

Chapter-III

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

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

Government companies

Haryana Agro Industries Corporation Limited

3.1 Non recovery of transportation charges

The Company suffered a loss of Rs. 1.17 crore due to non recovery of transportation charges from the millers.

The Government of India (GOI) prescribes the rates of Custom Milled Rice (CMR) each year delivered to the Central Pool by the State Procurement Agencies. GOI vide their notification (December 2004 and November 2005) prescribed rates for CMR for Khariff 2004-05 and 2005-06 which, *inter alia*, provided that the milling charges in respect of paddy and rice include transportation charges up to eight km on each side from the purchase centre to the mill and from mill to the FCI's godown. Accordingly, clause 16 of the agreement executed with the millers stipulated that all the expenditure incurred including labour, transportation and other incidentals in connection with the lifting of paddy from storage points or any other place and delivery thereof shall be borne by the millers. The GOI confirmed (July 2006) these stipulations in response to representations received from the various State Governments and rice millers associations.

Audit scrutiny (February 2007) revealed that the Company had incurred an expenditure of Rs. 1.17 crore during 2004-06 on transporting paddy to the millers within eight kms from purchase centres to the mills. Management stated (May 2007) that the transportation charges were not recovered from the millers as per the instructions from the Chief Minister's Office. The reply is not tenable as the milling charges fixed by the GOI included transportation charges in such situations. The action of the Company in not recovering the transportation charges on paddy from the millers despite clear stipulation in the agreement amounted to undue favour to them.

Thus, the Company suffered a loss of Rs. 1.17 crore due to non recovery of transportation charges from the millers.

The matter was referred to the Government in April 2007; the reply had not been received (September 2007).

Haryana State Roads and Bridges Development Corporation Limited

3.2 Loss due to delay in finalisation of tender bids

Failure of the Company to make fair assessment of anticipated toll collection and rejection of a valid offer had resulted in loss of revenue of Rs. 4.64 crore.

The State Government decided (September 2002) to levy toll tax on the roads improved under HUDCO loan projects and authorised the Company to invite bids for collection of toll. On completion of Bahadurgarh-Jhajjar Road, the State Government issued (9 September 2003) notification for levy of toll on this road upto 31 March 2017 at the specified rates. The Company invited (June 2003 and January 2004) tenders but no offer was received.

Tenders were again invited (July 2005) and a single bid of Udavir Singh Sudesh Pal for Rs. 4.53 crore for two years was received. After negotiation, (September 2005) the contractor raised the offer to Rs. 4.64 crore. As per traffic data on this road, toll collection of Rs. 6.50 crore was anticipated (August 2005). The tender committee in its meeting (September 2005) decided to get the assessment of toll collection from an independent agency and asked (September 2005) Superintending Engineer (SE), Rohtak to extend the validity of the tender besides giving concrete recommendations regarding approval of bid. After a lapse of three months SE, Rohtak intimated (December 2005) that tenders may be re-invited as the offer of Rs. 4.64 crore was very low against the anticipated toll collection of Rs. 7.85 crore based on traffic census conducted (December 2005) by an independent agency. Resultantly, the Company refunded (January 2006) the security of Rs. 15 lakh paid by the tenderer. The Company re-invited (February 2006) tenders but no offer was received. In the subsequent tenders (March 2006) two bids were received. The highest offer of Rs. 3.03 crore for two years was low, hence not considered. Moreover, the Company had earlier rejected a valid offer of Rs. 4.64 crore. Audit observed (October 2006) that the Company was aware from the date of notification for levy of toll fee that this route was having locational disadvantage and anticipated toll collection based on traffic census was not feasible. Despite this the Company rejected a valid offer of Rs. 4.64 crore for two years resulting in loss of revenue.

Thus, failure of the Company to make fair assessment of anticipated toll collection resulted in loss of revenue of Rs. 4.64 crore.

The Management stated (July 2007) that toll contract could not be awarded in July 2005 as it was 43.9 *per cent* less than the anticipated value. The reply is not tenable as the anticipated toll collection was not worked out realistically and in the given conditions, rejection of offer of Rs. 4.64 crore was not justified.

The matter was referred to the Government in May 2007; the reply had not been received (September 2007).

3.3 Excess payment of interest

Failure of the Company to act prudently resulted in excess payment of interest of Rs. 6.78 crore.

Housing and Urban Development Corporation Limited (HUDCO), New Delhi sanctioned three loans aggregating Rs. 468.27 crore (Rs. 173.66 crore on 27 April 2000, Rs. 144.08 crore on 10 October 2001 and Rs. 150.53 crore on 15 October 2001) at fixed interest rates prevalent on the dates of disbursement as per each scheme for improvement/upgradation of state highways and district roads by the Company. The Company drew Rs. 262.98 crore at interest rates ranging between 12.75 and 10.25 *per cent* per annum during December 2000 to April 2003.

For providing relief to the existing loanees due to declining interest rates, HUDCO offered (March 2004) to reset the interest rates of already availed loans at fixed higher rate of interest on payment of one time resetting charges of one *per cent* of the outstanding principal amount. Despite substantial reduction (March 2004) in rate of interest (8.25/8.75 *per cent*) the Company did not evaluate the savings in getting the loan reset. Had the Company reset the outstanding loans of Rs. 290.99 crore (as on 31 March 2004) by making payment of Rs. 2.91 crore as resetting charges, the Company could have saved a net of Rs. 6.78 crore on account of difference in interest during April 2004 to June 2007.

