Chapter 2

2. Performance Audits relating to Government companies

Haryana Vidyut Prasaran Nigam Limited

2.1 Transmission activities

Executive Summary

The Transmission of electricity and Grid operations in Haryana are managed and controlled by Haryana Vidyut Prasaran Nigam Limited (Company) which is mandated to provide an efficient, adequate and properly coordinated grid management and transmission of energy. The activities of Company include construction of Extra High Tension (EHT) transmission network, i.e., 400 KV to 66 KV level Sub-stations (SSs) and lines. The Company had 337 numbers SSs with installed capacity of 27062 Mega Volt Ampere (MVA) and transmission lines of 11213.65 Circuit Kilo Meters (CKM) as on 31 March 2012. The performance audit of the Company for the period from 2007-08 to 2011-12 was conducted to assess the economy, efficiency and effectiveness of its operations and ability to meet the objectives of its establishment.

Planning and Development

The Company constructed 92 EHT SSs (63 per cent) against the target of 146 SSs during 2007-08 to 2011-12. The shortfall was attributable to non conducting proper walkout surveys, Right of Way (ROW) problems, delay in obtaining clearances from Forest Department, Railway Department and delays by the contractors in executing the works. The Company could not complete its projects as per schedule. The time overrun ranged between 3 and 41 months. The delays caused loss of envisaged benefits of ₹36.21 crore in the shape of additional revenue and suffered iron losses of ₹0.36 crore as SSs remained idle. The mismatch between the completion of generation capacity and evacuation system in two cases resulted in extra expenditure of ₹ 39 lakh besides evacuating the power through alternative system and failure to provide timely quality power to consumers. Construction of SS at Batta without load requirement resulted in unfruitful expenditure of ₹26.47 crore.

Performance of Transmission system

The Company could not control the transmission losses as it increased from 2.5 per cent in 2008-09 to 2.76 per cent in 2011-12 valuing ₹ 225.85 crore as against the norms of HERC of 2.1 per cent.

Grid management and disaster management

The Company had 219 SSs, of which only 43 SSs were provided with Remote Terminal Units for recording real time data for efficient Energy Management System. CERC imposed penalty of ₹ 8 lakh on violation of grid discipline during April 2010. The Company was not maintaining proper records of backing down instructions and had not evolved any mechanism to watch the compliance of backing down messages issued. Due to non implementation of backing down messages DISCOMs had to suffer loss of ₹4.84 crore.

There was inadequate Disaster

Management System in place at Transmission Circle (T.C), Rohtak as it had not carried out any mock drill during 2007-12. However, TC, Karnal conducted the exercise during last two years ending March 2012.

Financial management

The Company was in profit during the performance audit period and it earned a profit of ₹ 140.07 crore in 2011-12. The Company had to bear additional interest burden of ₹0.94 crore due to drawl of loan at a higher rate of interest. Delay in lodging claim with HUDA resulted in blocking up of funds of ₹223.88 crore and annual interest burden of ₹20.28 crore.

Tariff fixation

The Company had to bear interest burden of ₹ 218.81 crore on the loan drawn for unapproved capital work which was disallowed by HERC.

Monitoring and Control

The performance report of SSs and lines are not submitted to the BOD. Internal audit of the Company is in arrear since 2009-10. Though the Company had constituted an Audit Committee, the periodicity of their meetings were not in tune in terms of their Business Rules (Audit Committee) 2009 of the Company.

Conclusions and Recommendations

There was delay in completion of transmission projects. The transmission losses were in excess of HERC norms. Recovery from HUDA was not persued effectively. HERC disallowed interest on loans for unapproved works. The performance appraisal contains four recommendations to improve the performance of the Company.

Introduction

2.1.1 With a view to supply reliable and quality power to all by 2012, the Government of India (GoI) prepared the National Electricity Policy (NEP) in February 2005. It stated that the Transmission System required adequate and timely investment besides efficient and coordinated action to develop a robust and integrated power system for the country. It also, *inter-alia,* recognised the need for development of National and State power transmission Grid with the coordination of Central/ State Transmission Utilities. Transmission of electricity and Grid operations in Haryana are managed and controlled by Haryana Vidyut Prasaran Nigam Limited (Company) which is mandated to provide an efficient, adequate and properly coordinated grid Management and transmission of energy. The Company was incorporated on 19 August 1997 under the Companies Act, 1956 and reports to the Power Department. The Company also has partnership interest in the power generating assets of Bhakra Beas Management Board.

