Chapter III

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

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

Government companies

Dakshin Haryana Bijli Vitran Nigam Limited

3.1 Failure to curb distribution losses

Anti theft system meant to curb the distribution losses could not be installed due to deficient planning despite incurring expenditure of ₹ 3.16 crore.

With a view to curb the theft of energy, *kundi* connections and leakage of revenue in villages Bhakalana, Petwar and Madanheri, the Company decided (March 2007) to implement High Voltage Distribution System (HVDS). The system included providing of additional 25 KVA Transformer with HT line, replacement of existing ACSR conductor with armored cable, replacement and shifting of single phase meters outside consumer premises and dismantling of existing ACSR conductor. The work orders were issued (August 2007) to three contractors on turnkey basis and the total work was to be completed within 90 days from the date of award.

The contractor provided 25 KVA transformers with HT line and replaced the existing ACSR conductor with armored cable. However the work relating to replacement and shifting of single phase electronic meters outside the premises could not be undertaken due to strong resistance/agitation by the villagers. The contractors reported (December 2008 and January 2009) the matter to police for protection but the complaint was returned with the remarks that the matter should be pursued by the Company officials instead of the private contractors. The Company, however, failed to take any concrete action to provide police protection to the contractors for smooth execution of the work. Resultantly, the HVDS remained incomplete and the objective of curbing theft of energy could not be achieved. As the contractors were not at fault in completing the work, their dues of ₹ 3.16 crore for the work done were cleared (February 2008 to April 2009) by the Company treating the work as complete. The unused material valuing ₹ 82.59 lakh was taken back (May 2009) from the contractors. The net expenditure incurred by the Company on the work was ₹ 2.33 crore, excluding the cost of unused material recovered.

We observed that the areas planned for commissioning the HVDS with a view to curb energy theft were under high influence of Bhartiya Kisan Union (BKU). Foreseeing the likely agitation/resistance by locals, the Company should have planned effective preventive action to tackle the problem well before awarding

the work. The Company also needed to approach the local residents by involving the elected representatives to convince them the utility of the scheme for providing quality power to them. By disbanding the work mid-way the energy losses continued to be on higher side and the burden of theft of energy by some anti social elements continued to be borne by the genuine consumers.

Thus, due to deficient planning, the system meant to prevent energy theft could not be commissioned and despite making an attempt and incurring expenditure of ₹ 3.16 crore, the issue of curbing the distribution losses remained unaddressed.

The Management stated (March 2010) that due to hindrance/resistance by some mischievous/dishonest villagers who were stealing the energy, meters could not be relocated outside the consumer premises. Reply is not acceptable as the Company failed to take adequate preventive action at the planning stage to tackle the situation despite knowledge of possibilities of strong resistance by locals in commissioning the scheme.

The Company needs to ensure successful implementation of such anti theft schemes duly addressing all possible constraints at planning stage particularly in the theft prone areas.

The matter was referred (May 2010) to the Government and the Company; their replies had not been received (September 2010).

3.2 Unfruitful expenditure

Due to non rectification of fault occurred in the Energy Audit System, expenditure of ₹ 12.38 crore incurred on installation of System remained unfruitful.

With a view to pinpoint energy losses in the distribution system and improve the consumer services, the Company decided (April 2007) to build IT driven Energy Audit system. For the purpose, Distribution Transformer (DT) meters capable to download and communicate consumption data i.e. communication port and Automated Meter Reading (AMR) system were to be installed on all the DTs in Faridabad and Gurgaon operation circles. Accordingly 6,455 DT meters costing ₹ 11.90 crore were purchased and installed (June 2007 to January 2008) in Faridabad Circle. The Company decided (December 2007) to engage GSM service providers for installation of AMR activated sim cards on these DT meters for providing communication media between meters and control station in circle office. Accordingly, work orders for installation of AMR activated sim cards were placed (January 2008) on M/s Bharti Airtel Limited. In Faridabad circle 6,455 sim cards were installed and activated on the DT meters at monthly rent of ₹ 35 for each sim card. For assessing the energy losses/gaps by reconciling energy recorded on 11 KV outgoing feeder with energy received at DT and HT consumer, a detailed work order was placed (July 2008) on M/S Haryana Ex-Serviceman League (HESL).

Scrutiny of the energy audit reports of M/s HESL for the period from June 2008 to December 2009 revealed that 45 *per cent* to 69 *per cent* of DT meters were not working due to faulty AMR system and thus their data could not be generated for submission to circle office. Though M/s HESL submitted monthly energy audit

reports to the circle office, there was no analysis of these reports. Resultantly, the Company could not take up the matter with the supplier of AMR system and no steps could be taken by the Company to get the faulty system rectified. Thus, the entire expenditure of ₹ 11.90 crore on purchase of 6,455 DT meters remained unfruitful. Besides, the Company paid monthly rental charges of ₹ 0.48 crore during the period from March 2008 to December 2009 to M/s Bharti Airtel Limited towards the monthly rental of sim cards installed on the DT meters. Out of which ₹ 0.23 crore were paid for sim cards installed on the meters with defective AMR for the period from June 2008 to December 2009. Services of these sim cards were finally blocked by the Company in January 2010. The Company could have avoided this payment by taking timely action to disconnect/remove the sim cards installed on meters with defective AMR.