Failure of the Company to act (March 2004) prudently by opting for reduced rate of interest had thus resulted in excess payment of interest of Rs. 6.78 crore up to June 2007.

The Management stated (June 2007) that it evaluated (July 2005) the proposal when the offered rate of interest was 8.75 *per cent* per annum and same was not found profitable option. The reply is not tenable as the Company should have evaluated this option in March 2004 when the scheme was offered by HUDCO.

The matter was referred to the Government in February 2007; the reply had not been received (September 2007).

Haryana State Industrial and Infrastructure Development Corporation Limited

3.4 Irregular payment of conveyance allowance

Inadmissible reimbursement of conveyance allowance amounting to Rs. 1.82 crore was made to employees in violation of State Government instructions.

The Company decided (April, 1995) to reimburse the conveyance allowance to its employees depending upon their entitlement, in the shape of cost of petrol, in place of fixed conveyance allowance. Accordingly, the amount of conveyance charges increased with the increase in cost of petrol from time to time.

The State Government while approving the recommendations of Pay Revision Committee for Public Sector Undertakings (PSUs) issued (October 1998) instructions to all the Administrative Departments of PSUs/Institutions that various allowances like Dearness Allowance, House Rent Allowance, City Compensatory Allowance, Conveyance Allowance and other incentives granted to the employees of all State PSUs/Institutions should not exceed the ones admissible to State Government employees under any circumstances. As per the orders of the State Government, Conveyance Allowance was admissible only to blind and orthopaedically handicapped employees.

Test-check of records by audit revealed (March 2007) that the Company adopted (December 1998) new scales approved by the Government but did not discontinue the reimbursement of conveyance charges in tune with the State Government orders. Thus, the Company paid Rs. 1.82 crore as conveyance allowance (April 2001 to July 2007) in disregard to the orders of State Government.

Thus, injudicious decision of the Company to continue the payment of conveyance allowance, particularly when the State Government had specifically directed the PSUs not to pay any allowances over and above those admissible to State Government employees had resulted in an irregular payment of conveyance allowance.

The Management stated (June 2007) that the new pay scales were adopted in 1998 and the facility of reimbursement of local conveyance allowance was continued as it was already in vogue for more than 14 years with the approval of BOD. The reply is not tenable in view of the State Government instructions (October 1998) which restricted the State PSUs from allowing any allowance/incentives to their employees, in excess of those admissible to State Government employees.

The matter was referred to the Government in April 2007; the reply had not been received (September 2007).

Haryana Police Housing Corporation Limited

3.5 Excess payment of interest

Failure of the Company to opt for reduced rate of interest resulted in excess payment of interest of Rs. 55.24 lakh

Housing and Urban Development Corporation Limited (HUDCO) sanctioned (October 1995 to February 2002) three loans of Rs. 39.60 crore to the Company with interest rates ranging from 10.5 to 16 *per cent*. Due to change in the interest rate regime, all the leading financial institutions reduced their interest rates. For giving relief to existing loanees, HUDCO offered (May 2003) resetting of interest charges at 10.44 *per cent* on payment of one time reset charges at the rate of one *per cent* on outstanding principal amount. The Company got the interest rates reset (July 2003) on the outstanding loan (July 2003) of Rs. 24.33 crore at 10.44 *per cent* per annum after paying (September 2003) resetting charges of Rs. 24.33 lakh.

Audit observed (December 2006) that the decreasing trend in interest rates continued and resultantly HUDCO again offered (March 2004) existing loanees the prevalent rate of 8.75 *per cent* on payment of one *per cent* reset charges on the outstanding loan. But the Company did not evaluate the savings in getting the loans reset and continued to make payment of interest at 10.44 *per cent* up to December 2005. It got the loans reset (January 2006) at the then prevailing rate of 9.25 *per cent*. Had the Company opted (March 2004) for reduced rate of interest of 8.75 *per cent* by paying resetting charges of Rs. 23.39 lakh on the outstanding loan (March 2004) of Rs. 23.39 crore, it could have saved Rs. 55.24 lakh till June 2007.

Thus, failure of the Company to take action at an appropriate time had resulted in excess payment of interest amounting to Rs. 55.24 lakh till June 2007.

In reply (April 2007), endorsed by Government (May 2007) the Management stated that borrower could get the interest rate reset once during total repayment period of each scheme. Reply is not tenable as clause 6 of financial pattern (March 2004) allows resetting of loan more than once subject to payment of resetting charges every time.

Uttar Haryana Bijli Vitran Nigam Limited

3.6 Revision of consumption security

The Company suffered a loss of interest of Rs. 5.45 crore due to short recovery of security of Rs. 80.25 lakh from the new consumers and non recovery of security of Rs. 220.06 crore from the existing consumers.

Haryana Electricity Regulatory Commission notified (26 July 2005) that the licensee should recover security equivalent to four months consumption charges in case of bi-monthly billing and two months in case of monthly billing cycle from the existing consumers calculated on the basis of average of 12 months of previous year, to safeguard against any default in payment. Adequacy of the security amount was to be reviewed once in three years based on the average consumption of the previous financial year. The Regulation further provided that the initial review of existing consumers would be carried out within a period of six months i.e. up to January 2006 and any deficit in the consumption security would be recovered in six instalments through energy bills. Security deposit from the new consumers under various categories was to be recovered at revised rates from 1st November 2005.

