Chapter-II

2 Reviews relating to Government companies

2.1 Haryana Vidyut Prasaran Nigam Limited (HVPNL), Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) (erstwhile Haryana State Electricity Board)

Purchase, performance and repair of energy meters

Highlights

The power sector companies are required to install and maintain correct energy meters on each point of supply of energy under Section 26 (2) of the Indian Electricity Act, 1910.

(Paragraph 2.1.1)

As per decision taken during Power Ministers' Conference (February 2000), 100 *per cent* metering up to 11 KV feeders and all other consumers were to be achieved by March and December 2001, respectively. Though the companies procured 15.76 lakh meters at a cost of Rs. 194.59 crore during 1998-2003, these were not adequate to replace the defective meters and achieve target of 100 *per cent* metering.

(Paragraph 2.1.4)

UHBVNL ignored the lowest rates against global tenders and subsequently procured three lakh single phase electronic meters at higher rates, resulting in extra expenditure of Rs. 10.92 crore.

(Paragraph 2.1.9)

Procurement of one lakh meter cupboards on single tender basis at unjustified rates resulted in extra expenditure of Rs. 4.33 crore.

(Paragraph 2.1.10)

Failure to avail benefit of downward trend in prices of energy meters against three purchase orders resulted in extra expenditure of Rs 2.35 crore. Further, the companies short recovered liquidated damages of Rs 1.25 crore against three purchase orders due to incorrect application of delivery clause of purchase orders.

(Paragraph 2.1.11 to 2.1.14)

Targets for installation of three phase electro mechanical meters on agriculture connections and low tension current transformer operated meters were not achieved by UHBVNL in the nine schemes sanctioned by Rural Electrification Corporation during 2001-02 under 100 *per cent* metering schemes. Similarly, the DHBVNL could not implement four schemes sanctioned by Power Finance Corporation due to non-procurement of meters during the scheme period up to March 2002. Non-replacement of these meters resulted in loss of additional revenue of Rs 72.06 crore during 2002-03 as envisaged in the schemes.

(Paragraph 2.1.16 to 2.1.18)

Decision to abandon testing and calibration of meters in departmental laboratories before their installation led to blockade of funds to the extent of Rs 8.31 crore due to receipt of defective supply of 21,150 three phase electronic meters.

(Paragraph 2.1.21)

Non-replacement of defective meters ranging between 6.3 and 8.2 *per cent* of metered connections during three years up to 2002-03 resulted in loss of revenue of Rs 71.86 crore as the consumers were billed on average basis.

(Paragraph 2.1.27)

Introduction

2.1.1 Energy meters are static electronic/electro mechanical equipments installed for recording the quantum of energy supplied. Energy meters are of five types viz. Single phase, poly phase, low tension (LT), high tension (trivector) and feeder meters. First four types of meters are installed at supply points for measuring the energy supplied to consumers, the feeder meters are installed on sub-stations for recording the electricity received through incoming feeder meter and electricity supplied from the sub-station through outgoing feeder meter to a number of consumers or a single high tension (HT) consumer. Meters are also installed at the generating stations and sub-stations for preparing energy account and determining system losses.

In order to assess the quantum of energy sold, the companies (erstwhile Haryana State Electricity Board) were required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy sold as per Section 26 (2) of the Indian Electricity Act, 1910.

At the end of March 2003, there were 33.45 lakh metered consumers for domestic (28.22 lakh), commercial (3.54 lakh), industrial (0.74 lakh), and agriculture supply (0.95 lakh) and 2.75 lakh unmetered consumers for agriculture supply.

Organisational set up

2.1.2 The procurement of feeder meters was made by the Chief Engineer (Design and Procurement) of Haryana Vidyut Prasaran Nigam Limited (HVPNL), whereas that of meters of other types by Chief Engineer (Material Management) of Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) up to November 2000. Thereafter, the work of procurement of these meters was transferred to Chief Engineer (Material Management) of Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL). The receipt and issue of meters was controlled by respective Controller of Stores of UHBVNL and DHBVNL through 32 central/divisional stores under the charge of Executive Engineers/Assistant Executive Engineers.

The work of installation, replacement, reading of meters and billing to consumers was done through outside agencies as well as departmentally by 13 operation circles (UHBVNL: seven and DHBVNL: six). The work of testing and calibration of meters was done in eight laboratories under the control of two Superintending Engineers (Metering and Protection) one each of UHBVNL and DHBVNL. Checking of connections of single phase, poly phase and low tension (whole current) meters was done by operation circles and that of low tension/high tension current transformer/potential transformer (CT/PT) operated meters was done by Metering and Protection (M&P) circles under overall control of Chief Engineers (Operation) of distribution companies.

Scope of Audit

2.1.3 Mention was made in paragraphs 2A.6.11 and 2A.6.12 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial)-Government of Haryana regarding defective energy meters and periodical checking of connections, included in the review on 'tariff, billing and collection of revenue' which had not been discussed by the Committee on Public Undertakings (March 2003).

The present review conducted during October 2002 to February 2003 covers aspects relating to assessment of requirement, procurement, installation and replacement of defective meters for five years up to 2002-03. The audit findings, as a result of test check of records relating to purchases at headquarters of HVPNL/UHBVNL/DHBVNL and six* out of 13 operation circles, both the Controller of Stores and both the Superintending Engineers (M&P) of UHBVNL/DHBVNL in the field, were reported to Government/companies in April 2003 with the request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view point of Government/Management was taken into account before finalising the review. The meeting of ARCPSE was held on 4 July 2003 which was attended by the Managing Director of UHBVNL.

Plan for metering

2.1.4 The State Government in its Power Sector Policy Statement resolved (January 1996) to expeditiously install energy meters on all un-metered agriculture connections so that consumers are charged on the basis of actual metered supply. Power Sector Reform Programme (November 1997) of erstwhile Board, *inter alia*, envisaged replacement of 7.5 lakh low tension (LT) single phase/poly phase defective meters, installation of meters on existing un metered agriculture consumers and high tension (HT) feeder meters on sub-stations, at a total cost of Rs 92.50 crore during 1998-2003.

Further, during Power Ministers' conference held in February 2000, and in Memorandum of Understanding (MOU) signed (February 2001) between Central Government and the State Government, it was decided to implement programme of 100 *per cent* metering up to 11 KV feeders and HT consumers by March 2001 and other consumers by December 2001 under loan assistance from Rural Electrification Corporation (REC) and Power Finance Corporation (PFC).

Though the companies procured 15.76 lakh meters at a cost of Rs 194.59 crore during 1998-2003 with loan assistance from World Bank (3.07 lakh meters valuing Rs 47.46 crore) and REC/PFC/internal resources (12.69 lakh meters valuing Rs 147.13 crore), these were not adequate to replace the defective meters and achieve target of 100 *per cent* metering, as discussed in para 2.1.16, 2.1.17,2.1.18, 2.1.24 and 2.1.25 *infra*.

Purchase procedure

2.1.5 The purchases were required to be made as per procedure laid down in the Purchase Regulations of erstwhile Board. As regards the purchases of material against World Bank financed projects, the detailed procedure was laid down by World Bank authorities. The purchase of material up to Rs. 15 lakh required by companies was decided by the Stores Purchase Committee (SPC) headed by Chief Engineer. The cases above Rs 15 lakh were decided by

* UHBVNL: Ambala, Karnal and Sonepat; DHBVNL: Hissar, Gurgaon and Faridabad.

Special High Powered Purchase Committee (SHPPC) under the chairmanship of Chief Minister of the State.

Assessment of requirement

2.1.6 The companies assessed the requirement of meters for each year on the basis of estimated number of new connections to be released, meters to be provided to flat rate consumers for agriculture supply and number of defective/damaged meters to be replaced. Orders for supply of meters were placed with loan assistance from World Bank (up to December 2000), REC, PFC and internal resources.

Suppliers' rating cards

2.1.7 Purchase Regulations provided maintenance of suppliers' rating cards in the prescribed form by purchasing authority for rating their performance in terms of quality and quantity. Audit noticed that such rating cards were not maintained by the management. In the absence of proper system of suppliers' rating, decisions for awarding contracts were taken on recommendations made by the management based on their own judgment in respect of each supplier.

The management of UHBVNL/DHBVNL stated (July 2003) that the suppliers' rating cards would be maintained in future.

Placement of orders

2.1.8 For purchase of meters during 1998-2003, UHBVNL and DHBVNL placed 47 purchase orders (value: Rs 164.99 crore) and 38 purchase orders (value: Rs 109.43 crore) respectively. A test-check of these orders in Audit revealed that system of procurement of meters was marred by non-acceptance of tenders of the lowest firm, purchases against non-competitive rates, short/non-availing of the benefit of reduction in rates and non-effecting liquidated damages clause, as discussed in succeeding paragraphs.

Extra expenditure due to non-procurement of meters against global tender

2.1.9 For replacement of defective meters with loan assistance from World Bank, UHBVNL received (21 October 1999) global tenders from five to six firms for supply and installation of three lakh single phase electronic meters (10-40 Ampere) with Meter Cup Boards (MCBs) under three packages of one lakh meters each. Against all the three packages, rate quoted by Shaanxi Machinery Equipment Import and Export Corporation, China (firm 'S') at Rs. 859.72 per meter (total cost: Rs. 25.79 crore) was the lowest and rate quoted by Emco Limited Thane (firm 'E') at Rs. 987 per meter (total cost: Rs. 29.61 crore) was the second lowest.

Though the Store Purchase Committee of UHBVNL recommended (November 1999) placement of order on firm ‘S’, the Board of Directors of the Company did not consider (January/February 2000) the offer on the grounds that in respect of supply of 1.15 lakh meters against an earlier order (March 1998), the firm did not pay for extra expenditure on MCBs procured to counter the effect of external magnets.

UHBVNL recommended (January and March 2000) to the World Bank for cancellation and re tendering against one package and placement of order on the firm ‘E’ at equivalent rate of Rs. 987 against other two packages. Asserting that the meters supplied by firm ‘S’ against earlier contract conformed to the specified provisions for magnetic capabilities and that provision for supply of MCBs was not in the scope of supply, the World Bank objected (March 2000) to the retendering of the package and rejection of firm ‘S’.

UHBVNL finally decided (June 2000) to procure meters from its own sources and dropped the proposal on the plea of non-availability of sufficient funds under World Bank loan.

UHBVNL ignored the lower rates against global tenders and subsequently procured three lakh meters at higher rates resulting in extra expenditure of Rs. 10.92 crore.

This action was not in the interest of UHBVNL as purchase of meters was already covered under the loan which was available for receipt of material up to December 2000 and loan of US $ 7.654 million (Rs 35.21 crore at exchange rate of Rs. 46 per US $ as on 20 August 2001) lapsed on the closing of loan. Audit further noticed that the Uttar Pradesh Power Corporation Limited had placed two purchase orders on firm ‘S’ in June 2000 for supply of 4.70 lakh such meters. Subsequently, UHBVNL procured (July 2000) three lakh meters from Emco Limited, Dadra at equivalent rates of Rs. 1,144 to 1,290 at a total cost of Rs. 36.71 crore.

Thus, ignoring the lowest offer against global tender enquiry and subsequent procurement of three lakh meters at higher rate resulted in extra expenditure of Rs. 10.92 crore.

The management stated (July 2003) that offer of firm ‘S’ was not considered as meters supplied by it against an earlier order were prone to tampering with magnets for which it had to procure MCBs. It further stated that funds under the World Bank loan were insufficient for the purchase. The reply was not tenable as the management had earlier (July 2001) stated that the meters were procured from firm ‘S’ as per prescribed specifications and only after installation of these meters, it came to notice that some unscrupulous consumers had used magnets of a very high strength affecting the working of the meters and that MCBs were essential to protect and secure the meters from tampering. Further, the supply of MCBs was not in the scope of earlier order and World Bank loan of Rs. 35.21 crore was available.

Extra expenditure in purchase of meter cup boards

2.1.10 For supply and installation of one lakh MCBs for three phase electro mechanical meters under World Bank loan scheme, UHBVNL received (March 2000) only one tender from Capital Meters Limited, Noida at

Rs. 873.21 per MCB (excluding 4 *per cent* CST and Rs. 80 for freight and installation).

Tender Evaluation Committee comprising of two executive engineers and an accounts officer of UHBVNL, worked out rate of Rs. 703 per MCB on the basis of price of Rs. 238 per MCB for single phase electronic meters allowed against purchase order placed (March 2000) on the same firm. The Committee justified the rate by adding cost due to increase in quantity of material (121.25 *per cent*) and increase in labour (74.25 *per cent*). UHBVNL awarded (July 2000) the contract to Capital Meters Limited, Noida at Rs. 873.21 per MCB. The supply was received between December 2000 and April 2001.

Since procurement cost of Rs. 238 per MCB for single phase meters comprised cost of material, labour, overheads and profit, percentage increase in components of material and labour should have been applied separately. Justifiable rates could not be worked out in audit as break up of these components was not available with UHBVNL. It was, however, observed that on the basis of cost data prepared according to REC standards, the Design Directorate of UHBVNL had estimated during 1999-2000 the cost of MCB at Rs. 300 for 2000-01. It was further observed that DHBVNL had approved (June 2001) cost of the MCB of similar type at Rs. 440.

Award of contract for purchase of MCBs on faulty justification resulted in extra expenditure of Rs. 4.33 crore.

Awarding the contract, as a result of faulty justification of the rates, had entailed extra expenditure of Rs. 4.33 crore (compared with rate of Rs. 440 per MCB) in the procurement of one lakh MCBs.

The management stated (July 2003) that rates were not comparable as the sizes and specifications of MCBs supplied by firm of 'Chennai' were different. The reply was not tenable as the sizes and specifications (length: 43 cm; width: 27 cm; and height: 16 cm with MS sheet of one mm thickness) of MCB of both the suppliers were similar and rates allowed to the firm of Noida were unjustified.

Incorrect application of delivery clause and short recovery of liquidated damages

2.1.11 The terms and conditions of the purchase orders issued by erstwhile Board/HVPNL/UHBVNL/DHBVNL stipulated the period of commencement, receipt of material per month/quarter and the scheduled completion period. In case of delayed supplies, the companies had a right to recover liquidated damages (LD) at 0.5 *per cent* per week subject to a maximum of 5 *per cent* of the value of delayed/undelivered material. The companies, however, did not recover liquidated damages as per monthly delivery schedule provided in purchase order but, wrongly recovered it by considering the overall delivery schedule.

Further, in case of failure of the supplier to deliver the material within the contracted delivery period, the Company had the right to refuse/accept the supplies. The Whole Time Members of the erstwhile Board decided (October 1994) that while accepting delayed supplies, the prevalent market rates should be compared with the rates of delayed supplies. However, no such clause was incorporated in the tender documents/purchase orders and no mechanism to ascertain and compare the prevalent market rates while accepting delayed supplies was devised resulting in short/non-availing of benefit of reduction in rates.

A few such cases are discussed below:

2.1.12 On the basis of tenders received on 29 March 2000, UHBVNL placed (28 July 2000) an order on Emco Limited, Dadra for supply and installation of 2,68,950 single phase electronic meters with MCBs at Rs. 1,290 (meter cost: Rs. 1,215 and installation charges: Rs. 75) per meter. Though the purchase order provided for supply and installation of meters, the Company did not specifically mention that the date of installation of meters would be reckoned as the date of delivery.

Delivery schedule stipulated commencement of supply and installation within two months from the receipt of order and completion within six months in equal monthly lots. After allowing seven days for receipt of order by the supplier and two months for commencement of supplies, supply and installation schedule for the entire quantity worked out to 44,825 meters per month between 4 October 2000 and 3 April 2001. After supplying 1,26,000 meters up to 3 May 2001, the supplier offered (April 2001) to supply the balance 1,42,950 meters at reduced rate of Rs. 1,152 with the condition that delivery schedule for such supplies would be extended up to 31 July 2001 to which the Company agreed on 21 May 2001.