The Company, instead of rectifying the fault, temporarily discontinued the AMR system in January 2010, without deciding on future course of action for making the entire Energy Audit System operational. Resultantly the whole expenditure on the scheme remained unfruitful.

Thus, due to failure of Company to take remedial measures on the audit reports of M/s HESL, the expenditure of ₹ 12.38 crore incurred on the energy audit system remained unfruitful. Besides, payment made to HESL for their services also proved wasteful which could not be quantified in the absence of item wise details of the assignments in the work order.

The Company should fix responsibility for not analysing the energy audit reports of HESL and also needs to take decision on further course of action for rectification of fault and making the 'Energy Audit System' operational so as to ensure optimal utilisation of its resources and investments.

The matter was referred (June 2010) to the Government and the Company; their replies had not been received (September 2010).

3.3 Avoidable loss

The Company failed to recover the fraudulently claimed amount of ₹ 15.72 lakh from the contractor against the payments released subsequently.

The Company placed (May 2007) a work order on Mahindra Electrical works, Hodalan (Contractor) for execution of the augmentation of ACSR conductor at a total cost of ₹ 9.38 lakh on turnkey basis. As per terms of payment 70 *per cent* payment of cost of material was to be made to the contractor on receipt of material at work site store and 10 *per cent* after the erection of material. Both the receipt and erection of material were to be certified by the Company before releasing the payments. The balance 20 *per cent* was to be released after inspection and clearance by the Chief Electrical Inspector, Government of Haryana.

The Company released total payments of ₹ 11.20 lakh (in June 2007 ₹ 7.36 lakh and in December 2007 ₹ 3.84 lakh) against receipt and erection of material at site. Subsequently, the Company noticed (July 2008) that the contractor had not done work as per the work order and had claimed the payment by forging the signatures of the officials of the Company authorised to certify the work. An

enquiry was conducted by the Company and it was found (29 September 2008) that the contractor in connivance with officials of the Company had fraudulently received payment of ₹ 14.09 lakh. The Company filed (11 April 2009) FIR against the contractor and issued chargesheets against the defaulting officials simultaneously placing them under suspension. The actual loss on this account worked out to ₹ 15.72[*] lakh.

We noticed that the Company had meanwhile, issued (April/May 2008) two separate work orders to the same contractor. As per the work regulations prescribed by the Company any such money due and payable to the contractor under the contract might be appropriated and set off against any claim of the Company arising out of or under this contract or any other contract entered into by the contractor with the Company. Contrary to these provisions, the Company failed to set off the amount (₹ 15.72 lakh) fraudulently claimed by the contractor and released (November 2008 and March 2009) payments of ₹ 15.90 lakh to the contractor.

Thus, due to ineffective internal control mechanism the Company lost an opportunity to recover the fraudulently claimed amount from the contractor, resulting into loss of ₹ 15.72 lakh.

The Company should fix responsibility for the negligence and strengthen its internal control mechanism to avoid such incidents in future.

The matter was referred (May 2010) to the Government and the Company; their replies had not been received (September 2010).

3.4 Non-recovery of penalty

The Company failed to recover penalty of ₹ 66.85 lakh due to non adherence to laid down procedure for theft cases.

The Ministry of Power notified (June 2007) Electricity (Amendment) Act 2007 for dealing with cases of theft of electricity. For its implementation, the Company issued (July 2007) sales instructions which provided that in case of suspected theft of electricity through tampering of meters or metering equipments or seals, meters/metering equipments shall be taken out from the premises in a sealed box duly witnessed by the consumer for requisite testing in the Metering and Protection laboratories. In case the consumer failed to witness the testing on the scheduled date, the testing was to be done in the presence of two officers of the Company not connected with the inspection. The designated office was required to communicate the consumer at least one week in advance about the scheduled date of meter testing and requesting for his presence.

The Company imposed (during May 2008 to December 2009) penalty of ₹ 66.85 lakh on 108 consumers in Fatehabad division of Operation Circle Hisar for tampering with the meters/metering equipments and resultant theft of energy. The consumers moved (May 2008 to February 2010) to the District Consumers Disputes Redressal Forum (DCDRF), Fatehabad against the penalty. The forum disallowed (August 2008 to May 2010) the penalty on the ground that provisions

[*] (Payment made ₹ 11.20 lakh +Cost of material supplied by the Company ₹ 6.91 lakh (-) Actual work done ₹ 2.02 lakh (-) Security forfeited ₹ 0.37 lakh).

of sale instructions were not adhered to by the Company in completing the testing process of meters. In 22 cases appeals made by the Company against the orders of the DCDRF were rejected by the State Consumer Disputes Redressal Commission (SCDRC). After examining the issue, the Legal Remembrance (LR) of the Company opined (July 2009) for not filing appeals in the National Consumer Dispute Redressal Commission and in the SCDRC relating to remaining cases.