It was observed that the Company revised the rates of security deposit for new consumers with effect from 25 November 2005 instead of 01 November 2005. This had resulted in short recovery of Rs. 80.25 lakh based on connected load released during 1 - 24 November 2005 and loss of interest of Rs. 2.68 lakh calculated at 2.5 to 3.25 (8.5 to 9.25 *per cent* cash credit rate less 6 *per cent* payable to consumers) *per cent* per annum upto March 2007. In respect of existing consumers, the Company had not reviewed the average consumption of consumers for working out revised security requirements so far (March 2007) despite lapse of more than one year. Recovery of additional security deposit was to start after preparation of consumption security registers by field offices and billing agencies,

which have not been prepared so far (March 2007). The Company assessed (October 2005) the amount of additional security recoverable from existing consumers at Rs. 220.06 crore. Delay in recovery of additional security of Rs. 220.06 crore from existing consumers had resulted in loss of interest of Rs. 5.42* crore up to March 2007.

The Management stated (March 2007) that the regulations were immediately implemented after the approval of the State Government to whom these were referred as these involved steep rise in the existing rates of security. Further, review and recovery of existing consumption security was a huge task which required minimum six months. The reply is not tenable as approval of the State Government was not required under the Electricity Act, 2003. The Company could have ensured timely implementation by doing the requisite spadework between July 2005 and October 2005. The additional security from existing consumers has not been recovered so far (August 2007).

The matter was referred to the Government in May 2007; the reply had not been received (September 2007).

3.7 Undue favour to consumers

Non compliance of instructions of the Company to charge tariff at higher rates from erring LT power consumers has resulted in a loss of revenue of Rs. 47.20 lakh.

The Company's instructions (2001) provide that if there is a change of category from low tension (LT) to high tension (HT) due to unauthorised increase in load, the consumer shall be charged HT tariff for that month for the first default with LT surcharge at the rate of 25 per cent of energy charges along with penalty for unauthorised load at the rate of Rs. 70 per KW. Such consumer is to be treated, in future, as an HT industrial consumer drawing power at LT supply and charged accordingly till such time he gives written intimation of disconnection of such excess load or shifts to HT category.

It was noticed (June 2006) that 32 LT consumers of operation sub division, Chhachrauli (Yamunanagar) had exceeded (August 2002 to September 2005) their load unauthorisedly and in view of the instructions their category changed from LT to HT. The Company neither charged the requisite penalty from these erring consumers for the first default nor treated them as HT industrial consumers in the ensuing months, despite the fact that no written intimation regarding disconnection of excess unauthorised load was received from the consumers. Metering & Protection and Vigilance Wing, responsible for checking also failed to detect the malpractice for more than two years. The Vigilance Wing detected (April 2005) unauthorised load in respect of four LT connections. Thereupon, the sub-division reviewed such cases and after seeking (December 2005) clarification (February 2006) from the head office, charged Rs. 51.84 lakh to their account for the period from August 2002 to September 2005. While conveying (February 2006) the clarification, the Director (Operation) of the Company desired

* represents the difference between interest paid on cash credit and that payable on consumer security.

that responsibility of delinquent officials be fixed for the loss in case recovery was not made. The consumers represented (March 2006) against charging of penalty on the plea that they had never increased the load and the excess load recorded by Maximum Demand Indicator (MDI) was a sheer result of jerking load caused due to the nature of work and they were never informed about any sales circular or test report. Further, they were being asked to pay after three years for the negligence of Company's officials. The Company issued specific instructions (February 2006) for issue of time bound notices to the erring consumers to avoid such situation. Admitting (March 2006) that the dispute would have never arisen had the erring consumers been served with notices for the extended load, the Management decided not to levy the penalty on the plea that the meter recorded the increased maximum demand due to jerking of load and the actual load had not increased in the subsequent readings. Consequently, Rs. 47.20 lakh were refunded/adjusted (May 2006). This action of the Management was not justified. In view of the Company's instructions the category changed due to exceeding the sanctioned load and remained operative till such additional load was removed. Further, the actual load of these consumers had also increased in subsequent readings and the Management failed to issue timely notice to the consumers regarding unauthorised load. Resultantly it could not recover penalty at a later stage.

It was further seen that provisions regarding issue of notice existed in the sales circular issued in June 2003 by its sister Company (Dakshin Haryana Bijli Vitran Nigam Limited) and endorsed to the Company.

Thus, non compliance of instructions in letter and spirit and absence of clear position in the sales instructions (2001) for issue of notices has resulted in loss of Rs. 47.20 lakh to the Company.

The Management stated (May 2007) that the Company had not suffered financial loss as the consumers were billed for extended load for the month in which the maximum demand had exceeded the sanctioned load. The reply is not tenable as in such cases billing was required to be done until the unauthorised load had actually been removed.

The matter was referred to the Government in April 2007; the reply had not been received (September 2007).

3.8 Avoidable extra expenditure and loss of interest

The Company incurred avoidable extra expenditure of Rs. 29.25 lakh due to non enforcement of quantity increase in purchase of transformers and suffered interest loss of Rs. 17.27 lakh due to delay in imposing liquidated damages.

