 7.29 lakh including interest was also passed (November 1996) by the Hon'ble Court.

Audit scrutiny revealed that instead of enforcing execution of the decree, the Corporation decided (January 2002) to recover only the principal amount of Rs. 1.84 lakh (Special hire charges: Rs. 1.68 lakh + cost of suit: Rs. 0.16 lakh) and waive the recovery of interest thereon which had accumulated to Rs. 19.99 lakh, at the instance (May 2001) of the Hon'ble Minister of Transport. However, the provisions under which these instructions were issued by the Hon'ble Minister were not mentioned.

It was observed in audit that the decision of the Corporation to waive the interest was clearly against its legitimate commercial interests as it could have easily effected the recoveries especially since it had already secured a decree in its favour and warrant of attachment of movable property.

The matter was reported to the Government and Management in August 2003. their reply was awaited (November 2003);

Government Companies

Delhi State Civil Supplies Corporation Limited

7.5.6 Loss due to Supply of Imported Onions of Inferior Quality and consequent Purchase from Local Market at Higher Rates

The Company failed to initiate action against the foreign supplier for replacement of onions of inferior quality and supply of the remaining quantity as per terms of the contract which resulted in loss of Rs.0.86 crore

The Government of India allowed (October 1998) the Government of NCT of Delhi to import onions at zero rate of customs duty through the Delhi State Civil Supplies Corporation Limited (Company) to meet the shortfall in supply of onions and prevent exploitation of the situation by traders.

The Company entered into a contract with M/s. Trade Line LLC, Dubai on 20 October 1998 for supply of 700-1000 MT onions at the rate of US $ 265 (Rs.11262.50 @ Rs.42.50 per dollar) per MT C&F, Mumbai Port. The contract, provided inter alia that the first shipment would take place by 26 October 1998 and the final shipment within 14 days of the opening of workable Letter of Credit (LC). Insurance was to be arranged by the buyer and pre-shipment inspection was to be arranged by the supplier at the cost of the buyer. Penalty at 3 per cent was to be paid by the supplier in case of failure to fulfil the contractual commitments within the stipulated time frame. In case of dispute, the matter was to be referred to the Arbitration Court in the London Chamber of Commerce and Industry, London.

The supplier arranged 153.20 MT onions, which arrived at Mumbai Port on 3 November 1998 and were unloaded the next day. Almost the entire consignment was found to be wet and rotten. There was also a shortage of 16.24 MT onions. The payment was made (November 1998) against LC opened on 21 October 1998. The onions were brought to the Company's godowns at Delhi, and a survey was conducted in November 1998 by the Insurance Company in the presence of Company's officials, which revealed that the whole consignment of onions was of inferior quality and unfit for human consumption. The consignment was subsequently destroyed.

Subsequently, the Company had to purchase 1000 MT of onions from local market at a cost of Rs.223.38 lakh as against Rs. 166.85 lakh (landed cost at Delhi) that it would have paid at the contracted rates for the same quantity of imported onions. This resulted in extra expenditure of Rs. 56.53 lakh. It was seen in audit that instead of referring the matter for arbitration as per terms of the contract, the Company only lodged a claim with the Insurance Company for Rs. 28.97 lakh for insurance charges, bank charges, internal transportation charges, surveyor's fee etc. The insurance company rejected (November1998) the claim on the grounds that the quality of onions was inferior and unfit for distant transportation and long storage, and that they were packed in ordinary jute bags which were not seaworthy as these were not the standard type (net type) bags that facilitated ventilation, etc. Moreover, the consignment was transported in non-ventilated containers during the sea journey. The Insurance Company had also observed that no pre-despatch survey had been carried out and no effort was made by the Company's officials to avert or minimise the loss. Further, according to the opinion of an expert, the shelf life of onion was 2-3 months under room temperature and 4-5 months when cold stored. The Company itself had observed (November 1998) that onions having a long shelf life could not have decayed or damaged so quickly unless there were some extraneous reasons for the same.

The Company thereafter filed a complaint with the National Consumer Disputes Redressal Commission, New Delhi against the decision of insurance company, which dismissed the complaint in default in February 2002 as nobody appeared on behalf of the Company. The complaint was, however, restored in April 2002 at the request of the Company. Further developments were awaited (June 2003).

It was observed in audit that the Company had neither asked the foreign supplier to replace the onions of inferior quality already supplied nor had it taken up the matter for supply of remaining quantity with them. The Company did not even ask the supplier to pay penalty @3 per cent amounting to around Rs 2.37 lakh on the price of 700 MT of onions despite enabling provision in the contract nor did it refer the matter for arbitration. The Company had in fact failed to exercise due care and or take prudent steps to ensure the quality of the onions or its proper transportation.

Thus, failure of the Company to initiate action against the supplier for replacement of onions of inferior quality and for supply of the remaining quantity coupled with failure to exercise due care to safeguard its interests resulted in loss of Rs. 85.50 lakh (Rs. 28.97 lakh +Rs. 56.53 lakh).

The matter was reported to the Government and Management in July 2003; their reply was awaited (November 2003).