We observed (February 2009) that while carrying out the testing process of meters, the sales instructions were overlooked by the operational staff of the Division which resulted in non recovery of penalty from the defaulting consumers. Though show cause notices were issued (October and November 2008) to respective sub-divisional officers, who were found responsible for not strictly following the procedure prescribed to deal with theft cases, no disciplinary action was initiated against them so far (July 2010).

Thus, failure of the Company to establish effective internal control mechanism to ensure compliance to specified sales instructions had resulted in loss of revenue of ₹ 66.85 lakh.

The Management stated (February 2010) that the instructions regarding theft of energy and subsequent procedures to tackle the cases had been adhered to. The reply is not factually correct in view of rejection of appeals by the SCDRC and opinion of the LR for not filing appeals in remaining cases.

The Company needs to initiate disciplinary action against the erring officers and also strengthen its internal control mechanism to ensure compliance to prescribed sales instructions so as to avoid recurrence of such losses.

The matter was referred (February 2010) to the Government; the reply had not been received (September 2010).

3.5 Injudicious acceptance of material

The Company accepted supply of transformers valuing ₹ 75.54 lakh despite its decision to ban installation of such transformers.

The Company placed (August 2007) two Purchase Orders (PO) on M/s Vijai Electrical Limited Hyderabad (VIJ) and M/s Kotson (P) Limited (KOT) for procurement of 20 copper wound Distribution transformers (10 each) of 990 KVA on free on road (FOR) destination at variable rate of ₹ 7.75 lakh per transformer. As per delivery schedule, the complete material was to be supplied within five and half months from the date of receipt of Purchase Order (PO) or approval of drawings which ever was later. In case the supplier fails to deliver the material within delivery period, the Company was entitled to terminate the contract in whole or in part.

VIJ supplied 10 transformers during April and May 2008 while the second supplier i.e. KOT, who was to supply 10 transformers up to February 2008 (five and half months after issue of PO), failed to submit even drawings and type test certificates up to due date (February 2008).

Meanwhile, a meeting was held (July 2008) to review the running losses and to discuss the possible measures to minimise the revenue loss to the Company. In

view of the fact that high capacity 1000/990 KVA transformers had huge LT systems having higher technical losses, a decision was taken (July 2008) to ban installation of transformers of this specification and remove all such transformers existing in the system for utilising elsewhere such as Irrigation and Public Health Department

We noticed that in view of the above decision, the high capacity transformers were required to be removed from the system to reduce LT line losses. As KOT failed to supply even drawings and type test (prerequisite to start the production of the transformers) up to July 2008, as per terms of supply order, the Company had the right to terminate the PO. Though, the supplier had not submitted even the drawings up to July 2008, the Company, instead of terminating the Purchase order approved the drawings in September 2008 and accepted (October 2008) supply of 10 transformers valuing ₹ 75.54 lakh.

The Chief Engineer, of the Company stated (August 2010) that out of the ten transformers, six had been used up to July 2010 and the balance was required to meet out any unexpected demand. The reply is not convincing as installation of these transformers with huge LT systems would increase the line losses of the Company which were already on higher side. Further, the drawings were approved in September 2008 and transformers were inspected and accepted in October 2008, after the decision of the Company to ban the use of such transformers. Instead of approving the drawings, the Company should have terminated the contract.

The matter was referred (May 2010) to the Government and the Company; their replies had not been received (September 2010).

Uttar Haryana Bijli Vitran Nigam Limited

3.6 Non levy of penalty

Extension in delivery period in contravention of the terms of purchase order resulted in non levy of penalty of ₹ 95.40 lakh.

The Company placed (9 February 2006 and 18 March 2006) two Purchase Orders (POs) on Akal Electricals (P) Limited (firm) for the supply of 750 No. 100 KVA and 1,000 No. 63 KVA distribution transformers at the firm rates of ₹ 86,200 and ₹ 68,500 per transformer respectively. As per delivery clause of the POs, the complete material was to be supplied by the firm in five and half months from the receipt of the POs/approval of the drawings i.e. up to 17 September 2006 and 22 October 2006, respectively. The POs further provided that in case of delay in supplies of material, penalty at half *per cent* of delayed portion of material per week for the period of delay or part thereof, subject to maximum of 10 *per cent* of the cost of the material was to be imposed on the firm. Besides, the Company reserved the right to go for purchases at the risk and cost of the Contractor in case of delayed supply.

The supplier failed to submit even the drawings till the scheduled period of completing supply against both the POs. The Company issued (November 2006) notice of risk purchase (after expiry of scheduled delivery period) to the supplier.

After receipt of risk purchase notice, the supplier submitted (November/December 2006) the drawings and requested for extension in delivery period without levy of penalty on the plea that delay in supplies occurred due to non availability of Prime CRGO. The Company accepted (July 2007) the request of the firm on the justification that the prevalent market prices of transformers with similar specification were higher and extended the delivery period up to 31 December 2007 for both the POs without levy of any penalty. The material against both the POs could, however, be received up to 19 June 2008, i.e., beyond the rescheduled delivery period. The Company recovered ₹ 37.75 lakh as liquidated damages for the material received beyond the rescheduled delivery period.