It was noticed that 2,58,230 meters were installed during 18 December 2000 to 30 June 2002. Meanwhile, SHPPC finalised (28 December 2000, 25 October 2001 and 12 October 2002) lower rates of Rs. 1,152, Rs. 1,120 and Rs. 600 per meter (for the year 2002-03), respectively for similar type of meters.

The Company incurred extra expenditure of Rs. 1.81 crore by not enforcing lower rates while accepting delayed supplies after the expiry of overall delivery period. The Company also short recovered LD amounting to Rs. 1.11 crore by accepting supplies after a delay ranging between seven and 48 weeks (considering commencement of supply and installation as per monthly schedule instead of overall delivery period and date of installation as the date of delivery) as shown in the following table:

Scheduled supply and installation		**Acceptance of delayed supply & installation**		**Rate allowed**	**Rate prevailing at the time of acceptance of delayed supply**	**Extra expenditure**	**Liquidated damages (Rupees in lakh)**	
Date	**Quantity (in numbers)**	**Date**	**Quantity (in numbers)**	**Rupees**	**Rupees**	**(Rupees in lakh)**	**Leviable**	**Actually levied**
3.11.2000	44,825	Up to 27.12.2000	1,359	1,215	1,215	-	80.91	6.28
3.12.2000	44,825	28.12.2000 to 3.4.2001	54,192	1,215	1,152	-		
		4.4.2001 to 1.7.2001	70,445	1,215	1,152	44.38		

Scheduled supply and installation		**Acceptance of delayed supply & installation**		**Rate allowed**	**Rate prevailing at the time of acceptance of delayed supply**	**Extra expendi-ture**	**Liquidated damages (Rupees in lakh)**	
Date	**Quantity (in numbers)**	**Date**	**Quantity (in numbers)**	**Rupees**	**Rupees**	**(Rupees in lakh)**	**Leviable**	**Actually levied**
3.1.2001	36,350	1.7.2001to 28.10.2001	49,744	1,152	1,152	-	18.60	20.92
	1,26,000	29.10.2001 to 31.3.2002	66,198	1,152	1,120	21.18	38.18	13.44
31.7.2001 (Extended delivery schedule)	1,42,950	-do-	1796	1,120	1,120	-		
		1.4.2002 to 30.6.2002	22,204*	1,120	600	115.46	14.39	-
		-do-	3,000	Payment withheld	600	-		
	2,68,950		**2,68,938**			**181.02**	**152.08**	**40.64**

The management stated (July 2003) that the matter regarding allowing of lower rates based on the dates of installation had been referred (April 2003) for the advice of the State Advocate General, whose advice was awaited (July 2003). The management further stated that the issue regarding recovery of liquidated damages on monthly lots due to delayed supply of lots would be discussed in the future Board meetings to arrive at a decision.

2.1.13 While finalising (25 October 2001) rate of Rs. 1,120 for single phase electronic meters with MCBs, SHPPC advised the management not to accept supplies beyond the prescribed supply period in view of downward trend in prices.

UHBVNL placed (15 November 2001) purchase orders on Avon Meters Private Limited, Dera Bassi (firm ‘A’) and HPL SOCOMAC Private Limited, New Delhi (firm ‘H’) for supply of 65,000 meters each with delivery schedule of 10,000 meters up to 30 November 2001, 20,000 meters up to 20 January 2002 and 35,000 meters up to 31 March 2002. Terms and conditions of the orders provided that delayed supply would not be accepted. Both the firms did not supply 20,000 meters due up to 30 November 2001 and firm ‘H’ did not supply 12,388 meters due up to 20 January 2002. Without ascertaining market rates, the Company accepted 32,388 meters belatedly during 21 to 30 March 2002 from both the firms.

Acceptance of delayed/supplies without ascertaining the market rates resulted in extra expenditure of Rs. 54.41 lakh.

Acceptance of delayed supply of 32,388 electronic meters by UHBVNL at Rs. 1,120 per meter (including Rs 250 being cost of MCB) resulted in extra expenditure of Rs. 54.41 lakh when compared with the lower rate of Rs. 702 paid in January 2002 by Punjab State Electricity Board.

2.1.14 UHBVNL placed (3 July 2000) two orders on Capital Meters, Noida for supply of 1,00,000 (50,000 against each order) three phase

* Includes 7,708 meters awaiting installation (March 2003).

electro-mechanical meters. Delivery was to be made during 9 October 2000 to 9 February 2001 at 12,500 meter per month against each order. The firm supplied 50,000 meters against each order during 28 November 2000 to 23 March 2001 and 5 December 2000 to 1 April 2001 respectively. UHBVNL recovered LD of Rs. 9.31 lakh only considering overall delivery period of 9 February 2001 instead of Rs. 23.22 lakh based on monthly supply schedule. Thus, UHBVNL failed to recover LD to the extent of Rs. 13.91 lakh due to non-adherence to the delivery clause of the purchase order.

The management stated (July 2003) that the firm was to supply complete material in four lots in overall period of four months and month wise penalty was not chargeable. This contention was, however, to be viewed in the light of provisions of the purchase order requiring monthly supply in equal lots.

Non-implementation of decision for amending warranty clause

2.1.15 HVPNL decided (February 1999) to abandon repair of meters and procure meters with longer warranty period for five years instead of standard warranty clause for one year. Without amending the warranty clause, UHBVNL invited and received (December 1999 and March 2000) tenders for procurement of meters with warranty clause of only one year and accordingly placed (August 2000) two orders on EMCO Limited, Dadra for supply of 2,68,950 and 80,000 single phase meters at Rs. 1,215 per meter to be supplied up to 3 April 2001 and 15 February 2001 respectively. Meanwhile, SHPPC finalised (28 December 2000 and 25 October 2001) lower rate of Rs. 1,152 and Rs. 1,120 respectively for similar type of meters with warranty period for five years. On being asked (March 2001) by UHBVNL, the firm accepted lower rates (Rs 1,152 per meter) in respect of delayed supply of 1.94 lakh meters, but amendment of warranty clause from one to five years was not insisted upon.

As a result of failure of UHBVNL to amend warranty clause at the time of tendering and impress upon the firm to accept extended warranty clause for delayed supplies, the Company was deprived of the benefit of longer warranty of five years for 3,48,950 meters.

Non-amending warranty clause from one to 5 years would deprive the Company of benefit of replacement/repair of meters valuing Rs. 9.88 crore.

Audit noticed that out of 3,38,230 EMCO make meters installed in UHBVNL/DHBVNL, 21,396 meters were damaged up to December 2002 (one year warranty) and the damaged rate worked out to 6.32 *per cent* per annum. Based on this rate, companies would be deprived of the benefit of replacement/repair of 88,215 meters valuing Rs. 9.88 crore due to short warranty period by four years.

In reply (July 2003), the management did not give any reasons for non-implementation of decision for amending warranty clause in tender specifications/purchase orders.

Implementation of metering schemes

Non-achievement of 100 per cent metering target

2.1.16 During Power Ministers' Conference held in February 2000 and in MOU signed (February 2001) between Central Government and the State Government, it was decided to implement the programme of 100 *per cent* metering up to 11 KV feeders and HT consumers by March 2001 and other consumers by December 2001.

The REC and PFC were to finance the metering schemes which covered installation of energy meters for new connections, replacement of defective single phase and three phase meters for various categories of consumers, providing electronic meters on industrial and non domestic connections. The schemes were formulated under Accelerated Generation and Supply Programme (AG&SP) and Accelerated Power Development Programme (APDP), wherein interest subsidy of 4 *per cent* and grant equivalent to 25 *per cent* of the cost of scheme respectively were admissible. The schemes, envisaged additional revenue realisation to the extent of 10 to 18 *per cent* by way of recording of correct energy consumption and curbing pilferage of energy from tampering the meters, thereby reduction in line losses. Applications for sanction of the schemes were to be submitted by January 2001.

The implementation of the schemes is discussed below:

2.1.17 During 2000-01, REC sanctioned nine schemes with loan assistance of Rs. 64.09 crore for 100 *per cent* metering in UHBVNL. The schemes were scheduled to be completed by December 2001. The table at **Annexure-9** shows the targets and achievements of the schemes.

It would be seen from the Annexure that targets for installation of three phase electro-mechanical meters on agriculture connections and LT CT operated meters were not achieved. Non-replacement of LT CT operated meters resulted in loss of envisaged additional revenue of Rs. 30 lakh during 2002-03. Audit analysis revealed that the Company did not invite tenders for purchase of LT CT operated meters for industrial consumers for which reasons were not on record.

In reply, UHBVNL stated (July 2003) that delay in implementation of scheme for agricultural consumers was mainly due to stiff resistance from farmers and procurement of LT CT operated meters was in process. However, the fact remained that these schemes had not been implemented.

2.1.18 Similarly, PFC sanctioned four schemes with loan assistance of Rs. 48.86 crore during 2001-02 for 100 *per cent* metering in DHBVNL, which were scheduled to be completed up to March 2002. The targets and achievements of the schemes are detailed in **Annexure-10.**

Non replacement of meters as envisaged in the schemes resulted in loss of additional revenue of Rs. 71.76 crore during 2002-03. Audit noticed that out of four schemes, three were submitted to PFC for sanction in May and December 2001 against the completion schedule of March 2002.

Thus, due to delay in formulation and improper implementation of the schemes, the companies could not derive the benefit of additional revenue realisation of Rs. 72.06 crore besides non-availing of benefit of subsidy/grant.

The management stated (July 2003) that though these schemes were sanctioned by PFC, two schemes under APDP were not cleared by the Ministry of Power (MOP) and interest subsidy in respect of remaining two schemes under AG&SP were not available after March 2002. The reply was, however, not acceptable as there were delays in formulation and implementation of the schemes.

Schemes for replacement of defective meters

2.1.19 Superintending Engineer (Planning) of DHBVNL reported (October 1999) that conventional meters were sluggish and prone to tampering. The Company got sanctioned (10 December 1999) two schemes from REC which, *inter alia*, provided for replacement of 14,000 three phase meters of industrial supply consumers in various Operation Circles at a cost of Rs. 16 crore. The procurement and installation of meters was to be completed by March 2001. The schemes envisaged additional revenue of Rs. 1.33 crore per annum on their completion. Audit observed that the DHBVNL did not finalise and place orders during the currency of the scheme. However, the Company placed the order for purchase of electronic meters only in June 2001 on Omni Agate Systems Private Limited, Chennai. The meters were not tested in laboratories of the Company and subsequently were found defective after installation (as discussed in Para 2.1.21).

Thus, due to delayed placement of order and acceptance of defective meters, the DHBVNL could not derive the benefit of additional revenue of Rs. 1.33 crore per annum.

Unfruitful expenditure on installation of meters on unmetered tubewell connections

2.1.20 For the purpose of assessment of energy consumed by unmetered tubewell connections in 74 sub-divisions (UHBVNL: 44; DHBVNL: 30), UHBVNL purchased one lakh three phase electro mechanical meters (10-30 Amp) for Rs. 8.59 crore and same number of MCBs at Rs. 9.53 crore. The meters and MCBs were received by March and April 2001 respectively.

The Board of Directors of UHBVNL decided (February 2001) that meter readings/energy audit would be done once in a year preferably in September/October and that some sample meters (5 *per cent*) would be read every month to work out the energy consumption by un metered tubewells. Keeping in view the resistance by the farmers, it was further decided (June 2001) that meters should be installed on transformers feeding tubewell loads only.

Investment of Rs. 13.31 crore in installation of meters on unmetered connection remained unfruitful as yearly meter readings had not been taken for conducting energy audit.

Up to October 2002, out of 73,324 unmetered tubewell connections in 44 operation sub-divisions selected by UHBVNL, only 45,619 meters (62 *per cent*) were installed. Similarly, out of 31,984 unmetered tubewell connections in 30 operation sub-divisions selected by DHBVNL, only 29,761 meters (93 *per cent*) were installed. Thus, target of 100 *per cent* metering up to December 2001 in the selected sub-divisions was not achieved. As yearly meter readings of all the meters for the period ending September/October 2002 had not been conducted, and the companies were taking reading of only 5 *per cent* sample meters to work out energy consumption by unmetered tubewells, investment of Rs. 13.31 crore in the installation of 95 *per cent* meters (71,611) remained unfruitful (February 2003).

The management stated (July 2003) that in view of inadequacy of meter reading staff, monthly reading of only 5 *per cent* meters was taken and energy computed on sample basis and consumption of balance 95 *per cent* meters could be computed annually by taking reading once in a year and the power consumption by un metered consumers adjusted on the annual basis. However, the fact remained that energy audit was not conducted by taking readings of these metered tubewell connections.

Testing and installation of meters

Testing of Meters

2.1.21 Electro-mechanical and electronic meters were required to be manufactured as per Indian Standard Specification (ISS). Before installation at consumers' premises, these were required to be tested at manufacturer's premises and in departmental laboratories to ensure their conformity to ISS. Whole Time Directors (WTDs) of HVPNL, however, decided (February 1999) that meters would be tested and calibrated at the manufacturer's premises only on the ground that their laboratories were not equipped with proper equipments.

Decision to abandon testing and calibration of meters in departmental laboratories before their installation led to blockade of funds to the extent of Rs. 8.31 crore due to receipt of defective supply.

DHBVNL placed (25 June 2001) an order for purchase of 21,150 three phase electronic meters (20-60Ampere) on Omni Agate Systems Private Limited, Chennai, which were received between 16 February and 2 April 2002 at a total cost of Rs. 8.31 crore. Though, UHBVNL/DHBVNL had installed (2001-02) nine test benches (cost: Rs. 2.76 crore) in their various laboratories, WTDs of the companies did not review its decision and meters were not tested before installation. Consequently, 979 out of 9,169 meters installed up to 16 September 2002, were reported by field offices to be defective as discrepancies such as break in continuity in the potential links and jumping of the reading in meters were found. The firm was asked (December 2002) to replace software of all the meters but replacement in only 5,000 meters were carried out by the firm by March 2003.

Thus, the decision to abandon testing and calibration of meters in laboratories of UHBVNL/DHBVNL before their installation led to procurement of defective meters.

The Company stated (July 2003) that problem of jumping of readings could only be detected after installation of meters. The reply was not tenable as the faulty meters could have been identified before hand if tested in its modernised laboratories before their installation. The Managing Director of UHBVNL also stated that, a decision on testing meters at departmental test benches would be taken in consultation with DHBVNL.

Defects in installation of metering equipments

2.1.22 In order to curb chances of theft of energy, instructions contained in Meter Manual of the erstwhile Board, *inter alia,* provided that:

- Standard meter cubicles for HT/LT connections should be installed. Further, as per instructions (November 2001) of UHBVNL, standard cubicles could be provided at the cost of consumers and charges recovered through energy bills;

- LT poles from which the connection is to be tapped should be on common road and not in the factory premises; and

- LT cable used in releasing connections should not be laid underground and should be easily visible and it should not have any joints.

It was, however, observed in audit that these instructions were not being followed by field offices of UHBVNL/DHBVNL, as discussed below:

2.1.23 As per information compiled by Superintending Engineer (M&P) of UHBVNL, there were 1,272 (out of 6,176) connections of industrial supply where non-standard (theft prone) cubicles were installed which had not been replaced with standard cubicles. Similarly, in DHBVNL there were 125 connections where non-standard cubicles had not been replaced with standards cubicles.

2.1.24 A test check of records revealed that there were 160 connections (UHBVNL: 122, DHBVNL: 38) of low tension industrial supply consumers in operation circles where transformers and LT poles existed in premises.

2.1.25 A test check of records of six operation circles, revealed that there were 93 connections (UHBVNL: 7, DHBVNL: 86) of industrial supply consumers where cable was laid underground and was not visible.

Thus, due to non-adhering to instructions contained in Meter Manual, the companies continued to suffer revenue loss (indeterminable) due to theft of energy.

The management of UHBVNL stated (July 2003) that meter cubicles were to be provided by the consumers at their own cost and they resist to provide the same. The reply, however, contradicts company's own instructions issued in November 2001. The DHBVNL stated (July 2003) that action for replacement of non-standard cubicles, shifting of transformers/LT poles and cable having joints would be taken.