This performance audit covers the activities relating to the transmission of power in the State of Haryana during the period 2007-08 to 2011-12.

2.1.2 The Management of the Company is vested with a Board of Directors (BODs) comprising a Chairman, Managing Director (MD), three whole time Directors (Technical, Projects and Finance) and four part time Directors, appointed by the State Government. The Company conducts its operations through the Chairman and the MD who is the Chief Executive of the Company.

During the year 2007-08, the Company transmitted 25,688.80 MUs of energy which increased to 35,358.38 MUs in 2011-12 i.e. an increase of 37.64 *per cent* during 2007-12. As of 31 March 2012, the Company had transmission network of 11,213.65 Circuit Kilometers (CKMs) and 337 Sub Stations (SSs) with installed capacity of 27,062 MVA. The turnover of the Company was ₹ 1,112.59 crore in 2011-12, which was equal to 0.36 *per cent* of State Gross Domestic Product. It employed 4,983 employees as of 31 March 2012.

A Performance Audit on Erection, Augmentation and Maintenance of High Tension Lines and SSs was included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Haryana for the year ended 31 March 2004. The Report was discussed by the Committee on Public Undertakings (COPU) of the State Legislature in March 2007. The COPU recommendations are contained in its 53rd Report.

Scope of Audit

2.1.3 The present Performance Audit conducted during November 2011 to May 2012 covers the performance of the Company during 2007-08 to 2011-12. Audit examination involved scrutiny of records of different wings at the Head Office, State Load Despatch Centre (SLDC), Sewah (Panipat), Stores and Workshop Circle, Panipat, one [ʃ] out of two Transmission System (TS) Zones - each headed by a Chief Engineer and two TS circles[ϒ], one Civil Maintenance cum Construction [✠] and one Meter and Protection (M&P) circle[ℜ] - out of six TS circles, two Civil Maintenance cum Construction and two M&P circles each headed by Superintending Engineer. The units were selected on the basis of addition of capacity of transformers in MVA and CKMs in respect of transmission lines. Thereafter selection was made on probability proportion to size method.

The Company constructed 92 SSs (capacity: 5,488.90 MVA) and 163 lines (capacity: 3,442.90 CKMs) as well as augmented existing transformation capacity by 6,321.9 MVA during the review period. Out of these, 48 SSs (capacity: 2,335.5 MVA), 75 lines (capacity: 944.615 CKMs) and augmentation of existing transformation capacity by 2,597.70 MVA were examined.

The methodology adopted for attaining audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management/ Government for comments.

ʃ Panchkula.

ϒ Karnal and Rohtak.

✠ Panchkula.

ℜ Dhulkote (Ambala).

Audit objectives

2.1.4 The objectives of the performance audit were to assess whether:

- Perspective Plan was prepared in accordance with the guidelines of the National Electricity Policy/ Plan and State Electricity Regulatory Commission (SERC) and assessment of impact of failure to plan, if any;
- Operation and maintenance of transmission system was carried out in an economical, efficient and effective manner;
- The transmission system was developed and commissioned in an economical, efficient and effective manner;
- Disaster Management System was set up to safeguard its operations against unforeseen disruptions;
- Effective and efficient Financial Management System with emphasis on timely raising and collection of bills and filing of Aggregate Revenue Requirement (ARR) for tariff revision in time;
- Efficient and effective system of procurement of material and inventory control mechanism;
- Efficient and effective energy conservation measures were undertaken in line with the National Electricity Plan (NEP) and establishment of Energy Audit System; and
- There is a monitoring system in place to-review existing/ ongoing projects, take corrective measures to overcome deficiencies identified, respond promptly and adequately to Audit/ Internal Audit observations.

Audit Criteria

2.1.5 The following are the sources of audit criteria adopted for assessing the achievement of the audit objectives:

- Provisions of NEP;
- Annual Plan and Project Reports of the Company;
- Standard procedures for award of contracts with reference to principles of economy, efficiency, effectiveness, equity and ethics;
- ARR filed with Haryana Electricity Regularly Commission (HERC) for tariff fixation, Circulars, Manuals and Management Information System (MIS) reports;
- Manual of Transmission Planning Criteria (MTPC);
- Grid Code consisting of planning, operation, connection codes;
- Directions from State Government/ Ministry of Power (MoP);

- Norms/ Guidelines issued by HERC/ Central Electricity Authority (CEA);
- Report of the task force constituted by the MoP to analyse critical elements in transmission project implementation; and
- Reports of State Load Dispatch Centre (SLDC).