We observed that the POs were placed for replacement of damaged transformers under time bound improvement schemes as such the time was the essence of the contract. Acceptance of firm's plea regarding non availability of some material causing delay in supplies was not justified in view of the fact that the firm did not submit even the drawings for about seven months and the same were submitted only after notice of risk purchase was issued. Management's plea for extending the delivery schedule considering the higher market rates of material was also not valid in view of the option available to the Company to go for purchases at the risk and cost of the supplier in case of delayed supplies. Thus, extension in delivery period by the Company was in contravention of the provisions of the contract and tantamounts to favouring the firm as it resulted in non-levy of penalty of ₹ 95.40 lakh. The objective of improving quality of service and reduction of energy losses also could not be achieved due to delay in implementation of the improvement schemes

The matter was referred (May 2010) to the Government and the Company; their replies had not been received (September 2010).

Haryana Vidyut Prasaran Nigam Limited

3.7 Short Recovery

Short recovery of worker welfare cess ₹ 5.24 crore.

With a view to augment the resources for the Building and Other Construction Workers welfare, the Government of India notified 'The Building and Other Construction Workers Welfare Cess Act, 1996. As per the Act, cess was to be levied and collected at such rates not exceeding two *per cent* but not less than one *per cent* of cost of construction. Accordingly, the Government of Haryana directed (August 2007) all Government Departments and Public Sector Undertakings carrying out construction activities to deduct one *per cent* of the cost of construction works from the bills paid for such works and remit the same to cess authorities. The construction works include the construction, alteration, repairs, maintenance or demolition in relation, *inter alia*, to generation, transmission and distribution of power.

As per provisions of the "Building and Other Construction Workers Welfare Cess Rules 1998" (Cess Rules 1998) framed by Central Government, the cost of construction should include all expenditure incurred by an employer in connection

with the building or other construction work but should not include cost of land and any compensation paid/payable under Workmen Compensation Act 1923 (Rule 3).

In view of the above, the Company was required to deduct labour welfare cess at the rate of one *per cent* of cost of construction from the bills of turnkey contracts entered into for construction of substations and transmission lines and remit the amount of cess so deducted to the cess authorities..

Our scrutiny revealed (May 2009) that against an expenditure of ₹ 589.17 crore (up to February 2010) incurred on turnkey construction contracts placed during the years 2008-09 and 2009-10, the Company recovered Workers' Welfare Cess of ₹ 65.71 lakh only instead of ₹ 5.89 crore i.e. at the prescribed rate of one *per cent* of the total expenditure. Thus there was short recovery of ₹ 5.24 crore from the contractor. The Company had not taken any action against the officials responsible for short recovery.

The reply from local Management stated (August 2009) that the Company had been placing separate work orders for supply and erection of material/equipment in case of turnkey execution of the projects and has been deducting cess on erection portion.

The reply confirms violation of the provisions of Cess Rules 1998, which stipulates that the cess is recoverable on the total cost of construction, excluding only the cost of land and any compensation paid/payable under Workmen Compensation Act 1923. Thus, the worker welfare cess amounting to ₹ 5.24 crore had been short recovered which could attract penal interest for delay in remitting the cess payments to cess authorities at the rate of two *per cent* per month or part thereof as per Section 8 of the *ibid* Act.

The matter was referred (June 2010) to the Government and the Company; their replies had not been received (September 2010).

Haryana Power Generation Corporation Limited

3.8 Avoidable expenditure

The Company did not short close the loan from PFC due to deficient assessment of fund requirement which resulted in payment of commitment charges of ₹ 30.40 lakh.

The Company was sanctioned (October 2005) loan of ₹ 1,920 crore from Power Finance Corporation Limited (PFC) for financing the construction of 2X300 MW Deen Bandhu Chhoturam Thermal Power Plant (DCRTPP) at Yamunanagar. As per the terms and conditions of sanction, the Company was to furnish quarter-wise schedule of drawal of loan at the time of signing of Memorandum of Agreement (MOA). The MOA with PFC was signed (February 2006) and as per the quarter wise schedule submitted by the Company, the entire committed funds were to be drawn up to September 2008. As per terms of MOA, in case the funds were not drawn as per the agreed schedule, the Company was liable to pay commitment charges at the rate of 0.25 *per cent* per annum on the undrawn amount of previous quarter from the first day of following quarter till the date of actual date of drawal. The Company, being a State Sector borrower, was allowed

prospective revision twice in drawal schedule during the currency of loan. In view of this provision, the Company, based on fund requirement, revised the quarterly schedule in March and June 2008. As per the second revised schedule, the drawal of entire loan was to be completed by the quarter ending June 2009. The Company, could draw only ₹ 1,809.74 crore up to June 2009 and sought (October 2009) extension in loan closure up to June 2010, which was agreed to by PFC. There was, however, no further drawal of loan and entire balance of loan of ₹ 110.26 crore remained undrawn till date (June 2010).