Performance of meters

2.1.26 According to the Central Government's notification of January 1992, life of an energy meter was 15 years. None of the operation sub-divisions, test-checked in audit, maintained history cards, resultantly, the performance of meters was not being monitored.

Defective energy meters

2.1.27 Mention of defective energy meters leading to loss of Rs. 93.54 crore was made in para 2A.6.11 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial)-Government of Haryana. It was noticed in audit that the problem of defective meters was persisting as shown in the following table:-

Year / Name of the Company	Total No. of metered connections	Opening balance of defective meters	Additions during the year	Defective meters replaced during the year	Closing balance of defective meters	Percentage of defective meters to meters
2000-01						
UHBVNL	17,99,241	1,58,024	79,624	84,033	1,53,615	8.5
DHBVNL	14,62,308	1,07,660	85,027	78,230	1,14,457	7.8
Total	**32,61,549**	**2,65,684**	**1,64,651**	**1,62,263**	**2,68,072**	**8.2**
2001-02						
UHBVNL	17,72,134	1,53,615	66,345	95,758	1,24,202	7.0
DHBVNL	14,91,343	1,14,457	96,157	68,971	1,41,643	9.5
Total	**32,63,477**	**2,68,072**	**1,62,502**	**1,64,729**	**2,65,845**	**8.1**
2002-03						
UHBVNL	18,27,141	1,24,202	74,615	91,717	1,07,100	5.9
DHBVNL	15,17,993	1,41,643	59,620	97,929	1,03,334	6.8
Total	**33,45,134**	**2,65,845**	**1,34,235**	**1,89,646**	**2,10,434**	**6.3**

Failure to replace defective meters resulted in loss of revenue of Rs. 71.86 crore.

Though the sample survey conducted (1997-98) by the erstwhile Board indicated that nearly 20 *per cent* of the meters installed were either defective or dead stop, the companies were declaring the meter defective only when it became dead stop. Average period taken in replacement of defective meters ranged between 13 and 24 months. Since billing of consumers having defective meters is done on average basis, the companies could not recover charges on actual consumption. A study carried out by HVPNL during 1998-99 worked out loss of 388 units per connection per annum due to defective meters. On that basis, loss of revenue worked out to Rs. 71.86 crore during three years up to 2002-03.

Audit further noticed that a large number of meters were lying in the stores as shown in the following table:

Year	Available	Installed	Closing balance
	(Number of Meters)		
1998-99	2,50,623	1,90,720	59,903
1999-2000	68,603	11,841	56,762
2000-01	2,98,294	1,80,406	1,17,888
2001-02	7,89,329	5,66,053	2,23,276
2002-03	6,40,994	5,60,123	80,871

The management stated (July 2003) that defective meters had been replaced as soon as possible and in the cases where delays occurred, consumers were charged on the basis of connected load and hence no loss had been suffered. The reply was not acceptable as the consumers should have been charged on the basis of actual consumption by providing a correct meter and not on the basis of connected load which is generally on lower side.

Non replacement of defective meters, which were to the extent of 60 *per cent* (during 2001-02 and 2002-03), resulted in annual revenue loss of Rs. 100.61 crore.

2.1.28 A scrutiny of records revealed that while replacing the electro-mechanical meters with the electronic ones, the companies removed 3.86 lakh electro-mechanical meters (UHBVNL: 2.58 lakh and DHBVNL: 1.28 lakh) during 2001-02 and 2002-03. Of these, 2.31 lakh meters (UHBVNL: 1.20 lakh and DHBVNL: 1.11 lakh) representing 60 *per cent* were found slow/defective on testing in the laboratories. Based on this rate, slow/defective meters in the companies as a whole worked out to 10.25 lakh (60 *per cent* of 17.09 lakh general connections having electro-mechanical meters). Thus, due to non-replacement of 10.25 lakh slow/defective meters, UHBVNL/DHBVNL had been suffering revenue loss of Rs. 100.61 crore per annum*.

While admitting facts the management stated (July 2003) that it was not possible to replace large number of meters in a limited period of time in view of requirement of huge funds as well as extra manpower, problems at site during replacement and that such works could be executed in phases. Reply was not tenable as all the defective meters should have been replaced up to December 2001 by formulating metering schemes under AG&SP and APDP with loan assistance from PFC/REC as per MOU (referred to in paragraphs 2.1.4 and 2.1.16, 2.1.17 & 2.1.18 *supra*).

Non recovery of cost of defective meters

2.1.29 In view of poor quality and un-economical cost of repairs, HVPNL decided (February 1999) to abandon repair of meters and recover cost (fixed at Rs. 1,215 per defective meter by UHBVNL in May 2001) of defective meters from the concerned consumers.

It was noticed in audit that during replacement of electro-mechanical meters with electronic meters, status of existing electro-mechanical meters was not checked so as to determine whether the meters were in working condition or not. Out of 2,58,467 electro-mechanical meters dismantled for replacement

* Worked out at loss of 388 units per connection per annum as referred to in paragraph 2.1.27 above.

with electronic meters received in various meter-testing laboratories of UHBVNL during March 2001 to December 2002, 87,727 meters were found defective. Similarly, out of 1,11,506 meters received in various laboratories of DHBVNL between March 2001 and December 2002, 5,213 meters were found defective. As such recovery of Rs. 11.29 crore, being the cost of 92,940 defective meters replaced by new meters, was not effected.

While admitting the facts, the Company stated (July 2003) that it did not recover cost of defective meters and felt more prudent to bring out accurate and tamper proof meter even at its cost. The reply was not tenable as the Company had to recover the cost of defective meters from consumers as per its own instructions of February 1999.

Delay/non-providing MCBs

2.1.30 The erstwhile Board purchased (March 1998) 1.15 lakh single phase electronic energy meters from Shaanxi Machinery and Equipments, China at Rs. 6.63 crore. Supply of these meters was completed in February 1999.

After installing 0.88 lakh meters up to March 1999, a committee headed by the Managing Director of DHBVNL observed (May 1999) that the meters could be tampered by placing a strong magnet on their surface and this problem could be overcome by providing MCBs on these meters. Accordingly, UHBVNL procured 1.15 lakh MCBs at Rs. 2.74 crore which were received up to December 2000 for installation on these meters.

Out of 1.15 lakh MCBs procured to counter the magnetic effect on electronic meters, 0.63 lakh MCBs valuing Rs. 1.49 crore were not installed.

It was observed in audit that out of 1.15 lakh, only 0.52 lakh MCBs were installed and balance 0.63 lakh MCBs were lying in stores of UHBVNL (0.30 lakh) and DHBVNL (0.33 lakh) at the end of March 2003.

Thus, the companies continued to suffer revenue loss (not ascertainable) due to non-installation of MCBs procured to counter external magnetic effect on meters besides blockage of funds of Rs. 1.49 crore on 0.63 lakh MCBs for two years.

Energy audit

2.1.31 Energy audit aims at accounting for energy received and sent out on each stage of power system to determine separately the technical losses (occuring due to inherent characteristic of conductors and equipments used in the system) and commercial losses (occurring due to pilferage of energy, defective meters, meter reading errors and un metered supply of energy and energy not accounted for). Mention was made in para 2A.5.4 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial)-Government of Haryana regarding non carrying out energy audit in a scientific and systematic manner and excessive distribution losses on 11 KV feeders. The Central Electricity Authority (CEA) reiterated (May 1992) its earlier instructions (February 1986) regarding introduction of energy audit of power received and sold, fixation of annual targets for reducing system losses and monitoring the actual loss against the targets.

Energy audit introduced (January 1990) for checking distribution losses on 11 KV feeders emanating from various sub-stations was conducted by field staff of respective operation circles on monthly basis. Feeder-wise energy audit reports were received from field offices by Chief Engineer (Operation). These were not submitted to the Board of Directors of the companies. Out of 2,915 feeders of 11 KV (UHBVNL: 1,553 and DHBVNL: 1,362), 1,080 feeders (UHBVNL: 667 and DHBVNL: 413) were having losses of more than 25 *per cent* during 2002-03 (up to December 2002 in respect of UHBVNL) as against norm of 7 *per cent* fixed by CEA.

Further, analysis in audit revealed that extent of distribution losses on 667 feeders during 2002-03 in UHBVNL ranged between 25 and 30 *per cent* (217 feeders); 31 and 40 *per cent* (245 feeders), 41 and 50 *per cent* (97 feeders) and above 50 *per cent* (108 feeders). No specific reasons for excessive losses were indicated in the energy audit reports. Areas/feeders where apprehension of pilferage of energy existed, were required to be reported to vigilance wing of the companies but such information had never been supplied to it for probing. Yearly targets by taking corrective measures for loss reduction on feeders where the losses were excessive were not fixed.

Periodical checking of connections

2.1.32 With a view to check the working of energy meters and to curb unauthorised extensions and theft of energy, the erstwhile Board had prescribed the system of periodical checking of connections by the field staff. The percentage of connections checked against the norms fixed by the erstwhile Board and recoverable revenue detected and realised for the last five years ended 31 March 2003 were as under:

The shortfall in checking of connections by the operation staff of the companies ranged between 37 and 71 *per cent.*

Year	No. of connections		Shortfall in checking		Cases of theft/incorrect metering detected		
	Due for checking	Actually checked	Number	Percentage	Number	Penalty imposed	Realised
							(Rupees in lakh)
1998-99	9,41,972	4,03,665	5,38,307	57	17,642	2,428.63	622.09
1999-2000	9,05,976	4,23,043	4,82,933	53	15,912	1,305.63	498.49
2000-01	9,94,700	6,21,899	3,72,801	37	51,411	3,800.15	1,888.00
2001-02							
UHBVNL	3,94,289	2,42,222	1,52,067	39	46,602	1,829.71	876.71
DHBVNL	5,97,998	1,93,964	4,04,034	68	20,731	1,380.72	616.51
	9,92,287	4,36,186	5,56,101	56	67,333	3,210.43	1,493.22
2002-03							
UHBVNL	5,07,479	1,56,019	3,51,460	69	29,789	1,393.60	793.51
DHBVNL	5,10,464	1,34,922	3,75,542	74	14,771	1,621.17	748.40
	10,17,943	2,90,941	7,27,002	71	44,560	3,014.77	1,541.91
Total	**48,52,878**	**21,75,734**	**26,77,144**	**55**	**1,96,858**	**13,759.61**	**6,043.71**

As a result of aforesaid checking of connections, the Board/companies recovered penalty of Rs. 60.44 crore as against Rs. 137.60 crore imposed during five years ended March 2003.

The management stated (July 2003) that it was not possible to achieve the norms due to inadequacy of staff, increase in workload etc. and with the introduction of electronic meters, companies were in the process of revising the norms. However, the fact remains that still majority of the meters are electro mechanical (55 *per cent*) for which the checking is required as per norms.

Repair of meters

Failure of meters within warranty period

Damaged meters valuing Rs 3.70 crore were not replaced within warranty period.

2.1.33 Warranty clause of the contract for supplies ordered by the erstwhile Board, provided that the supplier was responsible to replace free of cost the whole or any part of the material which proves defective in quality or workmanship within 12 months from the date of receipt of the material by consignee or 18 months from the date of despatch whichever might expire earlier. In respect of energy meters ordered from April 2001 onwards, the period of performance warranty was stipulated at five years from the date of supply and the supplier was required to replace the defective meters within 45 days of the notice of defect. It was noticed in audit that 23,553 single phase (SP) and 3,033 poly phase (PP) meters (UHBVNL : 15,631 SP and 1,660 PP; DHBVNL : 7,922 SP and 1,373 PP) valuing Rs. 3.70 crore had failed within warranty period during 1998-03 which were not got replaced by the erstwhile Board/companies.

While the UHBVNL did not furnish any reply, the management of DHBVNL stated (July 2003) that bank guarantees were available to compensate the cost of damaged meters. Reply was not tenable as the Company had neither got the defective meters replaced nor encashed bank guarantees to recover the cost.

Conclusion

Assessment and procurement of meters was not commensurate with the requirement for replacement of defective meters and achievement of target of 100 *per cent* metering. The companies placed orders for procurement of energy meters at higher rates resulting in extra expenditure. The companies also failed to convert flat rate agricultural connections into metered supply and could not assess actual consumption recorded by them. Meters were not tested properly before their delivery and installation, history cards of meters were not maintained, accuracy of defective meters was not checked at prescribed intervals, defective/damaged meters were not replaced promptly and performance of meters was not monitored resulting in undercharge of revenue from consumers. Energy audit reports on 11 KV feeders were not indicating reasons for losses and no targets were fixed for taking corrective measures for reduction in losses.

The companies should streamline the purchase procedure and testing, installation, checking and replacement of energy meters to maximise revenue through correct metering.

The matter was referred to the Government in April 2003; reply had not been received (September 2003).

2.2 Haryana State Industrial Development Corporation Limited

Disbursement of loans, recoveries and investment activities

Highlights

Haryana State Industrial Development Corporation Limited (Company) was incorporated in March 1967 as a wholly owned Government company with the objective to promote industries in the State. To meet its objective, the Company was engaged in providing financial assistance by extending term loans and making investments in shares of companies.

(Paragraph 2.2.1)

The Company's funds to the extent of Rs. 8.84 crore (principal: Rs. 4.99 crore, interest: Rs. 3.85 crore) were at stake due to acceptance of inflated and defective collateral security, relaxing the conditions of sanction and disbursement of loan to units.

(Paragraph 2.2.7 to 2.2.13)

The non-performing assets increased from Rs. 55.12 crore in April 1998 to Rs. 85.22 crore in March 2003. The percentage of doubtful and loss assets to total outstanding loans increased from 14.73 during 1998-99 to 22.16 during 2002-03.

(Paragraph 2.2.14)

Due to poor recovery performance, the overdue amount increased from Rs. 49.94 crore in 1998-99 to Rs. 88.66 crore in 2002-03. Out of these, Rs. 75.62 crore were overdue for more than three years. In nine cases involving overdues of Rs. 31.98 crore not even a single instalment had been paid and in three cases involving Rs. 8.35 crore only one instalment had been paid since April 1995.

(Paragraphs 2.2.15 and 2.2.16)

The number of units in possession increased from 10 involving Rs. 5.17 crore recoverable in 1997-98 to 19 involving Rs. 16.21 crore recoverable in 2002-03, besides incurring an expenditure of Rs. 1.58 crore during April 1998 to December 2002 on the security of the assets of the units in possession.

(Paragraph 2.2.17)

The Company invested equity of Rs. 40.19 crore in 69 units up to March 2003. Under One Time Settlement (OTS) scheme, the Company accepted Rs. 6.25 crore against the due amount of Rs. 10.57 crore in eight out of 13 units disinvested during 1997-2003 besides, waiving of Rs. 4.66 crore in seven cases under OTS Scheme.

(Paragraphs 2.2.19 and 2.2.20)

The Company was holding Rs. 2.77 crore in 13 units the market value of which was only Rs. 52.07 lakh resulting in erosion of over 81 *per cent* in investment. The percentage of return on investment decreased from 1.08 during 1998-99 to 0.25 during 2002-03.

(Paragraph 2.2.23)

Introduction

2.2.1 Haryana State Industrial Development Corporation Limited was incorporated in March 1967 under the Companies Act, 1956 as a wholly owned Government company, with the objective to promote industries in the State. The Company was also entrusted (1971) with the function of developing industrial estates in the State.

The main objectives of the Company, *inter alia*, as envisaged in the Memorandum of Association are to:

- aid, assist and finance any industrial undertaking, project or enterprise whether owned or run by the Government, statutory body, private company, firm or individual with capital, credit, means or resources for prosecution of its work and business; and

- deal with shares, stocks, bonds, debentures obligations and securities of any company or association formed for establishing, executing or working of any industrial undertaking approved or promoted by the Company.

In pursuance of the above object, the Company has undertaken the activities of term lending, lease financing, equity participation, merchant banking and development of industrial estates. The Company disbursed loans amounting to Rs. 658.30 crore and participated in the equity with Rs. 40.19 crore till March 2003.