The Company placed (April and August 2004) two purchase orders on Accurate Transformers Limited for purchase of 1500/6000 transformers of 100 KVA/25 KVA at a total price of Rs. 8.87 crore and Rs. 17.37 crore respectively. In this regard following deficiencies were noticed:

- With reference to purchases, the standard terms and conditions of the Company provide that quantities specified in purchase orders can be

increased/decreased by up to 10 *per cent* at the discretion of the Company. Audit scrutiny (July 2006) revealed that in the purchase of transformers, this clause was not enforced to increase the ordered quantity before placement (16.9.04 for 100 KVA and 6.12.04 for 25 KVA transformers) of fresh orders on the existing suppliers at higher rates resulting in extra expenditure of Rs. 29.25 lakh as detailed below:

Sl. No.	Name of the firm	Type of trans-formers	Date of PO (Period of supply)	Qty. (Number)	Equated rate (Rs.)	Additional quantity purchased at higher rates (Number)	Rate Rs.	Extra expenditure (Rs. in lakh)
1.	Accurate Transformers Ltd. Delhi	25 KVA	7.8.2003 (Sept 2003 to Jan 2005)	6,000	52,500	600	56,000	21.00
2.	-do-	100 KVA	20.2.04 (June 2004 to Oct. 2004)	1,500	1,18,000	150	1,23,500	8.25
Total								29.25

Thus, by not enforcing the terms of the supply orders, the Company incurred extra expenditure of Rs. 29.25 lakh in the purchase of transformers.

The matter was referred to the Government and the Company in February 2007; their replies had not been received (September 2007).

- Against purchase order for 25 KVA transformers the delivery was to be completed by 12 July 2004. The supplier, however, completed the delivery (September 2003 to January 2005) with delays ranging between one week and 28 weeks. According to the terms and conditions of the PO, the supplier was liable to pay liquidated damages (LD) at half *per cent* per week or part thereof subject to maximum of 10 *per cent* of the cost of delayed/undelivered material. It was, however, observed (June 2006) that while making payments (March 2004 to February 2005) the Company restricted the recovery of LD to five *per cent* instead of 10 *per cent* resulting in overpayment of Rs. 80.71 lakh. On being pointed out (June 2006) by Audit, the Company recovered (July 2006) Rs. 80.71 lakh from the firm. But loss of interest of Rs. 17.27 lakh (calculated at cash credit rate) on account of delayed recovery for 525 to 847 days had not been made good. Further, the Company had not initiated any action against the delinquent officials for the lapse.

Thus due to delay in imposing liquidated damages for delayed receipt of transformers, the Company had suffered a loss of Rs. 17.27 lakh.

The matter was referred to the Government and the Company in March 2007; their replies had not been received (September 2007).

3.9 Loss due to delay in implementation of revised rates

The Company suffered loss of revenue of Rs. 11.51 lakh due to delay in implementation of revised rates of application processing charges.

Haryana Electricity Regulatory Commission (HERC), in terms of provisions of Section 181 of the Electricity Act, 2003, notified (26 July 2005) regulations, which

provide for recovery of application processing charges from applicants for new connections at revised rate of Rs. 10 per application for connected load upto 2 KW and Rs. 25 per KW for connected load above 2 KW, subject to a maximum of Rs. 10,000. As per the notification, the revised rates were applicable from 1 November 2005.

Audit noticed (September 2006) that the Company revised the rates of all the categories except AP consumers from 5 December 2005 instead of 1 November 2005. Due to delayed revision, the Company suffered loss of revenue of Rs. 11.51 lakh for new connections applied during 1 November 2005 to 4 December 2005.

The Management stated (April 2007) that the regulations could not be implemented due to long pendency of applications for agriculture pump set (AP) connection and a review petition was filed (29 November 2005) to keep this category out of the purview of these regulations. The reply is not acceptable as the rates could have been revised from 1 November 2005 by excluding AP consumers as had been done with effect from 5 December 2005 without receiving any decision from HERC.

The matter was referred to the Government in March 2007; the reply had not been received (September 2007).

Dakshin Haryana Bijli Vitran Nigam Limited

3.10 Extra expenditure

The Company incurred extra expenditure of Rs. 5.95 crore on the purchase of transformers due to delayed finalisation of tender and resultant purchase from Punjab State Electricity Board at higher rates.

The Company invited (September 2005) tender for procurement of 6,160 transformers (including 3,435 transformers for UHBVNL) of 63 KVA capacity. As per the tender conditions, supplies were to be completed within five and a half months from the date of receipt of order/approval of drawings. Tenders were opened (October 2005) and 9 out of 11 offers were found technically/financially valid. Meanwhile (November 2005), technical committee desired to incorporate completely self protected (CSP) feature in the specifications of transformers.

The tenderers were asked (December 2005) for supplementary price bid for transformers with CSP feature. After opening of tenders (January 2006) the tender evaluation report was prepared and submitted (13 January 2006) to Special High Power Purchase Committee (SHPPC). The lowest rates for transformers without CSP features and with CSP features were Rs. 68,500 and Rs. 85,356 per transformer respectively. SHPPC opined that tenders were invited for procurement of transformers without CSP features and as such decided (8 February 2006) to procure 4,000 transformers without CSP features from Maha Shakti Conductors Private Limited, Bhatinda (1,000 each for UHBVNL and the Company) and Akal Electricals Private Limited, Ludhiana (1000 each for UHBVNL and the Company) at the lowest rate of Rs. 68,500 per transformer. The purchase orders were issued (6 March 2006) and delivery of material was to start from May 2006. In the

meantime, to meet urgent requirement of UHBVNL, the Company proposed (January 2006) the Financial Commissioner (Power) to procure these transformers from Punjab State Electricity Board (PSEB) on cost to cost basis for which Financial Commissioner (Power) gave (23 February 2006) his approval. The Company, however, procured (March 2006) 1,500 transformers without CSP features and warranty clause from PSEB at higher rate of Rs. 1,08,170 per transformer without ascertaining the actual cost incurred by the PSEB. As per agenda note submitted to the SHPPC the rate of PSEB was recorded as Rs. 73,914 per transformer.