Audit Methodology

2.1.6 Audit followed the following mix of methodologies:

- Review of Agenda notes and minutes of meetings of Board of Company/ erstwhile Haryana State Electricity Board/ SLDC, annual reports, accounts;
- Scrutiny of loan files, physical and financial progress reports;
- Analysis of data from annual budgets and physical as well as financial progress with completion reports;
- Tariff fixed by HERC;
- Scrutiny of records relating to project execution, procurement, receipt of funds and expenditure; and
- Interaction with the Management during Entry and Exit Conferences.

Brief description of transmission process

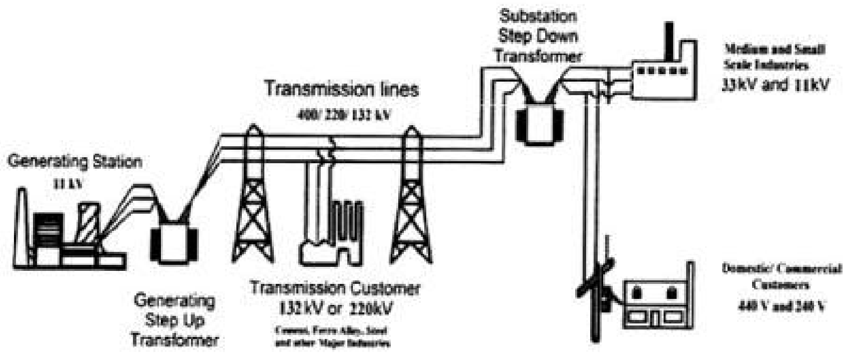
2.1.7 Transmission of electricity is defined as bulk transfer of power over long distances at high voltages, generally at 132 KV and above. Electric power generated at relatively low voltages in power plants is stepped up to high voltage power before it is transmitted to reduce the loss in transmission and to increase efficiency in the Grid. SSs are facilities within the high voltage electric system used for stepping up/ stepping down voltages from one level to another, connecting electric systems and switching equipment in and out of the system. The step up transmission SSs at the generating stations use transformers to increase the voltages for transmission over long distances.

Transmission lines carry high voltage electric power. The step down transmission SSs thereafter decreases voltages to sub transmission voltage levels for distribution to consumers. The distribution system includes lines, poles, transformers and other equipments[ϒ] needed to deliver electricity at specific voltages.

Electrical energy cannot be stored; hence generation must be matched to need. Therefore, every transmission system requires a sophisticated system of control called Grid management to ensure balancing of power generation closely with demand. A pictorial representation of the transmission process is

ϒ Control panel, battery, capacitor bank, battery charger etc.

given below:



Audit Findings

2.1.8 We explained the audit objectives to the Company during 'Entry Conference' (April 2012). Subsequently, Audit Findings were reported to the Company and the State Government in August 2012 and discussed in 'Exit Conference' in October 2012. The Exit Conference was attended by the Special Secretary, Power, Government of Haryana who was also holding the charge of Managing Director of the Company. The Company/ State Government replied (October 2012) to audit findings. The views expressed by them have been considered while finalising this performance audit. The audit findings are discussed in subsequent paragraphs.

Planning and Development

National Electricity Policy/ Plan

2.1.9 The Central Transmission Utility (CTU) and State Transmission Utilities (STUs) have the key responsibility of network planning and development based on the NEP in coordination with all concerned agencies. At the end of 10th Plan period (March 2007), the transmission system in the country at 765/HVDC/400/230/220/KV stood at 1.98 lakh CKMs of transmission lines which was planned to be increased to 2.93 lakh CKMs by end of 11th Plan period i.e. March 2012. The NEP assessed the total inter-regional transmission capacity at the end of 2006-07 as 14,100 MW and further planned to add 23,600 MW during 11th plan bringing the total inter-regional capacity to 37,700 MW. However, the Company is surrounded by other northern region States and not at the border of the region and as such it is not involved in planning or execution of interregional capacities.