Organisational set up

2.2.2 The Articles of Association of the Company envisaged management of the Company by a Board of Directors (BOD) consisting of minimum three and maximum 11 directors. As on 31 March 2003, the Board comprised 11 directors including a Chairman and a Managing Director (MD). Out of these, six ex-officio and four non-official directors were appointed by the State Government and one by the Industrial Development Bank of India (IDBI). MD is the chief executive of the Company and is assisted by 12 departmental heads[*] in day-to-day affairs of the Company. The Company has five branch offices[**] for operation of its financial activities.

It was observed in audit that the non-official directors nominated by the State Government attended only 50 *per cent* of the Board meetings held during the last five years up to 2002-03.

Scope of Audit

2.2.3 The activity of the Company relating to setting up of industrial estates was reviewed and included in the Report of the Comptroller and Auditor General of India for the year 2000-01 (Commercial) and is awaiting discussion by the Committee on Public Undertakings (March 2003). The present review covering disbursement of loans, recovery performance and investment activities during the last five years ended March 2003 was conducted during October 2002 to February 2003.
Audit findings as a result of test check of 66 cases of loss, doubtful and substandard assets (76 *per cent*) and 104 cases of loan sanctioned during 1998-2002 (50 *per cent*) were reported to the Government/Company in May 2003 with the request to attend the meeting of ARCPSE so that view point of the Government/Management was taken into account before finalising the review. The meeting of ARCPSE was held on 16 July 2003 which was attended by the MD of the Company.

Term loan assistance

2.2.4 The Company provided financial assistance up to Rs. 10 crore for setting up new small and medium sector industrial projects as well as for expansion, diversification and modernisation of existing units. According to the laid down procedure, a promoter seeking financial assistance from the Company furnish an application along with project report of the unit to be set up for appraisal. After appraisal, the proposal was cleared by the Advisory Committee and placed before the sanctioning authority (Managing Director up to Rs. 1.50 crore, sub-committee of Board for more than Rs. 1.50 crore up to Rs. 3 crore and BOD above Rs. 3 crore).

The sanction of loan was conveyed through a sanction letter, which contained detailed terms and conditions of sanction. Disbursement was made after

[*] Accounts, Estate, Industrial area, Appraisal and merchant banking, Recovery, Disbursement, Personnel and administration, Public relations, Secretariat, Equity, Infrastructure and Planning and Information Technology.

[**] Delhi, Faridabad, Gurgaon, Hisar and Kundli.

entering into an agreement, ensuring clear title of primary security mortgaged and watching the progress of the project. Besides, collateral security was also obtained keeping in view the risk perception involved. To ensure its correct valuation and clear title, the loanee was required to furnish valuation report from a valuer and a search report* from an advocate. Documents in support of clear title and authenticity of the valuation of the security were verified by the officers of the Company before acceptance.

2.2.5 A comparative statement showing the receipt of applications, sanctions and disbursements made during the last five years ended March 2003 is given below:

Particulars	**1998-99**		**1999-2000**		**2000-01**		**2001-02**		**2002-03**	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
	(Amount Rupees in crore)									
a) Applications pending at beginning of the year	12	16.48	44	59.36	74	134.24	43	110.14	48	83.44
b) Applications received	228	300.49	217	342.53	198	430.56	160	342.66	133	342.56
Total	**240**	**316.97**	**261**	**401.89**	**272**	**564.80**	**203**	**452.80**	**181**	**426.00**
c) Applications rejected/ lapsed/ withdrawan/ filed	103	156.50	110	166.09	157	327.96	95	266.08	113	266.14
d) Applications sanctioned	93	101.11	77	105.56	72	126.70	60	103.28	49	102.27
Amount disbursed		55.50		58.07		66.10		73.72		67.42
e) Applications pending at the end of the year	44	59.36	74	134.24	43	110.14	48	83.44	19	57.59
f) Amount for which loan applications considered (c+d)	196	257.61	187	271.65	229	454.66	155	369.36	162	368.41
Percentage of loan disbursed to loan sanctioned		55		55		52		71		66
Percentage of applications rejected/ lapsed/ withdrawan/ filed to applications considered	53		59		69		61		70	

It would be seen from the above that loan applications sanctioned and amount disbursed there against by the Company during these five years amounted to Rs. 538.92 crore and Rs. 320.81 crore, respectively.

The management attributed (January 2003) less disbursement to change in industrial/market scenario and non-compliance of conditions of sanction.

* Search report is a document prepared by an advocate indicating title and location of the security.

2.2.6 A test check of records revealed that loans were disbursed without:

- obtaining credit worthiness reports from the financial institutions, (para 2.2.7);
- ensuring availability of working capital (para 2.2.8, 2.2.9 and 2.2.11);
- verifying title/location of collateral security (para 2.2.7, 2.2.8 and 2.2.9) and
- acceptance of collateral security at grossly inflated value (para 2.2.7,2.2.10, 2.2.12 and 2.2.13).

A few interesting cases are discussed below:

Irregular disbursement of loan and acceptance of collateral security at inflated value

2.2.7 The Company sanctioned (30 March 1998) working capital term loan (WCTL) of Rs. one crore to Jyoti Oil Industries Limited, Sonepat (unit)[*] repayable in 42 months including moratorium of six months. The terms and conditions, *inter alia*, provided that the unit would furnish collateral security of Rs. 1.25 crore and credit worthiness report from Haryana Financial Corporation (HFC).

The unit furnished collateral security (March 1998) of Rs. 74.71 lakh (three shops located at 2nd floor in Rajouri Garden, Delhi) and the Company released Rs. 60 lakh on 31 March 1998, by relaxing the condition of obtaining credit worthiness report from HFC without assigning any reasons. To make up the shortfall in security, the unit further furnished (May 1998) collateral security of land situated at village-Ahmed Nagar, district Sonepat valued[**] at Rs. 16.90 lakh. Meanwhile, the Company received a reference (April 1998) from HFC intimating its proposal to take over the unit as it was in default of Rs. 1.59 crore. The Company, however, ignored this fact and released Rs. 13.28 lakh on 27 May 1998 on the plea that notice of possession was being rescinded by HFC. The notice was, however, not rescinded. The balance WCTL of Rs. 26.62 lakh was cancelled on the basis of a notice of Oriental Bank of Commerce (OBC) published (22 October 1998) in 'The Tribune' wherein it was mentioned that the unit was in default of interest and total outstanding as on 30 June 1998 was Rs. 83.45 lakh and the unit's business had come to stand still since July 1998.

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[*] Promoters: Shri Brij Mohan Gupta and Shri Vijay Aggarwal.

[**] Valuer: Sh. T.K.Chaterjee.

Disbursement of working capital term loan without ascertaining credit worthiness report and acceptance of defective/inflated collateral security resulted in non-recovery of Rs. 1.87 crore.

The Company decided (December 1998) to take over the collateral security to recover the outstanding dues. The possession of three shops at Delhi was taken in February 1999 and the value was assessed at Rs. 20.84 lakh by North India Technical Consultancy Organisation Limited (NITCON)* against the accepted value of Rs. 74.71 lakh. After five attempts from April 1999 to June 2001, these shops were auctioned for Rs. 16.15 lakh in July 2001. Possession of agricultural land could not be taken as it was not distinctly demarcated. The recoverable amount after adjustments stood at Rs. 1.87 crore (principal: Rs. 73.28 lakh, interest: Rs. 1.14 crore) till March 2003. Thus, disbursement of working capital term loan without ascertaining credit worthiness of the unit and acceptance of defective/inflated collateral security had put the recovery of Rs. 1.87 crore (March 2003) at stake.

In reply, endorsed by Government in August 2003, the management stated (July 2003) that the borrower had a dispute with HFC relating to equity shares and as such the condition of credit worthiness report was relaxed. The reply was not tenable as the Company without assigning any reason and having received the request from the unit relaxed the condition of obtaining credit worthiness report from HFC.

2.2.8 The Company sanctioned (March 1999) a term loan of Rs. 83.64 lakh to Mentha Agro Chem (India) Pvt. Limited, Sonepat (unit)** for manufacturing menthol bold crystal. The terms and conditions, *inter alia*, provided that the unit would provide collateral security equivalent to 100 *per cent* of loan amount and get the working capital limit sanctioned before disbursement of last 50 *per cent* of loan.

After getting title of the land verified from an advocate*** the Company accepted the collateral security of land at village Malikpur, Model Town, Delhi at the assessed value of Rs. 97.20 lakh. First instalment of Rs. 39.90 lakh was released in January 2000 and the subsequent instalments of Rs. 42.90 lakh were released during July to November 2000 under the orders of MD relaxing the condition for working capital arrangement from the bank. The working capital was never sanctioned to the unit. The unit started committing default since July 2001. The Company took over the possession of the unit in January 2002. The unit was put to auction in March 2002, January and March 2003 but could not be sold (July 2003). The Company could not take the possession of collateral security as the land mortgaged with the Company was acquired by Delhi Development Authority (DDA) in 1966 and allotted to a co-operative housing society.

Thus, due to acceptance of collateral security based on incorrect search report of the advocate and failure of the Company to ensure the genuineness of the report and relaxing the condition for arranging working capital, the recovery

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* A joint venture of IFCI, IDBI, ICICI, State level Corporations and Nationalised Banks.

** Promoters: Daya Nand Jain and Ishwar Singh Jain.

*** Advocate: Shri Vikas Deep.

of Rs. 1.09 crore (principal: Rs. 82.80 lakh and interest: Rs. 25.81 lakh) as on March 2003 had been put at stake.

In reply, endorsed by Government in August 2003, the management stated (July 2003) that the Company had put the primary security on sale and was planning to file FIR against the promoters for furnishing defective collateral security. However, action against the advocate for submitting incorrect search report and defaulting officers of the Company, had not been taken (July 2003).

2.2.9 The Company sanctioned (March 2000) a term loan of Rs. 72 lakh to Capsil Laboratories (Pvt.) Limited (unit)[#] for setting up a pharmaceutical unit in district Sonepat. The unit was required to furnish a collateral security of 75 *per cent* of the amount of loan and furnish sanction of working capital limit from the bank before availing last 50 *per cent* of the loan. The unit offered (July 2000) a plot situated at village Badarpur (New Delhi) as collateral security valuing Rs. 78 lakh along with Advocate's[*] search report. The Company accepted this security without verifying the title from the revenue record and released Rs. 26.94 lakh in July 2000 and Rs. 9.06 lakh in October 2000. The Company further disbursed Rs 15.05 lakh in March 2001 by relaxing the condition of sanction of working capital limit till next disbursement. An employee of the unit informed the Company (July 2001) that promoter of unit had misappropriated the loan released to the unit and had furnished fake collateral security. On the basis of above complaint, the Company verified the documents of the collateral security, and found that the signatures of the sub-registrar, secretary and representatives of seller in the sale deed were forged.

Disbursement of loan without verifying the title of collateral security led to recovery of Rs. 65.82 lakh at stake.

The unit did not commence production as working capital was not sanctioned and it defaulted in repayment of loan. After issue of notice under Section 29 of SFC Act, 1951, the possession of the unit was taken over in January 2002. The possession was restored to the unit in March 2002 on assurance of payment but deemed possession remained with the Company. As the unit failed to fulfill its commitments, the Company took physical possession in November 2002. NITCON assessed (January 2003) valuation of primary security at Rs. 23.87 lakh against the due amount of Rs. 65.82 lakh (principal : Rs. 51.05 lakh, interest : Rs. 14.77 lakh) as on 31 March 2003. The unit could not be sold (July 2003) despite inviting tenders in January and March 2003.

Thus, injudicious decision to disburse loan to the unit without verifying the title of the collateral security and ensuring the sanction of working capital had put the recovery of Rs. 65.82 lakh at stake.

The management stated (February 2003) that net realisable value of the assets mortgaged to the Company did not match with the balance outstanding and as such after disposal of the primary security, the amount would be recovered through recovery certificate. The Company further intimated (July 2003) that

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[#] Promoters: S.Baljit Singh and H.N. Lal.

[*] Advocate: Savita Prabakar.

the matter was under investigation for taking action against the Advocate and concerned officer responsible for accepting the defective security.

2.2.10 The Company sanctioned (September 1998) a term loan of Rs. 57 lakh to Euro Plywood Company Limited, Sonepat (unit)[^] for setting up unit for manufacture of plywood, black boards etc. at Sonepat. The terms and conditions, *inter alia*, provided that the unit was to get working capital limit sanctioned from a bank before last disbursement of 50 *per cent* of loan and further the unit was to provide collateral security of 85 *per cent* of the sanctioned loan.

The unit provided collateral security of Rs. 45 lakh against the required security of Rs. 48.45 lakh consisting of agricultural land, shop and residence as assessed by the valuer[~] and verified by the Manager of the Company. Accordingly, it was decided to disburse the loan on *pro-rata* basis. First disbursement of Rs. 14.42 lakh was made in January 1999. By relaxing the condition of the sanction of working capital, the Company released second instalment of Rs. 25.86 lakh in March 1999. The unit did not commence production and not paid a single instalment of principal or interest.

On an inspection, (November 1999) the unit was found closed. Notice under Section 29 of SFC Act, 1951 was issued in August 2000 and possession of the unit taken in October 2000. Total assets taken over were not compared with the assets financed by the Company at the time of taking possession to verify shortage, if any. The Company, however, lodged (September 2001) an FIR against the promoter for removing machinery after a lapse of over 11 months. The unit was put to auction (December 2000) and the highest bid of Rs. 31 lakh was ignored against the outstanding of Rs. 51.77 lakh. The Company, however, disposed of primary security along with adjacent collateral security of agriculture land for Rs. 31 lakh in March 2002. The value of the agricultural land had been accepted as Rs. 20 lakh whereas the NITCON assessed the net realisable value as Rs. 5.13 lakh. For meeting the shortfall of Rs. 42.47 lakh the remaining collateral security (shop and house) valuing Rs. 25 lakh was sold (April 2003) for Rs. 8.67 lakh.

Thus, due to irregular disbursement and acceptance of collateral security at inflated value, the recovery of Rs. 44.66 lakh including principal of Rs. 10.10 lakh as on 31 July 2003 had been put at stake.

The Company and the Government, *inter alia*, stated (July and August 2003) that request for working capital limit was under consideration by the bank and missing items were identified at a later stage and F.I.R. lodged thereafter. The reply was not tenable as the 50 *per cent* disbursement of the loan should have been made after receiving clear sanction from the bank as envisaged in the sanction letter.

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^ Promoters: S/Shri Radhey Sham Mittal, B.L.Gupta and Sanjay Gupta.

~ Valuer: M/s Aggarwal and Associates.

2.2.11 The Company sanctioned (May 2000) a term loan of Rs. 55 lakh to Mahal Foods and Bewerages Private Limited, Dharuhera (unit)* for manufacture of namkeen, soda water and milk. The terms and conditions of the sanction letter of the loan, *inter alia,* provided that the unit would get the working capital limit sanctioned before the disbursement of last 25 *per cent* but the condition was relaxed by the MD and full amount was disbursed in June 2000. The unit was further sanctioned (September 2000) additional term loan of Rs. 18.62 lakh, which was to be disbursed on obtaining sanction of working capital from the bank. However, the condition was relaxed and Rs. 16.93 lakh was disbursed in September 2000. The unit was not sanctioned the working capital by the bank.

The unit started committing default in the payment of the instalment of interest which fell due in October 2000. A show cause notice was issued (December 2000) to clear the dues within 15 days. As the unit did not clear the default, the Company issued (February 2001) notice under Section 29 of SFC Act, 1951 to take over the unit and possession of the unit was taken over in March 2002. The unit could not be sold because no tenders were received despite put to auction in January, May and July 2003.

Relaxing the conditions of arranging working capital limit from banks put the funds of Rs. 1.06 crore at stake.

Thus, relaxation of the condition of arranging working capital limit from the banks had put the funds of Rs. 1.06 crore (including principal: Rs. 71.93 lakh) at stake (March 2003).