We observed that schedule of drawal of loan was disturbed due to delay in completion of work of DCRTPP by the turnkey contractor for which, the Company levied (July 2008) LD of ₹ 204.46 crore on the contractor. The Company started recovering the LD through adjustment against the running bills of the contractor with effect from January 2008.

We further observed that the Company sought extension in closure of loan in October 2009 on the ground of meeting financial requirement of possible refund of LD to the contractor, which was not a valid ground as major portion of LD (₹ 119.47 crore) out of ₹ 204.46 crore had already been recovered up to June 2009 before tendering request (October 2009) to PFC for extending loan closure up to June 2010 The balance LD of ₹ 84.99 crore was also recovered by the Company up to March 2010. Further, requirement of fund should have been assessed duly considering the fact that two Units of the Project had started (April/June 2008) commercial operation and had generated additional net cash inflow of ₹ 96.28 crore during the year 2008-09. In view of this, the Company should have short closed the undrawn PFC loan of ₹ 110.26 crore before June 2009 instead of seeking extension for loan closure date up to June 2010. Since there was no drawal of loan by the Company even after extended date of loan closure, the PFC levied ₹ 30.40 lakh as commitment charges on undrawan loan up to June 2010 which were paid by the Company during January-July 2010.

Thus, failure of the Company to assess realistically the fund requirements had resulted in avoidable payment of commitment charges of ₹ 30.40 lakh (up to June 2010). The Company needs to take in to account all available financial resources while assessing the requirement of loan so as to avoid payment of interest/commitment charges in future.

The matter was referred (June 2010) to the Government and the Company; their replies had not been received (September 2010).

Haryana State Roads and Bridges Development Corporation Limited

3.9 Avoidable loss

The Company suffered loss of ₹ 3.19 crore due to abnormal delay in initiating action for revision of toll rates.

The Council of Ministers, Haryana Government approved (September 2002) the proposal for levying toll tax on 32 identified toll points at the rate of ₹ 100 per trip per vehicle having up to 10 tyres and ₹ 150 per trip per vehicle having more than 10 tyres. These rates were to be revised to ₹ 150 per trip from the year 2007-08 and ₹ 200 per trip from the year 2012-13 in respect of vehicles having

up to 10 tyres. For vehicles having more than 10 tyres, the toll tax rates were to be revised proportionately. Haryana Government notified (September 2003) the rates and also authorised the Company to demand, collect and retain toll from the 32 identified toll points till 31 March 2017.

The Company accordingly levied toll fee after completion of concerned roads. In September 2008 the Company proposed to the Council of Ministers for revision in rates. After getting their approval (October 2008), the revised rates were notified in January 2009 effective from 1 March 2009.

We observed that though, as per the proposal/scheme approved (September 2002) by the Council of Ministers, the toll rates were due for revision with effect from 1 April 2007, the Company submitted memorandum to the Council of Ministers for revision in rates only in September 2008. After approval, the revision was made effective from 1 March 2009. This inordinate delay in submission of proposal by the Company and corresponding delay in revision of rates resulted in loss of ₹ 3.19 crore calculated at the rate of 4.08[*] *per cent* for 23 months during April 2007 to February 2009. The Company had accumulated loss of ₹ 98.53 crore as on 31 March 2008 which was indicative of its poor financial health. By delaying the implementation of revision in the toll rates due to avoidable reasons, the Company lost the opportunity to avail additional cash inflow of ₹ 3.19 crore and reduce the accumulated losses to that extent. The Management, however, did not fix the responsibility for delay in submission of proposal for revision of rates.

The local Management stated (January 2010) that the matter was referred to the State Government for approving the revised toll rates and after due consideration Government issued notification in January 2009 making the revised rates applicable from 1 March 2009. The revised rates were made applicable immediately and there was no delay. The reply did not address the abnormal delay of more than 17 months in moving the proposal for toll rate revision.

The Company needs to fix responsibility for the delay in initiating action for revision of rates and evolve an effective internal control system to avoid such losses in future.

The matter was referred (March 2010) to the Government and the Company; their replies had not been received (September 2010).

Haryana Police Housing Corporation Limited

3.10 Undue favour to contractor

The Company suffered loss of ₹ 14.76 lakh due to unjustified waiver of compensation levied for delayed execution of work.

The work for construction of 144 houses in New Jail Complex, Karnal was allotted (March 2002) to a contractor at a cost of ₹ 2.34 crore, subsequently enhanced (August 2002) to ₹ 2.40 crore with a time limit of 12 months. The terms of agreement provided, *inter alia*, that the time being the essence of the

[*] Incremental increase during 2008-09 over 2007-08 without any revision in rates = 9.32 *per cent*
Increase during 2009-10 over 2008-09 after revision of rates = 13.40 *per cent*
Net Increase due to revision in rates = 4.08 *per cent*

contract, the contractor shall pay as compensation an amount equal to one *per cent* of the estimated cost which the Executive Engineer-in-Charge Project (EEP) in charge may levy for every day for which the work remained uncommenced or unfinished. The compensation amount should not exceed 10 *per cent* of the estimated cost of the work. In case of any representation from the contractor the Engineer-in-charge (Co-ordination) (EC), was authorised to reduce the amount of compensation and his decision shall be final.