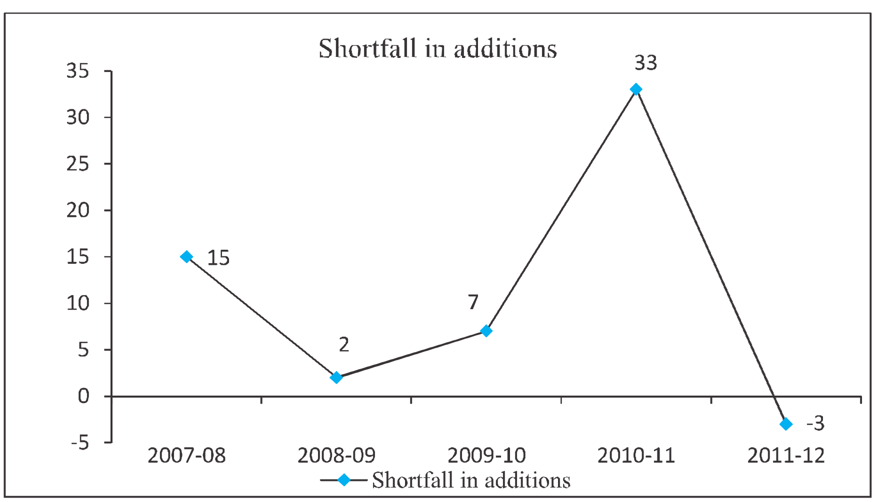
The Company's transmission network at the beginning of 2007-08 consisted of 245 Extra High Tension (EHT) SSs with a transformation capacity of 15,251.17 MVA and 7,770.75 CKMs of EHT transmission lines. The transmission network as on 31 March 2012 consisted of 337 EHT SSs with a transformation capacity of 27,062 MVA and 11,213.65 CKMs of EHT transmission lines.

Transmission network and its growth

2.1.10 The transmission capacity of the Company at EHT level during 2007-08 to 2011-12 is given below

Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12	Total
A. Number of Sub-stations (Numbers)							
1	At the beginning of the year	245	256	273	289	311	-
2	Additions planned for the year	26	19	23	55	23	146
3	Added during the year	11	17	16	22	26	92
4	Total sub stations at the end of the year (1+3)	256	273	289	311	337	-
5	Shortfall in additions (2-3)	15	2	7	33	-3	54
B. Transformers capacity (MVA)							
1	Capacity at the beginning of the year	15,251.17	16,268.17	18,375.50	20,582.00	24,097.50	
2	Additions/ augmentation planned for the year	-	-	-	-	-	-
3	Capacity added during the year	1,017.00	2,107.33	2,206.50	3,515.50	2,964.50	11,810.83
4	Capacity at the end of the year (1+3)	16,268.17	18,375.50	20,582.00	24,097.50	27,062.00	
C. Transmission lines (CKM)							
1	At the beginning of the year	7,770.75	7,935.73	8,425.43	8,999.10	10,015.84	
2	Additions planned for the year	-	-	-	-	-	
3	Added during the year	164.98	489.70	573.67	1,016.74	1,197.81	3,442.9
4	Total lines at the end of the year (1+3)	7,935.73	8,425.43	8,999.10	10,015.84	11,213.65	

Trend in shortfall in addition of SSs in numbers is depicted in the line graph below:



The capacity addition of SSs was planned in terms of number of SSs of various capacities (220 KV, 132 KV etc.). However, Transformation capacity in terms of MVA is made on the basis of actual requirement. Against the target construction of 146 SSs, the Company constructed only 92 SSs (63 *per cent*). The transmission capacity added was 11,810.83 MVA for the five years period ending 2011-12. The particulars of voltage-wise capacity additions planned, actual additions, shortfall in capacity, etc., during review period are given in the ***Appendix*** *7*. The Company has been consistently under achieving its targets. The main reasons for non achievement of targets as observed by us are discussed in paras 2.1.14 to 2.1.19.

Management in Exit Conference agreed to exhibit the planned capacity addition in transformer capacity and length of transmission lines in their plan and assured to make efforts to achieve the targets.

Project management of transmission system

2.1.11 A transmission project involves various activities from conception stage to its commissioning. Major activities in a transmission project are (i) Project formulation, appraisal and approval phase and (ii) Project Execution Phase.

For reduction in project implementation period, the Ministry of Power (MoP), Government of India constituted a Task Force on transmission projects (February 2005) with a view to:

- analyse the critical elements in transmission project implementation,
- implementation from the best practices of CTUs and STUs, and
- suggest a model transmission project schedule for 24 months' duration.