The Company and the Government stated (July and August 2003) that the condition of working capital was relaxed in view of the application submitted by the unit to bank. The reply was not tenable as mere submission of application does not entitle the applicant to avail of the credit facility and finally non-sanction of working capital had led to failure of the unit.

Acceptance of defective collateral security

2.2.12 The Company sanctioned (January 1998) a term loan of Rs. 1.25 crore to Natural Fragrances (Private) Limited, Sonepat (unit)** for manufacturing menthol bold crystal. The terms and conditions of sanction, *inter alia*, provided that the unit would provide 100 *per cent* collateral security. The unit provided collateral security of agricultural land at Mathura Road near Apollo Hospital valuing Rs. 1.42 crore, which was accepted on the basis of valuation report (February 1998) given by the valuer*** and the search report by an advocate[Ψ].

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* Promoters: S/Shri Ajay Arora, Gautam Verma, Rohit Verma, Kusum Arora and Rahul Arora.

** Promoters: S/Shri Raman Kumar Pandoi, Aman Kumar Pandoi, Amit Kumar Pandoi and Mrs. Sonia Pandoi.

*** Valuer: Shri T. K. Chatterjee.

Ψ Advocate: Shri Parmod Kumar Bhagat.

The loan of Rs. 1.23 crore was disbursed between June 1998 and February 2000. The unit started committing default from February 1999. Due to continuous default the unit was taken over in December 2000. Meanwhile, the value of the unit was assessed (February 2001) at Rs. 35.81 lakh by NITCON but the unit could not be disposed of (December 2002) despite auctions held in February 2001, August 2002, January, March and July 2003. As regards collateral security, the NITCON assessed (January 2002) its value at Rs. 3.64 lakh only against the accepted value of Rs. 1.42 crore. Further, location of collateral security stated to be near Apollo Hospital, was actually 6-7 kms away from it. On seeking clarification from the valuer firm, it was intimated (July 2002) that the concerned valuer had expired in 1999.

Acceptance of collateral security at inflated value resulted in non-recovery of Rs. 1.73 crore.

Thus, negligence in identifying the exact location and acceptance of collateral security at inflated value by the Company without cross checking the documents furnished by the unit had put the funds of Rs. 1.73 crore (principal: Rs. 1.10 crore and interest: Rs. 62.87 lakh) as on 31 March 2003 at stake.

The management stated (February 2003) that the amount would be recovered by issuing recovery certificate against the promoters and guarantor. The reply was not tenable as the management informed (March 1999) the Board that it had not succeeded through this route. The management further admitted (February 2003) that no recovery had been effected during the last five years ended March 2002 through this route. The Company did not initiate action against the advocate and the concerned officers so far (May 2003).

2.2.13 The Company sanctioned (January 1998) an additional term loan of Rs. 98.56 lakh to Kundan Lal Ran Singh Agro Products Pvt. Limited, Karnal (unit)[*] for expansion of roller flour mill which had already availed a term loan of Rs. 7.60 lakh from the Company and Rs. 58.80 lakh from HFC in 1995-96. The loan was secured against the collateral security of agricultural land measuring 15 bigha and 6 biswa valued at Rs. 80.32 lakh by a valuer[**] and accepted by the Company. The loan of Rs. 98.36 lakh was disbursed to the unit during April 1998 to January 1999. On failure of the unit to repay the dues and on finding (August 1999) the unit lying closed, the Company took over all the assets of the unit (September 1999). However, possession of collateral security could not be taken over as it was in the form of agricultural land scattered at three different locations[***] and clear demarcation was not known.

On checking the value of the land from Tehsildar's office as well as from the property dealers operating in that area, it was found that the value of the land was Rs. 11.50 lakh against the accepted value of Rs. 80.32 lakh. After mutation of land, deemed possession of collateral security was obtained in February 2001.

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[*] Promoters: S/Shri J. S. Chaudhary, Kuldeep Singh, Harinder Singh, Kalyan, Tarun Pal Bhatia and Mewa Singh.

[**] Valuer: Mr. Shashi Sharma.

[***] Locations: Agricultural land at Karnal.

Thus, acceptance of collateral security of agricultural land at highly inflated value had rendered recovery of Rs. 1.99 crore including principal: Rs. one crore as doubtful (March 2003). The Company did not initiate any action against the valuer responsible for furnishing inaccurate report. Admitting the lapse, the management informed (July 2003) that FIR had been lodged against the promoter and valuer. The reply was endorsed by the Government in August 2003. Further developments were awaited.

Non-performing assets

Classification of assets

2.2.14 In the case of non-banking companies, the IDBI had classified (March 1994) the loans into four groups viz., standard, sub-standard, doubtful and loss assets which are based on the possibility of recovery of loan.

- Standard assets : Where repayments are regular.
- Sub-standard assets : Where loans as well as interest remain overdue over a period six months but not exceeding 18 months
- Doubtful assets : Where loans as well as interest remains overdue beyond 18 months.
- Loss assets : Where loans for which loss was identified but not written of wholly or partly.

The table below indicates the position of outstanding loans, classification of loans as standard, sub-standard, doubtful and loss assets for the last five years up to 2002-03:

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
		(Rupees in crore)				
1	Loans outstanding at the close of the year	227.000	235.21	254.09	280.60	292.49
2	Classification of assets					
	a) Standard assets	171.88	172.66	188.04	208.53	207.27
	b) Sub-standard assets	21.69	17.59	10.21	12.70	20.39
	c) Doubtful assets	32.45	43.98	54.86	58.38	63.85
	d) Loss assets	0.98	0.98	0.98	0.98	0.98
3	Total non-performing assets (NPA)* {2(b)+(c)+(d)}	55.12	62.55	66.05	72.06	85.22
4	Total of doubtful and loss assets {2(c)+(d)}	33.43	44.96	55.84	59.36	64.83
5	Percentage of NPA to total outstanding	24.28	26.59	25.99	25.68	29.14
6	Percentage of doubtful and loss assets to total outstanding loans	14.73	19.11	21.98	21.15	22.16
7	Provision of NPA	15.29	19.11	21.92	26.04	31.50

* NPA – Interest and/or instalment of principal remains overdue for a period of more than six months.

Due to poor recovery performance, non performing assets had increased from Rs. 55.12 crore in 1998-99 to Rs. 85.22 crore in 2002-03.

Against the total loan outstanding, NPAs had increased from Rs. 55.12 crore (24.28 *per cent*) in 1998-99 to Rs. 85.22 crore (29.14 *per cent*) in 2002-03. Doubtful and loss assets increased from Rs. 33.43 crore to Rs. 64.83 crore(94 *per cent*) against increase in loan assets from Rs. 227 crore to Rs. 292.49 crore (29 *per cent*) during the same period. The constant increase in NPAs resulting from poor recovery of loans had been affecting the financial position adversely as the Company had to make payments to financial institutions/banks without effecting recovery from the loanees.

Management attributed (December 2002 and July 2003) increase in NPAs to recession in the industry, technological obsolescence, opening up of the economy and advent of multinationals, labour trouble and incompetent management and units becoming sick and reference to Board for Industrial and Financial Reconstruction (BIFR). This version was endorsed by the Government in August 2003. The fact, however, remained that irregular disbursement of loans by relaxing terms and conditions of sanction had contributed to increase in NPAs.

Recovery performance

2.2.15 Recovery of loan was pursued by the recovery wing at the head office of the Company. In case of continuous default by the loanees, the primary and the collateral security were acquired under Section 29 of SFC Act, 1951. The assets so acquired were sold by the Company through open auction and realisation adjusted against the dues. In case of non-recovery of full amount, shortfall was pursued through the District Collector for recovery as arrears of land revenue under Section 3 of Haryana Public Money's (Recovery of Dues) Act, 1979. The details of the term loan due for recovery, target fixed for recovery, amount recovered and the shortfall during the last five years ended March 2003 are given below:

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
		(Rupees in crore)				
1.	Amount recoverable (including interest)	127.29	157.25	160.39	160.27	174.82
2.	Targets fixed for recovery	88.50	87.90	88.90	79.00	77.50
	Percentage of target to amount recoverable	70	56	55	49	44
3.	Amount recovered					
	a) Old dues (recoverable up to previous year)	6.42	8.84	10.57	8.05	5.59
	b) Current dues	70.93	74.69	67.04	69.41	80.57
	c) Total (a + b)	**77.35**	**83.53**	**77.61**	**77.46**	**86.16**
4.	Amount recoverable at the end of the year	49.94	73.72	82.78	82.81	88.66
5.	Percentage of recovery to					
	a) Amount recoverable	61	53	48	48	49
	b) Target	87	95	87	98	111

From the above table it would be observed that:

- The management decreased the targets constantly as these were brought down from 70 *per cent* of amount recoverable in 1998-99 to 44 *per cent* during 2002-03. Even the decreased targets were never achieved.

- Amount recoverable rose sharply from Rs. 49.94 crore in 1998-99 to Rs. 88.66 crore in 2002-03.

- Separate targets for recovery against old dues had not been fixed.

- Amount recoverable (Rs. 88.66 crore) included principal of Rs. 48.12 crore out of which Rs. 30.34 crore related to Board for Industrial and Financial Reconstruction/Recovery Certificate/suit filed/liquidation cases as on 31 March 2003.

The management, *inter alia,* stated (January 2003) that targets were fixed lower on the basis of dues and expected recovery from different categories of assets. However, the fact remained that recovery percentage decreased consistently during the last five years.

Main reasons for lower percentage of recovery of dues as analysed in audit were irregular disbursements and delay in disposal of the units in the possession of the Company (refer to para nos. 2.2.7, 2.2.8, 2.2.9, 2.2.10, 2.2.11, 2.2.12 and 2.2.13 *supra* and 2.2.17 *infra*).

Age-wise analysis of overdues

2.2.16 The age-wise analysis of overdues as on 31 March 2003 was as under:-

Sl. No.	Age of overdues (months)	Number of units	Principal	Interest	Total
			(Rupees in crore)		
1	Up to 6	27	2.17	0.67	**2.84**
2	6-24	16	3.05	3.28	**6.33**
3	24-36	6	2.63	1.24	**3.87**
4	36-60	25	13.53	7.49	**21.02**
5	60 and above	43	26.74	27.86	**54.60**
	Total	**117**	**48.12**	**40.54**	**88.66**

From the above, it would be seen that out of Rs. 88.66 crore, Rs. 75.62 crore were more than 3 years old constituting 85 *per cent* of the total overdues, which reflects poor recovery of old overdues.

An analysis of the records relating to disbursement of loan from April 1995 revealed that a sum of Rs. 31.98 crore (principal: Rs. 11.79 crore and interest: Rs. 20.19 crore) which constituted 36.07 *per cent* of total overdues were recoverable from nine units which had not paid even a single instalment and in three cases involving Rs. 8.35 crore (principal: Rs. 3.33 crore, interest: Rs. 5.02 crore) only one instalment was paid and after that repayment was discontinued.

Possession of units

2.2.17 Section 29 of SFC Act, 1951 empowers the Company to acquire the possession of the loanee unit and dispose of the same to recover its dues in case the unit fails to repay the dues. The number of units in possession increased from 10 (Rs 5.17 crore) in 1997-98 to 19 (Rs 16.21 crore) in 2002-03. It was noticed in audit that the increase in number of units was due to delayed/non-disposal of assets at the assessed value despite holding frequent auctions. The Company had incurred an expenditure of Rs. 1.58 crore during April 1998 to December 2002 on the security of the assets of the units in possession. Delay in disposal not only resulted in locking up of funds but the amount to be realised also increased to the extent of expenditure so incurred on security. Further, the condition of assets taken over deteriorated substantially with the passage of time.

The management and the Government stated (July and August 2003) that while taking a pragmatic view, an assets sale committee has been constituted for sale of assets at market value.

Irregular disbursement of loan and delay in disposal of the unit

2.2.18 The Company sanctioned (4 October 1995) a bridge loan of Rs. 1.50 crore against working capital to Riba Textile Limited, Panipat (unit)* for a period of three months with the stipulation that the unit would furnish a lien letter from bankers that the amount of working capital would be deposited with the Company for adjusting bridge loan. The bank, however, informed (20 October 1995) the Company that the project was under implementation and working capital requirement of the unit would be assessed/worked out as soon as the project would be nearing completion. Subsequently, on the request of the unit the proposal for obtaining lien letter from bankers was relaxed under the orders of MD. The amount of loan was disbursed during October 1995 and December 1995 after obtaining collateral security of Rs. 2.10 crore.

Since the validity of loan expired in January 1996, the unit requested (23 April 1996) the Company to extend it up to 15 June 1996 on the plea that the bank had not sanctioned working capital limit. The Company recalled the entire loan on 24 April 1996 but took no action to take over the collateral security. The unit requested (December 1997) the Company to convert their bridge loan of Rs. 1.50 crore into working capital term loan with an assurance to clear interest on bridge loan during 1997-98 subject to waiver of penal interest and all penalties levied thereon. The Company sanctioned (March 1998) working capital term loan of Rs. 1.50 crore. The loan was to be repaid in three and half years in quarterly instalments without any moratorium period. Out of this disbursement, an amount of Rs. 1.49 crore (principal: Rs. 60.81 lakh, interest: Rs. 85.53 lakh and interest tax: Rs. 2.16 lakh) was adjusted against the outstanding bridge loan of Rs. 2.62 crore as on 31 March 1998. The Company also waived of penal interest of Rs. 24.20 lakh since beginning to March 1998,

* Promoter: Shri Ravinder Garg.

leaving a sum of Rs. 85.19 lakh as principal of bridge loan after adjustment of Rs. 4.00 lakh received from the unit.

Due to continuous default, the Company took (June 2001) deemed possession of the unit. However, the unit was allowed to continue production and the expenditure on security at rate of Rs. 12,101 per month was being incurred by the Company. Total recoverable amount as on 28 February 2003 accumulated to Rs. 5.01 crore (inclusive of Rs. 1.34 crore overdue against other two loans). Actual physical possession of the primary security/collateral security was not taken to realise the huge amount of Rs. 5.01 crore.

The Company and the Government stated (July and August 2003) that the deemed possession of the unit was taken to put pressure over the unit to make payments as per its commitments. The reply was to be viewed in the light of the fact that due to inaction on the part of the management in taking actual possession, the recoverables from the unit had been increasing constantly.

Equity participation

2.2.19 Under the scheme of equity participation, the Company participates in the equity of new entrepreneurs to enable them to mobilise the required equity capital for the project at the initial stage. Under the scheme, the Company invests in equity capital of public limited companies having project cost above Rs. 3 crore and registered office in the State. The private promoters are required to contribute not less than 25 *per cent* of the paid-up capital of the unit.

The Company had invested Rs. 40.19 crore as on 31 March 2003 in the equity share capital of 69 units under joint/assisted sector. As per terms of financial collaboration agreement, at the time of buy back by the collaborator, the price to be paid shall be the highest of the following:

- issue price of the shares plus simple interest for the period at the lowest normal lending rate of interest on term loans under refinance scheme of IDBI prevailing at the time of first issue of share to the Company under the agreement; or

- the highest price of shares ruling on any of Indian Stock Exchanges for a period of two months preceding the date in which the collaborator ought to purchase the shares held by the Company as provided in clause above; or

- assessed value of the shares as determined by the Auditors of the unit on the basis of its net worth on the date of sale of the shares.

Following shortcomings were noticed in the implementation of equity participation scheme:

Disinvestment

2.2.20 In order to overcome difficulties in disinvestment of its equity, the Company introduced (July 1999) one time settlement (OTS) scheme where buy back of shares was accepted at face value, book value or market value, whichever was higher depending upon merits of each case. Up to 31 March 2003, the Company had disinvested its investment fully in 26 units and partly in six units. Of these, in the disinvestment of 13 units during five years up to 31 March 2003, the Company had foregone Rs. 4.32 crore of its dues in eight units as follows:

Particulars	Number of units	Amount due as per buy back agreement	Amount actually received	Amount foregone
		(Rupees in crore)		
Disinvestment at face value of shares	2	2.54	1.19	1.35
Disinvestment below due amount	6	8.03	5.06	2.97
Total	**8**	**10.57**	**6.25**	**4.32**

The Company had foregone Rs. 4.32 crore in eight units, disinvested besides waiving of Rs. 4.66crore in seven cases under OTS.