It was observed (December 2006) that though there was urgent requirement of transformers, the Company instead of finalising the procurement of transformers with tendered specifications expeditiously, delayed the process by inviting supplementary rates with added features. Resultantly, the Company had to make emergency purchases from PSEB with no warranty. Further, while placing order the actual cost was not ascertained from PSEB and procurement was made at Rs 1,08,170 against market rate of Rs. 68,500 per transformer resulting in excess expenditure of Rs. 5.95 crore.

Thus delay in finalisation of purchase case and procurement from PSEB at higher rate resulted in extra expenditure of Rs. 5.95 crore.

The matter was referred to the Government and the Company in April 2007; their replies had not been received (September 2007).

3.11 Extra expenditure due to delay in finalisation of tenders

The Company incurred extra expenditure of Rs. 19.01 lakh due to non processing of tenders within validity period.

Company's purchase regulations *inter alia* provide that the purchasing authority should ensure that tender is finalised at least 15 days before the expiry of the validity of tenders.

The Company opened (January 2006) tenders for procurement of GSS Wire of 7/8 SWG (190 MT) and GI wire of 7/8 SWG (200 MT). Three offers were received. Instead of processing the two lowest offers (L1 & L2) valid upto 19 April 2006, the Company opted for pre order inspection (January 2006) of the third lowest (L3) tenderer (new to the Company). The Inspection report of the inspecting agency was received on 4 May 2006 after the expiry of the validity of the offers. The tenderers did not agree for extending the validity period. Resultantly, the Company invited fresh tenders (August 2006) and purchased (December 2006) these items from the original lowest tenderer Ram Sarup Industrial Corporation at higher rates by incurring extra expenditure of Rs. 19.01* lakh.

Thus, by not finalising the tenders with in the validity period, the Company incurred extra expenditure of Rs. 19.01 lakh.

* GSS wire (Rs. 40160 - Rs. 34662) X 190 MT + GI wire (Rs. 37126 - Rs. 32848) X Rs. 200 MT = Rs. 19.01 lakh.

The matter was referred to the Government and the Company in March 2007; their replies had not been received (September 2007).

3.12 Extra expenditure due to purchase at higher rates

The Company incurred extra expenditure of Rs. 11.80 lakh due to rejecting valid economical offer and purchasing material at higher rates.

The Company opened (December 2005) tenders for procurement of 450 MT nuts and bolts of various sizes. The offer of Nexo Industries, Ludhiana at Rs. 41,712 per MT for all sizes of nuts and bolts was the lowest. The Company had placed preceding order (November 2004) at Rs. 45,300 per MT for this item.

As per the State Government policy, purchase cases up to Rs. 50 lakh are to be finalised by the Store Purchase Committee (SPC) headed by the Company's Chief Engineer and those above Rs. 50 lakh by Special High Power Purchase Committee (SHPPC) presently under the chairmanship of a Cabinet Minister. As value of the material to be procured was above Rs. 50 lakh, the Company submitted (20 April 2006) the purchase proposal to SHPPC for consideration. SHPPC did not consider the purchase proposal for which reasons were not available on record. The validity of the offers was up to 30 June 2006. The Company instead of placing the matter again in the next meeting of SHPPC (22 May 2006), dropped (4 May 2006) the tender and floated (11 May 2006) four fresh tender enquiries by splitting the order to keep it within the powers of SPC. On the basis of these tenders, six purchase orders were placed (August 2006 and October 2006) for procurement of 404 MT nuts and bolts at higher rates ranging from Rs. 44,000 to Rs. 45,850 per MT for various sizes.

Audit observed (November 2006) that rejection of the valid offer was in violation of purchase norms as well as the interest of the Company especially when the rates received (December 2005) were lower than those received against earlier purchases. Further in contravention of financial discipline the order was split to bring it under the purview of a lower authority.

As a result the Company incurred extra expenditure of Rs. 11.80 lakh.

The matter was referred to the Government and the Company in March 2007; their replies had not been received (September 2007).

Haryana Vidyut Prasaran Nigam Limited

3.13 Extra expenditure due to non implementation of tender clause

The Company incurred avoidable extra expenditure of Rs. 52 lakh due to non-enforcement of quantity increase clause in purchase of transformer.

The Company placed (August 2003) an order on Technical Associates Limited, Lucknow for procurement of 17 power transformers of 12.5/16 MVA, 66/11 KV rating at equated rate of Rs. 1.04 crore per transformer. Clause 7 of Schedule D of the tender enquiry, duly accepted by the firm provided that the quantities specified

in the order could be increased up to 10 *per cent* at the sole discretion of the purchaser. The firm completed the supply (May 2004 to August 2005).

In the meantime, against two tender enquiries opened (May and July, 2005) the Company procured nine power transformers at equated rate of Rs. 1.56 crore per transformer from ECE Industries, Sonipat.

Audit observed (October-2006) that despite knowledge of rising trend of prices, the Company did not enforce clause 7 of Schedule-D with the Lucknow firm by which it could have procured at least one transformer (10 *per cent* of 17) for Rs. 1.04 crore. Thus, due to non-enforcing of quantity increase clause, the Company incurred avoidable extra expenditure of Rs. 52 lakh in the purchase of transformer.

The Management stated (March 2007) that clause 7 had been amended with clause 14 of Annexure 'C' of Schedule 'D' and as such the supplier could not be asked to supply additional transformers. The fact, however, remained that clause 14 referred to change in the quantity before placement of order whereas clause 7 entitled the Company to increase/decrease the ordered quantity by 10 *per cent*.