The contractor could not execute the work within the time limit on one pretext or other despite being served repeated notices to accelerate the progress of work and repeated extensions. The EEP imposed (August 2004) penalty of ₹ 24.01 lakh being 10 *per cent* of the tendered value of the contract. The contractor could execute (July 2005) work of ₹ 1.48 crore and as per terms of the agreement unexecuted portion of the work valuing ₹ 92.58 lakh was withdrawn and got executed from another contractor at his risk and cost. The work was completed in March 2009 and case for recovery of the extra amount was pending with the arbitrator (July 2010). The contractor made representation (August 2006) to the Company for reduction of penalty levied by the EEP. As there was no post of EC in the Company the case was reviewed (April 2007) by Chief Engineer (CE) who upheld the penalty. The contractor represented (July 2007) against the decision and the issue was again reviewed by the same CE in the capacity of Chief Engineer cum Engineer in Charge (Co-ordination). On this occasion the CE reduced (November 2007) the compensation amount from ₹ 24.01 lakh to ₹ 9.25 lakh without recording any additional facts/reasons for reduction in compensation.

We observed that as there was no post of EC and the CE was the only officer in the Company for the project, the decision taken by him confirming penalty of ₹ 24.01 lakh was final and binding on both the parties as per terms of the contract.

Thus, reduction of compensation amount was unjustified which resulted in loss of revenue of ₹ 14.76 lakh to the Company and tantamount to undue favour to the contractor.

The Management stated (July 2010) that the case was reviewed on second time as the contractor represented that the CE had no authority for passing any order. The reply of the Company is not acceptable as on both occasions, the representation was reviewed by the same CE who was designated to act as EC. Reversing his own decision by CE without recording any additional facts/grounds is not acceptable.

The matter was referred (March 2010) to the Government; the reply had not been received (September 2010).

Haryana Land Reclamation and Development Corporation Limited

3.11 Blockage of funds

The Company blocked ₹ 64.62 lakh due to injudicious increase in the scope of work.

The Board of Directors (BOD) of the Company approved (February 2006) a proposal to construct 30 to 35 shops at Naraingarh on its own land and with a view to generate income of about ₹ 0.70 lakh to ₹ 0.75 lakh per month.

The Company allotted (February 2007) the construction work at tendered cost of ₹ 76.77 lakh, which was completed (June 2008) at a total cost of ₹ 1.40 crore with increase in the scope of work to 65 shops/booths.

We noticed that the BOD had approved (March 2007) the proposal to shift Company's managerial office, Ambala to this complex for which about five shops were required. This additional requirement of space could have been met from the 30-35 shops/booths already being planned for construction. However, the Company, without conducting any survey and obtaining specific approval of the BOD, enhanced the scope of work from 30-35 shops/booths to 65 shops/booths. This contention was further substantiated with the fact that 27 out of 65 newly constructed shops /booths were lying unoccupied (May 2010) even after shifting of Ambala office to the complex and letting out 29 shops/booths.

Thus, the decision to enhance the scope of work to 65 shops/booths from 30-35 shops/booths without examining the commercial viability and without obtaining specific approval of the BOD rendered the expenditure of ₹ 64.62 lakh as unfruitful being the proportionate cost of 30 shops incurred by the Company.

The Management stated (May 2010) that it was saving rent of Ambala office which had been shifted to the new complex and also utilising two shops for gas agency. The reply is not convincing as even after completion of the shopping complex in June 2008 the Company could utilise only 38 shops (including seven for office and two for gas agency) and 27 shops were still vacant. This indicates that the action of the Company to enhance the scope of work from 30-35 shops to 65 shops was not justified.

The matter was referred (March 2010) to the Government; the reply had not been received (September 2010).

Haryana Backward Classes and Economically Weaker Sections Kalyan Nigam Limited

3.12 Arrears in finalisation of Accounts

The Company failed to take sincere efforts in liquidating the arrears and making the accounts up to date despite constant pursuance by us.

Section 210 of the Companies Act, 1956, read with Sections 166 and 216, casts the duty on the Board of Directors of a Company to place the accounts of the Company along with Auditor's Report (including supplementary comments of CAG) in the Annual General Meeting of the shareholders within six months of the close of its financial year. As per Section 210 (5), if any person, being a Director of a Company, fails to take all reasonable steps to comply with the provisions of Section 210, he shall be punishable with imprisonment for a term which may extend up to six months or with fine which may extend up to ten thousand rupees or with both. Similar provisions exist under Section 210(6) in respect of a person who is not a Director but is charged with the duty of ensuring compliance with Section 210.