The Company further approved seven cases under OTS for Rs. 2.77 crore against the due amount of Rs. 7.43 crore as per buy back agreements, thereby foregoing Rs. 4.66 crore.

Further disinvestments of Rs. 9.57 crore in 29 cases had become overdue. The position of these cases has been discussed below:

- Recovery certificates had been issued (July 2000 to August 2002) in 22 cases for recovery of outstanding dues of Rs. 39.23 crore. This represented 67 *per cent* of the total overdue of Rs. 58.80 crore as on 31 March 2003. Chances of recovery through this route were remote.

- In three cases, Rs. 12.48 crore became due during 1993-2002 but no steps had been taken except issue of show cause notices/reminders to the units.

- Four units stood closed since long against which Rs. 2.50 crore were outstanding since 1985-95 and whereabouts of the co-promoters of these units were not known. Hence, chances of recovery of this amount were remote.

It was further observed that investment of Rs. 55 lakh in two units (Innovative Teck Pack Limited and Golden Laminates Limited) was in contravention of the standard terms of financial collaboration agreement of assisted sector as the contribution by co-promoters was less than 25 *per cent* of the equity of the unit.

The Company and the Government stated (July and August 2003) that due to mismanagement, lack of knowledge, severe competition, prevailing global recession, most of the units were forced to close down their operations. The promoters were avoiding fulfilling their commitment in terms of agreement. In view of this, decision was taken (January 1999) to consider settlement of equity buy back on the merits of each case. However, the fact remained that the Company had been incurring heavy losses on this equity.

Doubtful recovery

2.2.21 Promoter of Kool Breweries Limited, (unit)* requested (February 2000) the Company for equity participation of Rs. 3.50 crore in its project for manufacture of beer at Dharuhera which was to commence production from April 2000. The BOD accorded approval in March 2000. Accordingly, an assisted sector agreement was entered into (April 2000) with the promoter for equity participation. The disbursement was made from May 2000 to August 2001. As per buy back clause of the agreement, the buy back was due in May 2003 i.e., three years after first disbursement. However, the unit could not commence commercial production (July 2003) and as such chances of buy back of shares were remote.

The management and the Government stated (July and August 2003) that commercial production was expected to start by September 2003 and thereafter the promoter had promised to furnish buy back proposal. However, the commercial production did not start by September 2003.

Doubtful recovery due to lack of timely action

2.2.22 An assisted sector agreement was signed (29 September 1993) between the Company and Shri N. K. Modi, on behalf of Modi Steel Limited for setting up an industrial project at Gurgaon under the name of Jersy India Limited. However, personal guarantee of Mr. Modi and other directors in the shape of immovable properties was not obtained so that such properties were not alienated till the shares were bought back.

As per the agreement, the Company released Rs. 58 lakh in the equity of this project which started its commercial production in 1994. As per the terms of buy back agreement, the co-promoter was required to purchase the equity shares in September 1999. In between, the management of the unit changed (1996) and the unit went to BIFR in 1997. However, Company's nominee director in the unit did not bring these facts to the notice of the Company, so as to recall the equity capital from the unit. In September 1999, Shri N. K. Modi of Modi Steel refused to honour the commitment on the plea that he was no more on the board of Modi Steel Limited.

Thus, failure of the Company to ensure personal guarantee of the directors and the change of status in management of the unit had put the recovery of Rs. 2.85 crore at stake. The management stated (July 2003) that action against

* Promoter: Shri Damanjit Singh.

the defaulting officers could not be taken due to untimely death of Head of Department of equity branch. The reply was endorsed by the Government in August 2003. Reply was not tenable as the action could have been completed by his successor.

Investment banking

2.2.23 The Company decided (September 1994) for equity participation under institutional quota of public issue of good companies with a view to earn good return i.e. minimum 24 *per cent*. Details of investment and dividend received there against during the last five years are detailed below:

Against the expected return of 24 *per cent* on equity investment, the Company earned return ranging between 0.25 and 1.08 *per cent* during last five years ended March 2003.

Year	Number of units	Investment	Dividend received	Percentage
		(Rupees in crore)		
1998-99	13	2.77	0.03	1.08
1999-2000	13	2.77	0.02	0.72
2000-01	13	2.77	0.02	0.72
2001-02	13	2.77	0.007	0.25
2002-03	13	2.77	0.007	0.25

The Company was holding investment of Rs. 2.77 crore in 13 companies, the market value of which was only Rs. 52.07 lakh as on 31 March 2003. Besides, erosion of over 81 *per cent* in investment, the return on investment decreased from 1.08 *per cent* during 1998-99 to 0.25 *per cent* during 2002-03.

It was further observed (December 2002) in Audit that in nine cases, the shares were not quoted in any stock exchange. Out of these, one unit was closed and registered with BIFR and two units were in the possession of HFC/the Company under Section 29 of SFC Act, 1951 for recovery of term loan. One project with investment of Rs. 25 lakh in 1995-96 had not been implemented so far. As such, chances of any return from these investments were remote.

Conclusion

The Company was incorporated to provide financial assistance to medium and large industrial units for industrial development of the State. Relaxing the terms of sanction of loans while making disbursements and inadequacy of recovery system led to heavy incidence of Non Performing Assets and locking up of funds. Further, failure of the Company to apply its own laid down procedure in accepting the documents relating to collateral security contributed in accumulation of arrears. There was delay in disposal of the units in its possession resulting in decrease in realisable value.

In order to streamline the procedure of sanction and disbursement of loans, the Company should strictly enforce the laid down procedure for acceptance of collateral security. The legal and disbursement wings of the Company should be involved in physical and legal verification of documents and assets furnished as collateral security. The Company should avail the services of reputed firms to assess the realistic value of the collateral security before accepting it. The Company should also adopt a pragmatic approach in disinvestment of its equity and disposal of units in its possession. Cases where collateral security was accepted at inflated value should be investigated and responsibility fixed.

2.3 Haryana Tourism Corporation Limited

Highlights

The Haryana Tourism Corporation Limited (Company) was incorporated in May 1974 with the main objective to promote tourism in the State.

(Paragraph 2.3.1)

Due to non-closure of unviable complexes, low occupancy, excess food, fuel and electricity cost and poor performance of bars, the Company suffered continuous losses of Rs. 17.46 crore in its core activities (accommodation, catering and liquor) during the five years up to 31 March 2002.

(Paragraph 2.3.6)

Due to low occupancy, 14 out of 42 complexes had consistently incurred losses, which accumulated to Rs. 2.70 crore during the five years up to 31 March 2002, of which the Company closed only four complexes.

(Paragraph 2.3.9)

During 1997-2002 the occupancy in 25 to 30 out of 42 to 44 complexes was below the accepted norm of 60 *per cent* resulting in shortfall of potential revenue of Rs. 10.17 crore. Of these 15 complexes accounted for 85 *per cent* of the shortfall in potential revenue earnings.

(Paragraph 2.3.12)

Due to high cost of food, fuel and electricity, the operational loss in catering activity amounted to Rs. 4.35 crore during the last five years up to 31 March 2002. The actual cost of food, fuel and electricity in excess of norms resulted in extra expenditure of Rs. 2.21 crore during the five years up to 31 March 2002.

(Paragraph 2.3.14 to 2.3.17)

Due to high food, electricity and salary cost, four fast food counters suffered loss of Rs. 56.99 lakh during the five years up to 31 March 2002.

(Paragraph 2.3.18)

Due to non-availability of popular brands and fixation of higher rates of liquor, three to 16 liquor bars suffered loss of Rs. 56.91 lakh during the four years up to 31 March 2002.

(Paragraph 2.3.20)

Due to delayed repatriation of deputationists and retention of surplus staff, the construction wing incurred continuous losses of Rs. 1.64 crore on account of salary cost during the five years up to 31 March 2002.

(Paragraph 2.3.24)

Introduction

2.3.1 Haryana Tourism Corporation Limited was incorporated on 1 May 1974 with a view to promote tourism in the State. At the time of formation of the Company, the State Government transferred 27 commercial (restaurants, bars, petrol pumps and liquor shops etc.) and 13 non-commercial (rest houses, hotels and huts etc.) units to the Company to make it directly responsible for running and maintenance of the commercial units and to work as an agent of the State Government for non-commercial units.

The Haryana Hotels Limited (HHL), a wholly owned subsidiary of the Company incorporated (1982) was merged (April 1997) with the Company for better financial management and to avail of the benefit of its carried forward losses etc.

The Company operated 42 to 46 complexes during 1997-02 of which 40 to 43 complexes were having both commercial and non-commercial activities. The Company closed five[*] tourist complexes and opened three[**] new complexes during the last five years ended March 2002.

Inflow of tourists increased from 0.59 crore (foreign: 0.60 lakh and domestic: 58.72 lakh) in 1997-98 to 0.65 crore (foreign: 1.09 lakh and domestic: 63.57 lakh) in 2001-02 and correspondingly the turnover increased from Rs. 18.78 crore to Rs. 31.74 crore.

[*] Abubshehr, Chandigarh, Meham, Mussorie and Sonepat.

[**] Hansi, Pehowa, and Rai.

Objectives

2.3.2 The main objectives of the Company are:

- to purchase, acquire and administer restaurants, bars, liquor vends, bonded warehouses, cafeterias, petrol pumps, emporia, tourist bungalows, hotels, huts, motels, guest houses, entertainment projects and other places of tourist interests in the State and elsewhere;
- to provide entertainment by way of cultural shows, excursions, sight seeing trips for tourists; and
- to promote establishments, undertakings and enterprises connected with activities of tourist interest.

In pursuance to the above objectives the Company had undertaken the following activities:

- operating a chain of tourist complexes with catering and accommodation facilities;
- organising tourist trade fairs and melas;
- running of wholesale liquor depot and liquor bars;
- undertaking construction and consultancy activities; and
- running of petrol pumps.

Organisational set up

2.3.3 The management of the Company is vested in a Board of Directors (BOD) consisting of not less than two and not more than 11 directors including a Chairman and a Managing Director (MD), who were nominated/appointed by the State Government. The MD was the Chief Executive of the Company and was assisted in day-to-day work by three General Managers, a Chief Accounts Officer and a Company Secretary. As on 31 March 2003, there were 10 directors including one whole time director (MD) and six part time ex-officio and three non-official directors (including Chairman). A non-official director had been holding the post of Chairman since 8 October 1999. Prior to this, the Tourism Minister and Commissioner and Secretary Tourism held the post of part time ex-officio Chairman.

During 1998-2003, the State Government appointed 11 MDs. The period of incumbency ranged from 15 days to 12 months, thereby impeding the pursuit of a firm, stable and consistent approach in management.

Scope of Audit

2.3.4 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 (Commercial)-Government of Haryana. The review was discussed by the Committee on Public Undertakings (COPU) and their recommendations are contained in the 48th Report presented to the State Legislature on 15 March 2001. COPU recommended that the tariff structure of complexes be rationalised to attract more tourists and other effective measures be taken to improve the occupancy of the complexes. However, the actions taken by the Company were not adequate and commensurate with the recommendations made by COPU, as discussed in paragraph 2.3.11 (*infra).*

The present review conducted during 8 October 2002 to 7 March 2003, covers the performance of the Company for the last five years ending March 2002. Audit findings as a result of test check of records of head office and 21* (out of 42) tourist complexes (12 profit making and nine loss making complexes) were reported to the Government/Company in May 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/Management was taken into account before finalising the review. The meeting of ARCPSE was held on 14 July 2003 which was attended by the Managing Director of the Company.

Capital structure

2.3.5 The Company was registered with an authorised share capital of Rs. five crore which was increased to Rs. 10 crore (1987-88), Rs. 15 crore (1993-94) and Rs. 20 crore (2000-01). Against the authorised share capital of Rs 20 crore, the paid-up capital of the Company as on 31 March 2002 was Rs. 15.73 crore wholly subscribed by the State Government.

Financial position and working results

2.3.6 The Company has divided its activities into core (accommodation, catering and liquor) and non-core (leasing, gate entry fee, parking fee, boating and petrol pump). Core activities are directly related to tourism and non-core activities are ancillary to the tourism. The accounts of the Company for the year 1999-2000 and onwards were in arrears (July 2003). The financial position and working results of the Company based on provisional accounts (except 1997-98 and 1998-99) for the five years up to 2001-02 are given in

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* Profit making (12) complexes: Ambala, Faridabad (2 units), Hissar (Blue Bird), Karnal Oasis, Panchkula, Panipat, Pinjore, Surajkund (3 units), Tilyar Rohtak.

Loss making (9) complexes: Hissar (Flamingo), Karnal (Karna Lake), Mansa Devi, Morni, Myna Rohtak, Pehowa, Pipli, Sirsa, Yamunanagar.

Annexure-11. The activity-wise and overall profitability of the Company is given below:

Year	Loss from core activities	Profit from non-core activities	Net profit/ loss (-)
(Rupees in lakh)			
1997-98	302.88	253.13	(-) 49.75
1998-99	149.71	276.96	127.25
1999-2000	437.58	315.61	(-) 121.97
2000-01	485.98	378.96	(-) 107.02
2001-02	370.17	414.91	44.74
Total	**1,746.32**	**1,639.57**	

The Company earned profits from its non-core activities but it suffered continuous losses of Rs. 17.46 crore from its core activities.

From the above table, it would be seen that the Company suffered losses (Rs 17.46 crore) continuously from its core activities and earned profits (Rs 16.40 crore) from its non-core activities during the last five years ended 31 March 2002.

The losses were attributable to non-closure of unviable complexes, low occupancy, excess food, high fuel and electricity cost and poor performance of bars.

Inadequate marketing

2.3.7 The Company received financial assistance for advertisement and publicity from the State Government on year-to-year basis as per the demands submitted by the Company through Tourism Department.

The State Government sanctioned/released Rs. 70.75 lakh during the five years ended March 2002. The Company, however, had not submitted any demand for funds during 1998-99 and 2000-01 as the funds received in 1997-98 (Rs 28.75 lakh) and 1999-2000 (Rs 30 lakh) were not utilised in the same year. It was also observed in audit that the Company itself reduced (May 2001) the demand to Rs. 12 lakh in the year 2001-02 as compared to Rs. 30 lakh received in 1999-2000 for which no reasons were on record.

Audit noticed that the expenditure on advertisement during 1997-2002 was negligible compared to the turnover of the Company and ranged between Rs. 20.18 lakh and Rs. 24.25 lakh, which was 0.15 *per cent* and 0.23 *per cent* of sales. Thus, the Company did not make serious efforts to concentrate on marketing.

The management stated (July 2003) that the Company got a meagre amount from the State Government for marketing and publicity. The reply was not tenable because the Company received funds from State Government as per the demands of the Company from time to time.

An interesting case noticed in audit is discussed below:

Non-availment of sponsoring amount for marketing activities

2.3.8 The Company invited (April 2001) tenders for exclusive selling rights for supply of aerated cold drinks in all its tourist complexes during

15 May 2001 to 14 May 2002. The suppliers were asked to indicate the rates separately for sole selling rights along with their offer of sponsoring amount. Kandhari Beverages Limited, Chandigarh was awarded (18 May 2001) the contract for exclusive rights for supply of coke in all the complexes of the Company and was asked to pay a lump sum sponsoring amount of Rs. 20 lakh. The supplier, however, clarified (28 May 2001) that it was not possible to provide the marketing support amount as upfront cash and amount would be spent directly as per mutual agreement on marketing activities as already agreed in its offer. Accordingly, the Company conveyed (18 June 2001) the amended clause and the date of commencement of the agreement was extended to 25 June 2001.