The matter was referred to the Government (March 2007); the reply had not been received (September 2007).

3.14 Short recovery of water and sewerage charges

The Company suffered loss of Rs. 25.26 lakh due to short recovery of water charges from the staff residing in its colonies.

On unbundling of erstwhile Haryana State Electricity Board (HSEB) and incorporation of new power sector companies, the management of estate functions in respect of power colonies was entrusted to the HVPNL (Company). Recovery of license fee in respect of official accommodation in these colonies was being made in accordance with State Government instructions issued from time to time. HSEB had decided (November 1978) that water charges be recovered from the employees residing in Board colonies at the rates approved by the State Government. As per the Government instructions (July 1994) recovery of water charges in the case of un-metered supply was to be made at Rs 100 per month and on actual basis in the case of metered supply and rupees five per water closet (WC) for sewerage connection.

Audit scrutiny of records of nine[#] divisions of the Company revealed that recovery of water charges was being made at half *per cent* of basic salary of pre-revised scale *i.e.* as applicable in January 1986 (ranging between Rs. 5 and Rs. 40 per connection) and nothing was recovered for WC connection by seven^{*} divisions whereas no recovery was being made by Rohtak division. Kurukshetra division started recovery from November 2006 at the rate of Rs. 68 per month.

Earlier, upon an audit query (May 2004) for short recovery being made at Panchkula, the Company decided (April 2005) to recover water charges at the rate of Rs. 60 per month and WC charges at rupees eight from April 2005 in the case of

[#] Gurgaon, Karnal, Kurukshetra, Manesar, Narwana, Palla, Pawal, Rewari and Rohtak.
^{*} Gurgaon, Karnal, Manesar, Narwana, Palla, Pawal, and Rewari.

power colony at Panchkula. Even these revised rates, which were lower than those of the State Government, were not made applicable to colonies located at stations other than Panchkula.

Thus, failure of the Company to recover water charges and WC charges at the rates approved by the State Government resulted in short recovery of Rs. 25.26 lakh (April 2005 to March 2007) as worked out in audit. The amount of short recovery for earlier period (from July 1994) was not readily available which needs to be worked out by the Company for executing the recovery.

The matter was referred to the Government and the Company in May 2007; their replies had not been received (September 2007).

Statutory corporations

Haryana Financial Corporation

3.15 Disbursement of loan against fake documents of collateral security

Acceptance of fake collateral security on the basis of forged search report furnished by the advocate in connivance with the Branch Manager, Bhiwani had put the recovery of Rs. 1.71 crore at stake.

The Corporation sanctioned (September 1996) and disbursed (November 1996 to April 1997) loan of Rs. 28 lakh to Priya Cotton Factory (unit) for setting up cotton ginning unit at Charkhi Dadri, Bhiwani. Due to persistent default the Corporation took over (October 1999) the unit under Section 29 of the State Financial Corporations (SFCs) Act, 1951 and found that stock worth Rs. 21.47 lakh was missing. An FIR was lodged (August 2000) with the police, Charkhi Dadri after a period of 10 months from taking over the possession of the unit. The Corporation sold (May 2002) primary security for Rs. 5.95 lakh and for the balance recovery of Rs.55.04 lakh it took (October 2002) deemed possession of the collateral security which could not be sold (June 2007) and the outstanding dues accumulated (June 2007) to Rs. 1.71 crore (Principal: Rs. 27.42 lakh and interest: Rs. 1.44 crore). In this regard Audit noticed (December 2006) the following deficiencies:

As per terms of sanction order the unit was to furnish collateral security in the form of urban property having clear and marketable title. The Company accepted (November 1996) collateral security of land at Mohindergarh road in Municipal Limit Charkhi Dadri at a value of Rs. 19.87 lakh. Subsequently, the unit offered (January 1997) to substitute this security with another land in village Samaspur, Charkhi Dadri valuing Rs. 21.08 lakh as assessed by the assessor on the panel of the Corporation as it had already given originally offered land to another unit. The Corporation allowed (February 1997) the change in collateral security, though it was not an urban property, and accepted the revised security based on search report of an advocate and verified by the Branch Manager of the Corporation. Thus the

Corporation accepted the original collateral security which was defective and the revised security which was not conforming to the sanction conditions.

The collateral security could not be sold till date (June 2007) due to defective title of the land, as the mortgagor had not owned part of the land measuring three bigha and alienated the remaining properties. No action could be taken against the advocate who verified the title of the land as the search report of collateral security issued by the advocate was not available in the concerned file. Further, no action was taken against the officials responsible for missing documents.

Thus, acceptance of collateral security in rural area with defective title on the basis of forged search report furnished by the advocate in connivance with the Branch Manager, Bhiwani had put the recovery of Rs. 1.71 crore (Principal Rs. 27.42 lakh and interest Rs. 1.44 crore) as of June 2007 at stake.

The Management while admitting (June 2007) the facts stated that in order to fix the responsibility of four officials for missing documents, an enquiry by a senior officer had been ordered and notice for recovery under Section 32 (G) of the SFCs Act issued (October 2006). Outcome of the enquiry and recovery is awaited (June 2007).

The matter was referred to the Government in May 2007; the reply had not been received (September 2007).

3.16 Non recovery of loan

Failure of the Corporation to obtain 100 per cent collateral security on the pattern of banks coupled with acceptance of collateral security at highly inflated value and not taking over physical possession of the unit had put the recovery of Rs. 8.79 crore at stake.