In spite of above provisions in the Companies Act, Haryana Backward Classes and Economically Weaker Sections Kalyan Nigam Limited (Company) had not been

finalising its accounts in time. As of 31 March 2010, the Company had finalised the accounts up to 2003-04 maintaining an arrear of five years in finalisation of accounts. We had been bringing out the position of arrears in finalisation of accounts to the notice of the Finance Secretary/Chief Secretary of the State Government regularly every quarter. However, the Company failed to initiate concrete and effective steps to liquidate the arrears in a time bound manner. Our contention had been substantiated with the fact that the Company could finalise only two accounts during the preceding three years up to March 2010 while three accounts were finalised during three years up to March 2007. In view of huge arrears in accounts the exact financial health of the Company could not be ascertained. During certification of accounts for the year 2003-04, the statutory auditors had pointed out short provision of ₹ 2.97 crore against doubtful debts. The issue remained unaddressed due to pending finalisation of account after 2003-04. Further as the accounts for the year from 2004-05 onwards were pending for finalisation, the books of accounts for these years remained open and were exposed to the risks of fraud, leakage of public money, by way of possible tampering with these accounts. The Company stated (August 2009) that the delay in finalisation of accounts was due to shortage of accounts personnel. It further assured that accounts for the year 2004-05 had been prepared and would be placed before BOD in September 2009. As regards finalisation of accounts for the year 2005-06 to 2007-08, the Company stated that a firm of Chartered Accountants had been appointed for the purpose. We noticed that the Company failed to fulfill its assurance as accounts for the year 2004-05 were approved by the Board on 31 March 2010 and handed over to the Statutory Auditors in April 2010 which were pending for certification by Auditors (July 2010). We further noticed that the firm of Chartered Accountants assigned with the work of finalising the accounts for 2005-06 to 2007-08 within two months period could not complete the work (July 2010) due to improper maintenance of district levels records as only one person was posted in each district level office.

Thus, the Company failed to take sincere efforts in liquidating the arrears and making the accounts up to date despite constant pursuance by us.

It is recommended that the Government/Company may arrange adequate personnel and make a time-bound programme to clear the arrears and monitor it on regular basis.

The matter was referred (May 2010) to the Government and the Company; their replies had not been received (September 2010).

Statutory corporation

Haryana Warehousing Corporation

3.13 Loss of revenue

The Corporation suffered loss of revenue of ₹ 55.54 lakh due to inordinate delay in awarding of contract.

The Corporation set up (1999) an Inland Container Depot (ICD) cum Container Freight Station (CFS) in collaboration with Container Corporation of India

(CONCOR) at Rewari to facilitate/promote export/import in the State. The full fledged ICD-cum-CFS came into existence in March 2003 with the laying down of rail track. As per agreement entered into (May 2002) with CONCOR, the rail operations were to be handled by CONCOR while the Corporation was to handle CFS operations. As the CFS operations were running in heavy losses since its inception (except for one year in 2005-06), Corporation decided (August 2007) to invite Expression of Interest (EOI) for Strategic Alliance Management and Operations of CFS. Accordingly, the Corporation invited (September 2007) EOI through press and received (October 2007) offers from nine firms. Out of these nine bids, the Corporation invited (June 2008) financial bids from five shortlisted firms. The Corporation received highest offer of fixed fee at ₹ 81 lakh with 7 *per cent* escalation per annum; plus variable fee per twenty equivalent unit (TEU) handled at ₹ 525 per TEU with 7 *per cent* escalation per annum. However, the offer of CONCOR was the lowest. Being its collaborator, the Corporation made counter offer of the highest rate to CONCOR which accepted (July 2008) this rate. Accordingly, the Corporation entered (October 2008) into agreement with CONCOR for operation from 1 November 2008.

We noticed that the Corporation received offers from nine firms in October 2007. However, it took 12 months in awarding the contract despite the fact that it was incurring recurring losses in the operation of CFS. Had the Corporation awarded the contract within a reasonable period of six months (i.e. by April 2008) after receipt of EOI it would have not only earned revenue of ₹ 55.54 lakh• for the period 1 May 2008 to 31 October 2008, but also saved the loss of ₹ 13.72 lakh incurred in the operation of CFS during this period.

Thus, due to abnormal delay in awarding the contract, the Corporation suffered loss of revenue of ₹ 55.54 lakh.

The Management stated (April 2010) that the delay in finalising the contract was caused as the file remained pending with the higher officers for about four months for taking administrative decisions for inviting financial bids and in completing other formalities. The reasons for delay given by the Management were avoidable and indicative of ineffective internal control mechanism of the Corporation.

The Corporation should fix responsibility for abnormal delay in awarding the contract and devise a time schedule for finalisation of contracts at each stage to avoid unnecessary delay.

The matter was referred (March 2010) to the Government; the reply had not been received (September 2010).

3.14 Loss due to improper maintenance of stock

Failure to maintain health of the stock resulted in loss of ₹ 13.82 lakh.