The task force suggested and recommended (July 2005) the following remedial action to accelerate the completion of Transmission systems.

❖ Undertake various preparatory activities such as surveys, design and testing, processing for forest and other statutory clearances, tendering activities etc. in advance/ parallel to project appraisal and approval phase and go ahead with construction activities once transmission line project sanction/ approval is received;

❖ Break-down the transmission projects into clearly defined packages such that the packages can be procured and implemented requiring least coordination and interfacing and at the same time, it attracts competition facilitating cost effective procurement; and

❖ Standardise designs of tower fabrication so that 6-12 months can be saved in project execution.

2.1.12 Delay in construction of SSs and lines during the five years ending March 2012 in respect of Karnal and Rohtak Circles, test checked in audit, are tabulated below:

Capacity in KV	Total No. constructed		No. test checked by Audit		Delay in construction (Numbers)		Time overrun* (range in months)	
	SSs	Lines	SSs	Lines	SSs	Lines	SSs	Lines
400	2	9	0	4	0	0	0	0
220	21	42	10	16	10	13	1 to13	3 to 31
132	51	82	38	55	30	21	2 to 32	3 to 41

Major reasons for delay were non execution of work relating to transmission lines together with completion of SSs besides delay in acquisition of land and handing over of site, non conducting proper walkout surveys, Right of Way (ROW) problems, delay in obtaining clearances from Forest Department, Railways Department and delays by the contractors in executing the works as discussed in paras 2.1.14 to 2.1.19. We observed that the Company failed to undertake various preparatory activities such as surveys, design and testing, processing for forest and other statutory clearances, tendering activities etc. in advance/ parallel to project appraisal and approval phase as recommended by the Task Force Committee. We also observed that though transmission projects were split into packages, yet the Company failed to execute several SSs and lines in a timely manner. Despite the recommendation of COPU in 53rd report (March 2007) that constraints as regard the availability of land, ROW etc. should be taken care of well in time to avoid delays in execution of SSs, the Company had not taken effective steps for timely execution of SSs. The Committee had also recommended that there should have been proper coordination amongst the power utilities for ensuring optimum utilization of transformers. But it was observed that despite COPU's recommendations, the Company continued to keep SSs idle without any load due to non-construction of feeding lines by Company and DISCOMs. Thus, the SSs remained idle resulting in iron losses[@] besides the Company was deprived of envisaged benefits of the construction of these SSs, as discussed below.

Due to delayed completion of projects Company was deprived of additional revenue of ₹ 36.21 crore and suffered iron losses of ₹ 0.36 crore.

Delay in construction of SSs and Lines

2.1.13 A test check of various works undertaken by the Company during the five years period ending March 2012 revealed several instances of delay in completion of projects which had significant impact on physical and financial objectives:

220 KV SS - Kaul

2.1.14 The Company approved (November 2007) creation of 220 KV SS Kaul with two transformers of 100 MVA each alongwith associated source line of 220 KV Double Circuit (D/C) line from Pehowa & Bastara and feeding line of 132 KV D/C line to 132 KV SS Dhand and 132 KV Single Circuit (S/C) line to 132 KV SS Habri. The construction of the above SS, was designed to provide relief to overloaded 220 KV SS Kaithal. Notice Inviting Tender (NIT) for the above works was issued in July 2008. Thus, it took more than seven

@ Power consumption by the transformers when there is no load on it.

months to issue NIT after approval of the work in November 2007.

The work of associated source line was awarded in January 2009 with scheduled date of completion by May 2010. Similarly, the work for SS was awarded in February 2009 with scheduled completion by June 2010. We observed that the associated source lines were completed in September 2010 after a delay of three months due to delayed approval from railway authorities. SS with one transformer was commissioned in December 2010 against scheduled date of completion of June 2010. However, the other transformer had not yet been commissioned so far (September 2012). Further, works in respect of two feeding lines had not been awarded so far (September 2012).

Thus, due to delay in completion of SS, relief to overloaded 220 KV SS Kaithal could not be provided as envisaged and the transformer was ultimately put to load on 30 August 2011. The Company suffered iron losses of 1.30[∝] lakh Units (LUs) valuing ₹ 4.47 lakh[श] for the period (270 days) during which transformer was run on no load and also envisaged benefit[f] of ₹ 10 crore in the shape of additional revenue also could not be realised.