The Corporation sanctioned (January 1995) a term loan of Rs. 1.23 crore to Sindhu Hatcheries (P) Limited (unit) for setting up a poultry farm with the condition that the unit would furnish a collateral security of Rs. 61.50 lakh (50 per cent of term loan) before disbursement, besides personal guarantee of the directors. The Corporation accepted (August 1995) the collateral security of agricultural land measuring 44 Kanals in village Kitlana, Bhiwani including collateral security of another loanee. The security was assessed (August 1995) at Rs. 1.12 crore by an empanelled valuer of the Corporation and verified (January 1996) by the Branch Manager at a value of Rs. 93.17 lakh (Rs. 62.62 lakh *pro rata* for the unit). The Corporation released (May 1995 to March 1998) Rs. 1.22 crore to the unit. Due to persistent default, the Corporation took over deemed possession of the primary and collateral security in February 1999 and June 2000 respectively. The collateral security was sold (June 2006) for Rs. 15 lakh (adjusted Rs. 6.45 lakh against the unit). The outstanding recovery as of July 2007 was Rs. 8.79 crore (Principal: Rs. 1.22 crore and Interest: Rs. 7.57 crore). In this regard Audit noticed the following deficiencies:

Before sanction of the term loan, the Advisory Committee of the Corporation was apprised that banks were taking collateral security equivalent to 100 per cent of term loan in poultry farming cases. The Corporation, however, sanctioned the loan

with stipulation of 50 per cent collateral security thus exposing the Corporation to avoidable risk.

The collateral security was accepted at highly inflated value as it could be sold (June 2000) for Rs. 15 lakh against the accepted value of Rs. 93.17 lakh.

The Corporation had taken (February 1999) only deemed possession of the unit instead of physical possession and thus failed to sell the unit despite putting to auction for 19 times.

Thus, failure of the Corporation to obtain 100 per cent collateral security on the pattern of banks, acceptance of collateral security at highly inflated value and failure in taking over physical possession of the unit jeopardised the recovery of Rs. 8.79 crore.

Management stated (July 2007) that the deemed possession of the unit was taken as physical possession was not possible because of live stock (poultry birds) and the valuation of collateral security was taken on the basis of assessor's report and rate quoted by the tehsildar. The reply is not tenable as the Corporation failed to devise any methodology to dispose of primary security in such circumstances and to have fair assessment of the collateral security.

The matter was referred to the Government in May 2007; the reply had not been received (September 2007).

3.17 Avoidable loss due to indecisiveness/frequent changes in office building construction plan

Indecisiveness and frequent changes in original plan contributed to the delayed completion of the building and resultantly there was an avoidable loss of Rs. 41.82 lakh to the Corporation.

The Corporation decided (June 2001) to entrust the construction of office building at Panchkula to Haryana State Industrial and Infrastructure Development Corporation Limited (HSIIDC). Keeping in view enormous running cost of central air conditioning, the Corporation decided to install partial air conditioning and partial air cooling system and awarded (March 2002) the work to HSIIDC at an estimated cost of Rs. 4.52 crore. The scheduled date of completion of civil works was December 2003. The Corporation did not execute any formal agreement with HSIIDC. Before the start of electrification/sanitation work, the Corporation decided (October 2003) to install central air conditioning system and communicated (December 2003) the same to HSIIDC. Accordingly, the date of completion of civil work had to be extended to October 2004.

On the recommendations of the architect, the Corporation decided (September 2004) for structural glazing with gold plus insulating glass (Modiguard Make) in the AC system to ensure energy saving without ensuring its availability in the market. The work could not be executed due to non availability of this specific make glass and the Corporation decided (May 2005) to get the work done with similar quality specifications glass manufactured by some other company. Consequently, there was delay of over three years in completion of work. The Corporation had released Rs. 4.50 crore during April 2002 to April

2006. The HSIIDC intimated (February 2007) the Corporation to take possession of the building but the same had not yet been taken (June 2007).

Thus, indecisiveness and frequent changes in original plan contributed to delayed completion (26 months) of the building and resultantly there was an avoidable loss of Rs. 41.82 lakh (Rs. 21.39 lakh on the rent paid for hired office building and Rs. 20.43 lakh on account of rent which could have been earned by letting out surplus accommodation from January 2005 to June 2007) to the Corporation.

The Management stated (April and June 2007) that changes to go in for air conditioning system instead of combination of air cooling and air conditioning and shift from ordinary glazing to insulated glass glazing had been made keeping in view the long term benefits and operational efficiency. The reply was not tenable as the Corporation should have originally planned the construction of the building keeping in view the long term perspective and decision to use glass of Modiguard make should have been taken after ensuring its availability.

The matter was referred to the Government in May 2007; the reply had not been received (September 2007).

3.18 Irregular payment of conveyance allowance

Inadmissible reimbursement of conveyance allowance amounting to Rs. 2.27 crore was made to employees in violation of State Government instructions.

The Corporation decided (May 1995) to reimburse the conveyance allowance to its employees depending upon their entitlement, in the shape of cost of petrol, in place of fixed conveyance allowance being given from May 1983. The amount of conveyance charges increased with the increase in price of petrol from time to time.

The State Government, while accepting the recommendations of Pay revision Committee for Public Sector Undertakings (PSUs) issued instructions (October 1998) to all the Administrative Departments of PSUs/Institutions that Dearness Allowance, House Rent Allowance, City Compensatory Allowance, Conveyance Allowance and other incentives granted to the employees of all the State PSUs/Institutions should not exceed those admissible to State Government employees under any circumstances. The State Government was granting conveyance allowance to blind and orthopadically handicapped employees only.