The Corporation procures wheat for the Central Pool from various *mandis* allotted by the State Government and delivers it to Food Corporation of India (FCI). FCI accepts the wheat of specified quality and reimburses the cost of

• Includes fixed fee for six months and variable fee for TEU handled during said period.

wheat along with carryover charges for the period the wheat remains in the custody of the Corporation. It was the sole responsibility of the Corporation to maintain proper health of wheat till it is delivered to FCI. In order to maintain proper health of wheat the Corporation was required to make proper storage arrangements ensuring periodical inspection, fumigation and segregation of damaged stock.

The Corporation purchased 1,861 MT of wheat at Tauru Mandi (district Mewat) during Rabi Season 2008-09 and stored it in open plinths. FCI, during monthly inspection of the stock found (June 2008) that all the upper layers of the stock stored in open had been affected by rain water and recommended for their segregation. However, the segregation work was done by the Corporation in January 2009. After salvaging these stocks, 289.358 MT wheat was found totally damaged. FCI refused to take delivery of this wheat. The stock was auctioned (January 2010) as cattle feed at the rate of ₹ 960 per quintal by the Corporation.

We observed (January 2010) from records that the stock was covered with untied old poly covers without ropes. Resultantly, the rain water damaged the wheat stock. Even after recommendation (June 2008) of FCI, the work of segregation of stock was undertaken in November 2008 after a lapse of over four months.

Thus, failure to maintain health of the stock due to improper storage and delayed segregation resulted in loss of ₹ 13.82[*] lakh. Losses due to such lapses were pointed out in the performance audit on the working of the Corporation included in the Report of the Comptroller and Auditor General of India for the year 2005-06, Government of Haryana. Recommendations for ensuring proper storage were also made to avoid recurrence of similar losses in the said Report.

The Management replied (May 2010) that the loss was due to natural vagaries and the disciplinary action had been initiated against the negligent staff. The reply is not convincing as with proper safeguards and loss preventing measures, the loss on account of natural vagaries could have been avoided.

The Corporation should strengthen its internal monitoring mechanism to ensure that the inspection, disinfestations and reconditioning/segregation of stocks is done at reasonable time intervals in order to maintain its good health and should also evolve suitable procedure for taking punitive action against the negligent staff.

The matter was referred (March 2010) to the Government; the reply had not been received (September 2010).

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[*]

Realisable value from FCI	: ₹ 1389.17 per quintal
Quantity	: 2,893.58 quintals
Amount	: ₹ 40.20 lakh
Less amount actually received	: ₹ 27.86 lakh
Loss on disposal	: ₹ 12.34 lakh
Add: Expenditure on Salvaging	: ₹ 1.48 lakh
	₹ 13.82 lakh

General

3.15 Follow up action on Audit Reports

Replies outstanding

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

Though the Audit Reports for the years 2007-08 and 2008-09 were presented to the State Legislature in February 2009 and March 2010 respectively, all six departments, which were commented upon, did not submit replies to 24 out of 50 paragraphs/reviews as on 30 September 2010 as indicated below:

Year of the Audit Report (Commercial)	Number of reviews/paragraphs appeared in the Audit Report		Number of reviews/paragraphs for which replies were not received	
	Reviews	Paragraphs	Reviews	Paragraphs
2007-08	4	22	2	2
2008-09	3	21	3	17
Total	**7**	**43**	**5**	**19**

Department-wise analysis is given in ***Annexure 14.*** The Power department was the major defaulter with regard to submission of replies. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and deficiencies in execution of various schemes.

Outstanding action taken notes on Reports of Committee on Public Undertakings (COPU)

3.15.2 Replies to 14 paragraphs pertaining to 6 Reports of the COPU presented to the State Legislature between February 2004 and March 2010 had not been received (September 2010) as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
2003-04	2	2
2005-06	1	1
2006-07	1	3
2008-09	1	3
2009-10	1	5
Total	**6**	**14**

These reports of COPU contained recommendations in respect of paragraphs pertaining to four[@] departments, which appeared in the Reports of the Comptroller and Auditor General of India for the years 1998-99 to 2005-06.

[@] Power (nine), Industries (three), PWD (B&R) (one), Agriculture (one).

Response to Inspection Reports, Draft Audit Paragraphs and Reviews

3.15.3 Our observations noticed during audit and not settled on the spot are communicated to the respective heads of the PSUs and concerned departments of the State Government through Inspection Reports (IRs). The heads of PSUs are required to furnish replies to the IRs through respective heads of departments within a period of six weeks. Review of IRs issued up to March 2010 revealed that 703 paragraphs relating to 244 IRs pertaining to 21 PSUs remained outstanding as on 30 September 2010. Department-wise break up of IRs and audit observations outstanding as on 30 September 2010 is given in ***Annexure 15.***

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 16 draft paragraphs and two reviews forwarded to various departments during February to July 2010 as detailed in ***Annexure 16*** had not been replied to so far (30 September 2010).

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

(Sushama V. Dabak)
Principal Accountant General (Audit)
Haryana

Chandigarh
Dated

Countersigned

(Vinod Rai)
Comptroller and Auditor General of India

New Delhi
Dated