The supplier deposited (18 August 2001) Rs. one lakh with the Company as reimbursement of expenditure for Mango Mela Festival. As no further sponsoring programmes took place with mutual consent, the Company in departure from the agreed terms asked (20 September 2001) the firm to deposit balance amount of Rs. 19 lakh in cash within seven days. As the Company's demand was not as per agreement, the supplier refused to pay Rs. 19 lakh. The Company thereafter cancelled the contract on 17 January 2002.

Thus, an abrupt decision to ask for upfront cash from the supplier instead of formulating programmes with mutual consent as per terms of agreement had deprived the Company from an opportunity to spend and claim Rs. 19 lakh on account of expenditure on marketing activities.

The management stated (July 2003) that the supplier violated the terms and conditions of the contract and also failed to deposit the amount of Rs. 20 lakh on account of sponsoring amount. The reply was not tenable as the sponsoring amount was not to be received as upfront cash which, however, was to be spent with the mutual agreements with the Company/Supplier.

Performance of tourist complexes

2.3.9 One of the main objectives of the Company is to administer restaurants, bars, petrol pumps, hotels, huts, motels, guest houses and other places of tourist interests in the State and elsewhere. Accordingly, the Company operated 42 to 46 tourist complexes during 1997-2002 of which 40 to 43 complexes were having both commercial and non-commercial activities. The Company closed five[#] tourist complexes during 1997-2002 and opened three[*] new complexes and re-opened (December 1998) the complex at Fatehabad. The operational performance of tourist complexes of the Company

[#] Abubshehr, Chandigarh, Meham, Mussoorie and Sonepat.

[*] Hansi, Pehowa and Rai.

is summarised as under:

Year	Number of working complexes	Total operational surplus (excluding depreciation and overheads) (Rupees in lakh)	Units which earned profit			Units which incurred losses		
			Number	Percentage of total units	Amount (Rupees in lakh)	Number	Percentage of total units	Amount (Rupees in lakh)
1997-98	43	589.80	24	56	529.36	19	44	54.22
1998-99	45	696.65	25	56	626.62	20	44	63.71
1999-2000	45	513.64	19	42	368.61	26	58	143.73
2000-01	46	654.49	22	48	535.77	24	52	112.00
2001-02	42	862.82	25	60	797.79	17	40	62.48

Consistent losses in 14 complexes accumulated to Rs. 2.70 crore.

A review of loss making complexes revealed that 14[*] complexes set up during 1974 to 1995 had been consistently running in losses, which accumulated to Rs. 2.70 crore during the last five years ended March 2002. The Company closed only four[**] loss making complexes during June 2000 to February 2001. No review of the remaining 10 loss making complexes was made by the Company.

Further, Audit noticed irregularities in one loss-making tourist complex as under:

Puffin Tourist Complex, Chandigarh

2.3.10 The Company was running the complex at Chandigarh in a residential building taken on lease from a private party since July 1981. The Company, however, decided (13 November 1998) to convert the complex into guest house on the directions of Chandigarh Administration. The BOD approved (January 1999) the running of complex as guest house subject to review of its working after 31 March 1999. The working was belatedly reviewed in March 2000 wherein the BOD was informed that the guest house was used by large number of guests of the Company/Government of Haryana whereupon the BOD decided to continue the guest house. Audit noticed that occupancy of the guest house was only 2 *per cent* and the guest house incurred a loss of Rs. 7.45 lakh during 1999-2000. But this fact was not brought to the notice of the Board. The Divisional Manager (DM) of the complex informed (December 2000) the Company that the guests did not stay at guest house due to non-availability of food. The guest house was finally closed in February 2003.

[*] Abubshehr, Asakhera, Bhiwani, Dharuhera, Fatehabad, Jind, Jyotisar, Kala Amb, Meham, Mussoorie, Narwana, Rewari, Sirsa and Sonepat.

[**] Abubshehr, Meham, Mussoorie and Sonepat.

Thus, delay in review and concealment of facts regarding low occupancy and loss contributed to the continuation of the complex which had resulted in an avoidable loss of Rs. 11.39 lakh from April 2000 to March 2002 on account of salary, rent and electricity etc. in comparison to negligible income of Rs. 0.13 lakh.

The management stated (July 2003) that it was not fair to term the expenditure as loss since it was a guest house for use of the staff and was run on non-commercial basis. The reply was not tenable as the facts regarding low occupancy and losses of the guest house were not brought to the notice of the BOD due to which it took a decision for continuing with the guest house and thus incurred further loss.

Accommodation

Operation of motels

2.3.11 The Company operated 42 to 44 motels during the last five years ended 31 March 2002, which were having 777 rooms with 1,695 beds as on 31 March 2002.

The working results of these motels (excluding hotel, motels and huts at Surajkund) are summarised as under:-

Year	Income	Expenditure	Loss
	(Rupees in lakh)		
1997-98	496.34	617.59	121.25
1998-99	599.95	695.16	95.21
1999-00	595.48	739.32	143.84
2000-01	643.78	843.69	199.91
2001-02	731.65	868.71	137.06
Total	**3,067.20**	**3,764.47**	**697.27**

It was observed in audit that continued losses of motels were due to low occupancy as discussed below:

Occupancy ratio

2.3.12 The Company had neither fixed any targets for occupancy ratio nor worked out break-even point to run its motels. A summarised break-up of the occupancy ratio of motels for the last five years ended March 2002 is given below:

Occupancy	Number of motels				
	1997-98	1998-99	1999-2000	2000-01	2001-02
Less than 20 *per cent*	3	1	4	2	-
Between 20 and 39	8	13	12	15	9
Between 40 and 59	14	12	14	13	18
Total (below 60)	**25**	**26**	**30**	**30**	**27**
Between 60 and 79	10	10	9	7	7
80 *per cent* and above	7	8	5	7	8
Total	**42**	**44**	**44**	**44**	**42**

Low occupancy ratio resulted in shortfall of potential earnings of Rs. 10.17 crore.

It would be seen from the above table that the occupancy in 25 to 30 complexes was below the acceptable norm of 60 *per cent* in the hotel industry. The total shortfall of potential earnings in these motels as compared to acceptable norm worked out to Rs. 10.17 crore. It was further observed that 15* motels whose occupancy was consistently less than the acceptable norm of 60 *per cent* in all the five years ended 31 March 2002 suffered loss of Rs. 8.68 crore which constituted 85 *per cent* of the total shortfall of earnings (Rs 10.17 crore) during the period. The low occupancy was due to setting up of the motels without any feasibility study, lack of publicity, irrational increase in and subsequent decrease in tariff and lack of facilities like credit cards and STD etc. despite recommendations (March 2001) of the COPU to take effective measures to improve the occupancy of the motels. Audit further noticed that the low occupancy (below 60 *per cent*) has increased significantly in 59 to 68 *per cent* motels during 1997-02 as compared to low occupancy in 34 to 50 *per cent* motels during 1991-96 (last review period).

The management stated (July 2003) that the acceptable norm of 60 *per cent* occupancy in hotel industry was not true. The reply was not tenable as the Tourism Corporations of other States while preparing financial viability of proposed new complex envisaged to achieve 60 *per cent* occupancy.

Dormitory accommodation

Occupancy in dormitory accommodation of seven complexes ranged between zero and 33 *per cent* only.

2.3.13 The Company constructed (December 1992 to November 1993) dormitory type budget accommodation at nine** tourists complexes. Out of nine, dormitory accommodation at eight complexes was made available to tourists for use during November 1993 to December 1996. The dormitory facility at Hodal complex (cost: Rs. 6.46 lakh), which was constructed in February 1993, had not been opened to tourists (July 2003) for which no

* Asakhera, Damdama, Dharuhera, Golf Course Faridabad, Hodal, Jind, Karnal, Kala-Amb, Morni, Narwana, Panipat, Rohtak (Tilyar), Rewari, Surajkund (Hotel Raj Hans) and Yamuna Nagar.

** Ambala, Bhadurgarh, Damdama, Dharuhera, Faridabad, Hodal, Karnal, Rohtak and Sultanpur.

reasons had been assigned by the management. Occupancy of dormitory accommodation of seven complexes ranged between zero (three complexes) and 33 *per cent* during the last five years ended March 2002. The low occupancy was due to location of dormitory accommodation in the remote corners of the complexes. The management accepted the audit observation and stated (July 2003) that the Company had decided the alternate use of budget accommodation in the form of staff quarters, stores, offices etc. The fact remained that the purpose of providing cheaper accommodation to tourists had been defeated.

Catering

2.3.14 The table given below indicates the number of units, which suffered operational loss in catering activity during the last five years up to 2001-02:

Year	Total number of operational units*	Number of units suffered operational loss	Operational loss (Rupees in lakh)
1997-98	43	18	60.22
1998-99	45	18	73.49
1999-2000	45	24	128.94
2000-01	46	23	97.09
2001-02	42	16	75.75
Total			**435.49**

It would be seen that 16 to 24 (out of 42 to 46) complexes suffered an operating loss of Rs. 4.35 crore during the last five years up to 2001-02. Nine** complexes had consistently been in losses during the last five years ended 31 March 2002. It was seen in audit that losses were due to high food, fuel and electricity cost etc., as discussed below:

Food cost in restaurants

Food/fuel/electricity cost in excess of norms resulted in extra expenditure of Rs. 2.21 crore.

2.3.15 The Company had been maintaining catering facilities at 42 to 46 complexes during the last five years ended March 2002. In view of the location and sale, the Company categorised its complexes in four categories A, B, C and D. The Company fixed (January 1997) the percentage of food cost to its sale price at 35, 40, 40 and 45 for A, B, C and D category complexes, respectively.

Based on the norms fixed in January 1997, it was noticed in audit that actual food cost was more than the norms in six complexes in 1997-98 (A category 2, B category 1, C category 2 and D category 1), eight complexes in 1998-99

* All the units were providing catering service.

** Asakhera, Bhiwani, Dharuhera, Jind, Jyotisar, Kala Amb, Mansa Devi, Morni, and Narwana.

(A category 2, B category 4, C category 1 and D category 1), five complexes in 1999-2000 (A category 1, B category 2, C category 2), eight complexes in 2000-01 (A category 2, B category 3, C category 3) and six complexes in 2001-02 (A category 2, B category 2, C category 2) and ranged between 36 and 68 *per cent*. The actual food cost in excess of norms during the five years up to March 2002 resulted in extra expenditure of Rs. 8.78 lakh.

The management attributed (July 2003) high food cost to quantum of sales, location of unit and type of food items etc. The contention of the management was not tenable as the food cost norms for different categories of the complexes were fixed keeping in view all these factors.

Fuel Cost

2.3.16 The percentage of fuel cost to turnover was fixed (May 1993) at 4 for 'A' category and 5 for 'B' category tourist complexes and no norms had been fixed for C & D category complexes. Fuel cost norms in Orissa Tourism Development Corporation Limited, Rajasthan Tourism Development Corporation Limited and Punjab Tourism Development Corporation Limited was 3, 3 and 4 *per cent* respectively.

It was noticed that actual fuel cost was more than the norms fixed by the Company at 27 complexes in 1997-98, 19 complexes in 1998-99, 25 complexes in 1999-2000, 32 complexes in 2000-01 and 25 complexes in 2001-02 and ranged between 4.08 and 19.35 *per cent* in excess of the norm. The fuel cost in excess of norms for the last five years up to March 2002 amounted to Rs. 42.91 lakh.

The management attributed (July 2003) excess fuel cost to upward revision in prices of all types of fuel, different eating points in one complex, low sales and types of dishes sold. The reply was not tenable as the norms were fixed for different categories of the complexes keeping in view all these factors. However, the management agreed to review both food and fuel cost norms in near future.

Cost of electricity

2.3.17 The Company had not fixed any norms for consumption of electricity for its tourist complexes. It was observed that Punjab Tourism Development Corporation Limited fixed the electricity cost norms at 4 to 6 *per cent* of the turnover for its complexes.

It was noticed that the percentage of actual electricity cost to turnover ranged between 10.38 and 40.95 in 21 complexes in 1997-98, 10.18 and 24.04 in 15 complexes in 1998-99, 10.28 and 59.06 in 15 complexes in 1999-2000, 10.46 and 45.75 in 21 complexes in 2000-01 and 10.18 and 38.55 in 12 complexes in 2001-02 which was abnormally high. It was observed in audit that the abnormal consumption of electricity was due to ineffective control/supervision and poor sales performance of the complexes.

The electricity cost in excess of 10 *per cent* keeping in view higher tariff in the State resulted into extra expenditure of Rs. 1.69 crore during the last five years up to March 2002. The management stated (July 2003) that it would make an attempt to fix the norms in near future.

Performance of fast food counters

Four fast food counters suffered loss of Rs. 56.99 lakh.

2.3.18 The Company operated four to six fast food counters (Panipat, Karnal, Pipli, Rohtak, Dharuhera and Hodal) during the last five years up to 31 March 2002. Financial viability of these counters was not analysed by the management. Separate accounts in respect of two fast food counters (Panipat and Karnal) were also not maintained, in the absence of which the efficiency of these counters could not be monitored. However, in respect of other four fast food counters where separate accounts were maintained the Company suffered loss of Rs. 56.99 lakh during last five years ended March 2002. Two fast food counters (Dharuhera and Pipli) incurred losses consistently during last five years ended March 2002. The Company closed down (August 2002) the fast food counter at Dharuhera. From the review of accounts of fast food counters, it was noticed that the losses were mainly due to excess food, salary and electricity cost etc.

The management accepted the audit observations and stated (July 2003) that efforts were being made to bring the fast food counters in profits.

Non-recovery of service charges from food bills of parties

2.3.19 Under the terms and conditions finalised (July 1995) by the Company, service charges of 10 *per cent* of the amount of food bill of the parties arranged at Hotel Raj Hans, Surajkund were to be levied.

It was noticed in audit that the incharge of the hotel waived of 10 *per cent* service charges in 325 cases during 1997-98 to 2002-03 (up to December 2002) without taking approval of head office resulting in loss of Rs. 8.04 lakh.

The management stated (July 2003) that the charging of 10 *per cent* service charges was basically a discretion of the General Manager of hotel and no approval was required from head office for its non-charging. The reply was not tenable as BOD decided (27 June 1996) that the clause of service charges at hotel Raj Hans would not be applicable in case of parties of blood relation of the officers of the Company.

Performance of liquor activities

2.3.20 After lifting of prohibition of liquor in the State from 1 April 1998, the Company operated 29 to 39 bars during 1998-2002. The Company had not maintained separate accounts of its bars. Audit observed that out of 29 to 39 bars, 3 to 16 bars had been incurring losses during 1998-2002, as given below:

Year	Total number of bars	Loss incurring bars			
		Number	Income	Expenditure	Loss
			(Rupees in lakh)		
1998-99	29	3	21.35	25.16	3.81
1999-2000	31	16	112.14	139.18	27.04
2000-01	39	16	62.29	78.44	16.15
2001-02	38	8	26.73	36.47	9.91
Total			**222.51**	**279.25**	**56.91**

The loss of Rs. 56.91 lakh suffered in three to 16 bars excluded salary, electricity, ice and handling charges etc. Two bars at Pinjore and Fatehabad had been consistently incurring losses up to March 2002 and three bars (Damdama, Pinjore and Fatehabad) could not even meet the expenditure on account of licence fee during 1999-2000.

It was observed in audit that the losses were due to non-availability of popular brands of liquor and higher rates as compared with private bars.

The management stated (July 2003) that while fixing the bar rates, a comparison was normally made with the rates in private bars and it was the fact that the Company's rates were less than the rates of the bars in the private hotels. The reply was not tenable as the Divisional Managers of eight complexes pointed out during July 1998 to August 2001 that the Company's rates of liquor were higher than the rates of private bars.

Leasing of shops/sites

2.3.21 The Company had 146 leasable sites/shops as on 31 March 2003. The Company had been leasing out sites/shops located within buildings of tourist complexes through public auction.