220 KV SS Sampla

2.1.15 The Company approved (October 2007) creation of 220 KV SS Sampla along with associated source line of Loop In Loop Out (LILO) of 220 KV D/C Bahadurgarh-Rohtak. For maintaining system's reliability, the SS had to be connected to the proposed 220 KV SS Mohana by creating 220 KV D/C Sampla Mohana line. NIT for the above works was issued in July 2008. It took more than eight months to issue NIT after its approval in October 2007.

The works for both the 220 KV lines were awarded in January 2009 with scheduled completion by May 2010. The work for SS was awarded in February 2009 and it was to be completed by June 2010. However, the date of completion was extended up to November 2010 as the Company could not make available the site for construction of control room building. We observed that the associated Bahadurgarh-Rohtak source line was completed in November 2011 with a delay of more than seventeen months due to non finalisation of route. The 220 KV line from Sampla to Mohana was completed in March 2011 with a delay of nine months. We observed delay in taking approval from Power Grid Corporation of India Limited (PGCIL) and delayed permission by Railways for shutdown as the proposed line was to cross the PGCIL line and railway track. SS Sampla was also commissioned in March 2011.

The Company failed to comply with the recommendations of Task Force. It did not complete various preparatory activities *viz.* conducting detailed survey and obtaining Railways clearance simultaneously with project appraisal and

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∝ Iron losses in LUs = Iron losses (KW) per hour as mentioned in each purchase order x 24 hours x number of days remained on no load /one lakh.

श Iron losses (₹ in lakh) = Iron losses (LUs) x weighted average power purchase cost i.e. ₹ 3.34 per unit (2010-11) and ₹ 3.52 per unit (2011-12) 0.57 LUs x ₹ 3.34+0.73 LUs x ₹ 3.52.

f Expenditure incurred X Rate of return (percentage) X delay in days.

approval stage. Resultantly, the Company sustained iron losses of 1.45 LUs valuing ₹ 5.08 lakh[ϒ] due to not putting load on transformers for 303 days (up to December 2011) and also failed to earn the envisaged additional revenue of ₹ 7.50 crore.

220 KV SS Mohana

2.1.16 The Company decided (April 2008) to construct 220 KV SS, Mohana in Sonipat including source line of 220 KV D/C Jhajjy-Mohana line and feeding line 132 KV D/C Mohana-Mundlana line to feed 132 KV SS Mundlana and LILO of S/C Harsana Kalan-Kharkhoda at SS Mohana.

However, the proposal for construction of LILO of S/C line Harsana kalan-Kharkhoda was belatedly cancelled in February 2012 and it was decided to erect new 132 KV D/C line from SS Mohana to 132 KV Harsana Kalan. The work of 220 KV SS Mohana was awarded in February 2009 with scheduled date of completion by June 2010. The work of its source line 220 KV D/C Jhajjy-Mohana line was awarded in February 2010 and was to be completed by May 2010. The work of feeding line of Mohana-Mundlana awarded in May 2010 was to be completed by May 2011.

We observed that the SS was commissioned in June to November 2010 after a delay of four months, whereas feeding line i.e., 132 KV Mohana-Mundlana line had not been completed so far (September 2012). As such, 132 KV SS Mundlana had to be fed through 220 KV SS Rohtak. The Company lost 1.68 LUs valuing ₹ 5.77 lakh[∫] due to energising transformers without putting any load thereon for 349 days (up to October 2011). The Company also could not receive the additional envisaged revenue of ₹ 4.12 crore as envisaged.

220 KV SS Chhajpur

2.1.17 The Company approved (October 2007) the construction of 220 KV SS Chhajpur, source line of 220 KV D/C Sewah to Chhajpur line and two feeding lines of 132 KV S/C line from SS Chhajpur to 132 KV SS, Sector 29, Panipat and 132 KV S/C line from Beholi to Chhajpur. NIT for the above works was issued in July 2008. The work for feeding line *viz.* SS Chhajpur to Panipat was awarded in October 2008 and planned to be completed by November 2009. Thereafter, work for two lines[*] i.e. one feeding and one source line was awarded in January 2009. The work of feeding and source line was to be completed by February and May 2010 respectively. Similarly, the work for SS was awarded in February 2009, which was to be completed by June 2010. We observed that the source line was completed in March 2011 with a delay of nine months and the feeding lines were completed in September 2010 with a delay of nine[∂] and six[⌧] months. These lines were delayed due to ROW

[ϒ] Iron losses (₹ in lakh) = 0.14 LUs x ₹ 3.34 per unit (2010-11) and 1.31 LUs x ₹ 3.52 per unit (2011-12).