Test-check of records revealed (December 2006) that though the Corporation adopted (January 1999) new scales approved by the Government but did not discontinue the reimbursement of conveyance charges on the plea that it had already referred (December 1993) the case to the State Government and pending any decision, it may continue to pay conveyance allowance. The Corporation however, did not take any undertaking from the employees to the effect that in case the Government disallowed such payment the recovery would be made from them. Thus, without any approval from the State Government, the Corporation paid Rs. 2.27 crore as conveyance allowance during April 2001 to June 2007 in violation of State Government instructions. The case was also not pursued with the State Government.

Thus, injudicious decision to continue the payment of conveyance allowance, particularly when the State Government had specifically directed the State PSUs not to pay any allowances over and above those admissible to State Government employees had resulted in irregular payment of conveyance allowance.

The matter was referred to the Government and the Corporation in March 2007; their replies had not been received (September 2007).

Haryana Warehousing Corporation

3.19 Avoidable loss of interest

The Corporation suffered a loss of Rs. 16.39 lakh due to delay in raising the interest bills.

Haryana Warehousing Corporation (Corporation) has been authorised (Rabi: 1983 and Kharif: 1997) by the State Government as one of the State procurement agencies for procurement of wheat/paddy respectively for central pool under the Minimum Support Price (MSP) scheme. FCI receives the wheat/custom milled rice and makes payment of MSP, incidental charges and carry over charges for the period wheat/rice remaining in the custody of the Corporation.

Incidental charges at provisional rates fixed by the GOI are allowed by FCI to wheat/rice procurement agencies at the time of taking delivery. On declaration of final rates by GOI, the Corporation gets the differential amount (difference between final and provisional incidentals) from the FCI. Besides, the Corporation is entitled to claim compound interest at the prevailing RBI rate of interest on the differential amount from the date of payment of provisional bill to the date of payment of final bill. As per the State Government instructions (5 August 2004), the State procurement agencies were required to raise claims of interest on FCI immediately after receipt of payment of differential amount.

Test check of records of five circles* of the Corporation revealed delays of 5 to 321 days (after allowing seven days margin) in raising (September 2005 to January 2007) compound interest bills for an amount of Rs. 2.20 crore in case of wheat (crop years 2000-01 to 2002-03) and 27 to 503 days (after allowing seven days margin) in raising (February-December 2006) compound interest bills amounting to Rs. 2.05 crore in case of rice, (crop years 2001-02 and 2002-03) which resulted in loss of interest amounting to Rs. 16.39 lakh at the rate of 9.10** *per cent* per annum. Thus, the Corporation suffered a loss of Rs 16.39 lakh due to delay in raising the interest bills.

The Management/Government stated (May/September 2007) that the delay was due to shortage of staff and involvement of lengthy process in preparing/submitting the bills to FCI. The reply is not tenable as the Corporation could have avoided such delays by proper deployment of available man power and by proper monitoring of preparation/submission of bills.

* Ambala, Hisar, Kurukshetra, Panipat and Sirsa.

** Rate of interest allowed by the Government of India on the differential amount.

General

3.20 Follow up action on Audit Reports

Replies outstanding

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

Though the Audit Reports for the years 2003-04 and 2005-06 were presented to the State Legislature in March 2005 and March 2007 respectively, two out of 11 departments, which were commented upon, did not submit replies to 14 out of 48 paragraphs/reviews as on 30 September 2007 as indicated below:

Year of the Audit Report (Commercial)	Number of reviews/paragraphs appeared in the Audit Report		Number of reviews/paragraphs for which replies were not received	
	Reviews	Paragraphs	Reviews	Paragraphs
2003-04	2	22	-	2
2005-06	2	22	1	11
Total	4	44	1	13

Department-wise analysis is given in **Annexure 18**. The Power department was the major defaulter with regard to submission of replies. The Government did not respond to even review highlighting important issues like system failures, mismanagement and deficiencies in execution of various schemes.

Action taken notes on Reports of Committee on Public Undertakings (COPU) outstanding

3.20.2 Replies to 67 paragraphs pertaining to 10 Reports of the COPU presented to the State Legislature between March 1995 and March 2007 had not been received (September 2007) as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1994-95	2	3
1996-97	1	1
2000-01	1	1
2002-03	2	2
2003-04	2	3
2004-05	1	11
2005-06	1	46
Total	10	67

These reports of COPU contained recommendations in respect of paragraphs pertaining to six[@] departments, which appeared in the Reports of the Comptroller and Auditor General of India for the years 1990-91 to 2000-01.

[@] Power (24), Agriculture (20), Industry (15), Mines and Geology (three) and Forest (one) Tourism (four).

3.20.3 Response to Inspection Reports, audit paragraphs and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the respective heads of the 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. Review of Inspection Reports issued upto March 2007 revealed that 633 paragraphs relating to 246 Inspection Reports pertaining to 21 PSUs and the Haryana Electricity Regulatory Commission remained outstanding at the end of 30 September 2007. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2007 is given in **Annexure 19**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 18 draft paragraphs and four reviews forwarded to the various departments during March - to May 2007 as detailed in **Annexure 20** had not been replied to so far (30 September 2007).

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

Chandigarh
Dated

(Jagbans Singh)
Accountant General (Audit) Haryana

Countersigned

New Delhi
Dated

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