The irregularities noticed in auction of shops/sites are discussed in the succeeding paragraphs:

Non-recovery of license fee

2.3.22 The Company allotted a health club site to the highest bidder for Rs. 5.50 lakh from 19 August 1999 to 31 March 2004 at Hotel Raj Hans, Surajkund. The contractor deposited Rs. 0.83 lakh (15 *per cent*) bid amount as security and Rs. 0.37 lakh (1/15th of bid amount) as first instalment at the fall of hammer. The contractor was required to deposit remaining amount in 14 equal quarterly instalments starting from 30 November 1999 to 30 November 2003 and in case of default, interest at the rate of 18 *per cent* per day for the default period for a maximum of 30 days was to be charged. Thereafter, the concerned Drawing and Disbursing Officer (DDO) of the hotel was to take over the possession of the site along with goods of the licensee, if any, to recover the balance amount outstanding.

The contractor became defaulter from the very beginning and did not pay the second instalment due on 30 November 1999. The DDO did not take possession of the site for more than two years and allowed the contractor to carry on operation at the site up to 31 March 2002.

Thus, due to inaction on the part of DDO to take the possession of site under terms and conditions of the agreement resulted in loss of Rs. 5.19 lakh on account of lease money, electricity charges and interest etc. No action had been taken by the Company against the concerned DDO (July 2003).

The management stated (July 2003) that the Company did not take over the premises from the contractor, as the club members would have been deprived of the facilities of health club. The reply was not tenable as the hotel could run the club itself as was being done by it prior to leasing and after taking over from the contractor in April 2002.

Avoidable loss

2.3.23 As per agreement (April 1998) for installation of hoardings at Dundahera for two years, Selvel Media Service Limited (licensee) was required to pay Rs. 49.22 lakh as lease rent for the first year (1998-99) in four quarterly instalments of Rs. 12.30 lakh starting from 15 April 1998 to 31 December 1998. For the subsequent year (1999-2000), the licensee was required to pay Rs. 54.16 lakh in four quarterly instalments of Rs. 13.54 lakh starting from 31 March to 31 December 1999. The licensee was also required to deposit a bank guarantee of 25 *per cent* of the total amount as security at the time of allotment of site.

The licensee furnished bank guarantee of Rs. 12.50 lakh against required guarantee of Rs. 25.84 lakh and deposited Rs. 49.22 lakh lease rental up to 5 March 1999 against due date of 31 December 1998. The licensee further deposited (May 1999) Rs. 4.51 lakh as a part payment against first instalment due in March 1999 and did not deposit Rs. 22.57 lakh due up to 31 August 1999. Meanwhile, Punjab and Haryana High Court banned (August 1999) the display of hoardings within 100 meters of national highway. The Company, however, did not contemplate to take over the site from the defaulter licensee immediately in view of the High Court orders.

Since the licensee defaulted in payment of lease rent (Rs 37.11 lakh) up to 30 September 1999 the Company, instead of invoking the bank guarantee approached (October 1999) the bank to withhold it on the plea that actual recovery from the licensee was being worked out. In the meantime, the licensee got (December 1999) a stay order from the court restraining the Company to encash the bank guarantee. It was further noticed that the licensee, continued to display its hoardings and deposited (February/March 2000) another Rs. 5.00 lakh as lease money. On failure of the contractor to deposit the balance lease money, the Company filed a claim for Rs. 44.63 lakh before an arbitrator, whose decision was awaited (March 2003).

Thus, failure of the management to obtain bank guarantee for the required amount and subsequent delay in invoking the available bank guarantee had deprived the Company of recovery of Rs. 25.84 lakh. Besides, lack of legal action by the Company to restrain the licensee from displaying hoardings resulted in violation of the court orders.

The management stated (July 2003) that the Company could not invoke the bank guarantee as it was restrained (December 1999) by the court to do it. The reply was not tenable as the Company failed to invoke bank guarantee after the licensee committed default in March 1999 which was much before the restraining order of December 1999.

Construction activity

Performance of Engineering Cell

2.3.24 The Company has its own Construction wing headed by a Chief Engineer. The wing had 97 employees (July 2001) including nine on deputation. It undertakes construction work of tourist complexes on behalf of State Tourism Department. It also undertakes deposit works of other Government organisations from time to time.

The wing prepares its separate profit and loss account and its performance for the last five years ended 2001-02 was as under:

(Rupees in lakh)

Year	Work done by the wing	Income of the wing	Expenditure of the wing	Loss
1997-98	200.06	37.62	64.53	26.91
1998-99	131.24	31.71	75.87	44.16
1999-2000	462.37	61.49	96.75	35.26
2000-01	365.52	57.11	91.25	34.14
2001-02	372.49	50.10	74.05	23.95
Total		**238.03**	**402.45**	**164.42**

High salary cost ranging from 76 to 83 *per cent* of total expenditure contributed to the loss of the construction wing.

Reasons for the losses as analysed in audit were mainly high cost of salary, which constituted 76 to 83 *per cent* of total expenditure and failure to obtain deposit works of other Government organisations. Even though work force was disproportionate vis-à-vis the workload, the Company did not identify the surplus staff earlier. However, at the instance (May 2001) of Haryana Bureau of Public Enterprises, the Company identified 10 of its officials as surplus. Nine other officers on deputation with it were repatriated (August 2001) to their parent departments. The Company had not taken any corrective measures for the remaining surplus staff.

The management stated (July 2003) that the engineering cell was not a commercial/profit-earning unit as it was getting departmental charges only from the State Government for deposit works. The reply was not tenable as the management could make strenuous efforts to bring economy in expenditure of the wing.

A few interesting cases are discussed below:

Execution of Central assisted projects

2.3.25 Government of India (GOI) had been granting financial assistance to State for augmentation of tourist infrastructure facilities, which was received by the Company through the State Government. The assistance was provided every year on the specific proposals from the State Government.

Table below indicates the details of projects and position of funds during the last five years ended March 2002.

Year	Projects					Amount			
	Sancti-oned	Comp-leted	In prog-ress	Drop-ped	Yet to be taken	Sanction-ed	Recei-ved	Yet to be Received	Expendi-ture
	(Number)					(Rupees in lakh)			
1997-98	1	1	-	-	-	32.77	32.77	-	32.77
1998-99	8	4	2	2	-	262.80	157.89	104.91	159.93
1999-2000	11	4	4	2	1	236.08	151.68	84.40	155.47
2000-01	3	-	2	1	-	47.15	26.50	20.65	12.36
2001-02	3	-	2	-	1	74.20	48.83	25.37	2.74
Total	**26**	**9**	**10**	**5**	**2**	**653.00**	**417.67**	**235.33**	**363.27**
Projects dropped	5	-	-	5	-	153.00	50.15	102.85	-
Total (Net)	**21**	**9**	**10**	**-**	**2**	**500.00**	**367.52**	**132.48**	**363.27**

From the above it would be evident that out of 26 projects sanctioned by GOI, the Company dropped five projects on feasibility grounds for which Rs. 50.15 lakh were yet to be refunded to GOI. The Company was yet to receive Rs. 1.32 crore due to delay in implementation of the projects. Audit further noticed that the Company could not receive Rs. 42.65 lakh for four delayed projects, sanctioned during 1991-97 as GOI decided (August 2001) to discontinue release of funds for these projects.

The management stated (July 2003) that the matter had been taken up with GOI for release of Rs. 42.65 lakh.

Execution of State assisted projects

2.3.26 As per policy decision of the State Government, the Company is required to issue equity share capital in lieu of the funds provided for construction of commercial buildings (restaurants, bars etc.) from time to time. The non-commercial buildings (accommodation) continued to be owned by the State Government. The State Government sanctioned Rs. 15.52 crore for 140 projects during the last five years up to 2001-02 whereas the Company could complete only 126 projects up to March 2003. The Company received Rs. 15.52 crore during the last five years up to 2001-02 against which Rs. 13.88 crore were spent and the remaining Rs. 1.64 crore were kept mainly in the term deposits. Further, eight projects were in progress (March 2003) and six projects were dropped during these five years and the Company refunded Rs. 17.10 lakh to the State Government besides diverting Rs. 36 lakh to other projects. Resultantly, the Company could not avail of the funds to be utilised for promotion of tourism in the State.

Further, the Company had taken up the work of 15 projects only in 2002-03 which were sanctioned during 1997-02 by the State Government.

The management stated (July 2003) that the delay in taking up the project was due to labour problem, non-availability of construction material, weather conditions, time spent in completion of the formalities like issue of tender in news papers, re-tendering on account of excessive cost or change of the contractor and some changes in the drawings during the construction.

Construction of fast food counter without proper survey of site

Setting up a fast food counter in the premises of petrol pump resulted in locking up of Rs. 38.21 lakh.

2.3.27 The Company got sanctioned (January 1997/July 2000) from GOI/State Government a project for setting up of a fast food counter at Hisar at an estimated cost of Rs. 38.21 lakh (Rs 26.79 lakh from GOI and Rs. 11.42 lakh from the State Government). The fast food counter was set up inside the premises of a petrol pump owned by the Company at Hisar at a cost of Rs. 38.21 lakh and the project was ready for commissioning in July 2001.

It was seen in audit that only ready to serve items like cold drinks, wafers etc. were sold and fast food counter had not become operational (March 2003) as the Indian Oil Corporation had not permitted the complex to use fire in the fast food counter, located in the proximity of petrol pump area, due to safety reasons.

Thus, the decision to set up the project without visualising the safety aspects resulted in locking up of funds of Rs. 38.21 lakh.

The Company accepted the audit observation and stated (July 2003) that some alternate use of the fast food counter was being explored.

Tourists melas and festivals

Accident in Surajkund Crafts Mela

2.3.28 The Surajkund Crafts Mela was being organised by the Surajkund Mela Authority of the State Government from 1 to 15 February every year for which the space was provided by the Company as member agency. Although the Company was providing the space free of cost yet it had not ensured that the Surajkund Mela Authority take adequate safety measures and compensate the Company against any incidental loss.

An accident occurred (11 February 2001) in the amusement area of Surajkund Mela killing four persons and injuring twelve persons due to collapse of a jhulla. At the instance of the State Government, Hotel Raj Hans, Surajkund of the Company released (13 February 2001) Rs. 10 lakh as ex-gratia assistance and spent Rs. 9.50 lakh on the treatment of the injured persons.

The Company, however, did not lodge claim for recovery of ex-gratia and medical expenses with the State Government. On being pointed out (9 May 2002) in audit, the Company filed (14 May 2002) a claim of Rs. 19.50 lakh with Tourism Department. The Department, however, turned down the claim stating (June 2002) that there was no budget provision for such type of expenditure and may be met from the mela funds or by the Company itself.

The management stated (July 2003) that a case had been sent to the State Government for reimbursement of the amount keeping in view the announcement made by the Hon'ble Chief Minister, Haryana. The reply was factually incorrect, as the Company had taken up the matter again with the Tourism Department in August 2002, who in turn had not referred the matter to the State Government.

Computerisation of the complexes

2.3.29 GOI sanctioned (31 March 2000) Rs. 48.11 lakh for updating information system and computerisation of the various complexes against the project cost of Rs. 96.22 lakh. Fifty *per cent* of the project cost was to be borne by the State Government. A token amount of Rs. 0.17 lakh was released by GOI. The second instalment of Rs. 23.88 lakh was to be released on production of proof in support of placement of order for procurement of hardware/software during 2000-01 and the balance amount of Rs. 24.06 lakh was to be released on production of proof of completion of the project. GOI, however, released (March 2001) second instalment of Rs. 23.88 lakh without insisting on placement of order.

The Company decided (May 2001) to allot the work of computerisation of Red Bishop tourist complex, Panchkula to Haryana State Electronics Development Corporation Limited (HARTRON) on turn key basis. The Company released Rs. 10.86 lakh to HARTRON during July to October 2001. HARTRON installed (February 2002) the hardware and software in the complex. The Company further utilised Rs. 22.81 lakh on the purchase of hardware and software. Since the Company could not complete the project as envisaged by GOI, it could neither avail of the balance share of Rs. 24.06 lakh from GOI nor could approach the State Government for release of its share due to delay in utilising the funds.

The management stated (July 2003) that the Company would be able to demand the balance amount from GOI by submitting the completion certificate. The reply was not tenable as the Company had not yet been successful in utilising funds of GOI although a period of three years had elapsed. Lack of planning, thus, resulted in non-achievement of benefits out of the grants.

Manpower

Excessive deployment of manpower resulted in excess salary cost of Rs. 13.77 crore

2.3.30 The Company decided (March 1989) that the salary cost should not exceed 20 to 25 *per cent* of the total turnover of a complex. Audit scrutiny revealed that percentage of actual cost of salary to the turnover ranged between 25.88 and 170 in 38 complexes during 1997-98, 27.07 and 268.18 in 32 complexes during 1998-99, 27.28 and 241.50 in 41 complexes during 1999-2000, 26.70 and 186.38 in 42 complexes during 2000-01 and 26.71 and 199.75 in 37 complexes during 2001-02. No measures were taken by the Company to regulate the expenditure on salary as per norms. This resulted in excess salary cost of Rs. 13.77 crore during the five years up to 2001-02.

The management stated (July 2003) that the Company was already in the process of rationalising the deployment of staff.

Employees' Provident Fund Scheme

2.3.31 The Employees' Provident Funds Scheme, 1952, provides that the contribution payable by the employer under the scheme shall be 12 *per cent* of the basic wages, dearness allowance and retaining allowance payable to each employee. Under Section 26(A)(2) of the scheme, where the monthly pay of such a member exceeds five thousand rupees, the contribution payable by the employer shall be limited to the amounts payable on a monthly pay of Rs. 5,000 (increased to Rs. 6,500 w.e.f. June 2001). It has been further provided under Section 29(2) that in respect of any employee to whom the scheme applies, the contribution payable by him may, if he so desires, be an amount exceeding 12 *per cent* of his basic wages, dearness allowance and retaining allowance subject to the condition that employer shall not be under obligation to pay contribution over and above his contribution payable under the scheme.

It was observed that the Company contributed employer's share at the rate of 12 *per cent* during 2000-02 in respect of 62 employees without limiting the monthly pay to the prescribed limits in contravention of the provision of the scheme while restricting the emoluments in respect of 260 other employees. Resultantly, the Company made excess contribution of Rs. 13.31 lakh. No recovery had been made so far (July 2003).

The management during Audit Review Meeting (July 2003) assured to look into the matter and take corrective steps.

Internal Audit

2.3.32 The State Government issued (May 1981) instructions for introduction of uniform internal audit system in all public sector undertakings in the State. As per the instructions, all public undertakings should have their own internal audit wings for independent appraisal and review of financial and various other operations under the overall supervision of the Managing Director. The Company, however, continued to get the audit conducted through firms of Chartered Accountants (CAs) on quarterly/half yearly basis. The Company had framed guidelines for the guidance of CAs for conducting internal audit of tourist complexes but the scope of audit did not include an independent appraisal and review of financial and other operations. The internal audit reports contained points of routine nature and did not point out any system lapses/deficiencies. The Board had also expressed (September 1998) concern regarding poor internal audit of the Company. Internal audit of 11 and 13 small tourist complexes was conducted departmentally during 2000-01 and 2001-02 respectively. It was further noticed that internal audit of head office where major expenditure/decisions were taken had not been conducted since inception. The internal audit reports were dealt with by the concerned branch officers and were not submitted to the Board. The statutory auditors had also pointed out that the internal audit was inadequate and required strengthening commensurate with the size and nature of the business of the Company.

Conclusion

The Company was incorporated with the main objective to promote tourism in the State and to administer hotels, motels, restaurants, bars and petrol pumps in the State or elsewhere. The Company suffered losses continuously from its core activities and earned profit from its non-core activities. Most of the complexes had been consistently incurring losses due to low occupancy and poor turnover of catering activity. Further, excessive food, fuel, electricity and salary cost also contributed to the losses. The Company had not made adequate efforts to improve the occupancy of the complexes as recommended by Committee on Public Undertakings. The Company needs to make concerted efforts to improve occupancy and turnover of its complexes by adding additional facilities for attracting tourists, by taking recourse to aggressive marketing and publicity and reducing cost on various overheads.

The matter was referred to the Government in May 2003; the reply had not been received (September 2003).