[∫] Iron losses (₹ in lakh): 0.65 LUs x ₹ 3.34 (2010-11) + 1.02 LUs x ₹ 3.52 (2011-12).

[*] 220 KV D/C source line from Sewah to Chhajpur and 132 KV S/C feeding line from Beholi to Chhajpur.

[∂] Chhajpur to Panipat.

[⌧] Beholi to Chhajpur.

problem and delayed clearance by Forest Department, besides non construction of bays[ϒ] by the Company at SS Chhajpur. The feeding lines were made operational from April 2012. The delay resulted in iron losses of 1.96 LUs valuing ₹ 6.90 lakh[∇](up to April 2012) and the envisaged benefit of ₹ 6.30 crore in the form of additional revenue could not be realised.

220 KV SS Samalkha

2.1.18 The Company approved (October 2007) the construction of 220 KV SS at Samalkha with its associated four lines i.e. 220 KV D/C Samalkha to Chhajpur line, 132 KV S/C line on D/C towers from Samalkha to Beholi, 132 KV S/C line on D/C towers from Samalkha to Naultha and 132 KV S/C line on D/C towers from Samalkha to Bega. NIT for the above works was issued in July 2008. Thus, the Company took more than eight months in issue of NIT.

The work for SS was awarded in February 2009. The work was required to be completed by May 2010 but was extended up to December 2010, as the Company could not make available the site for construction of control room building. The work for three 132 KV lines and one 220 KV line was awarded (January 2009) with scheduled completion by February 2010 and May 2010 respectively.

We observed that the SS was commissioned in January 2011 with a delay of seven months mainly due to slow progress of civil works by contractor, labour and machinery problem and improper planning of the contractor. The four associated lines were completed during August 2010 to March 2011 with delays ranging between seven and 10 months. The main reasons for delay were increase in length of line due to change of the route by more than 50 *per cent*, huge quantity variations, delay in approval of railway crossing, delay in approval of crossing of 220 KV D/C Nangal Delhi BBMB line, ROW problem, litigations by land owners and delay in shifting of 11 KV feeders by the UHBVNL. The delay resulted in denial of envisaged benefit of ₹ 5.64 crore in the shape of additional revenue.

132 KV SS Beholi

2.1.19 The Company approved (October 2007) the creation of 132 KV SS Beholi. The SS was to be constructed to provide relief to existing 33 KV SS Beholi (16.6 MVA) and Dikadla (17.6 MVA) by shifting their load to proposed SS.

The work for construction of SS was awarded in February 2009. The work was required to be completed by February 2010 but was extended up to September 2010 as the Company could not make available the site for construction of control room building and was partially commissioned in October 2010 and fully commissioned in November 2011 after a delay of 20 months. We observed that the Company suffered iron losses of 0.89 LUs

ϒ Bay means a part of a Sub-station containing switching and control devices connected to the bus-bar of the Sub-station, for specific electrical supply line and power transformer.

∇ Iron losses (₹ in lakh) = 1.96 LUs x ₹ 3.52.

valuing ₹ 2.99 lakh[ϒ] due to not putting load till April 2011 and also failed to get the envisaged benefit of ₹ 2.65 crore in the shape of additional revenue.

Management replied (October 2012) that due to delayed funding arrangement excess time was taken in floating of NITs in respect of SS Kaul, Sampla, Chhajpur and Samalkha. Moreover, SS Kaul, Mohana, Chhajpur and Beholi has not been put on load due to mismatching in completion of SS & lines and non construction of underlying system by DISCOMs. They contended that the loss of envisaged benefit is not applicable as revenue to HVPNL is made on the basis of ARR. The reply is not acceptable as the Company in DPRs projected the rate of return to be earned after completion of projects. Thus, the Company failed to earn additional revenue as per DPR due to delayed completion.

132 KV SS Halluwas

2.1.20 In terms of power provided under Section 164 of the Electricity Act, 2003, the State Government conferred (21 December 2009) the Company with all the powers possessed by the telegraph authority in respect of electrical lines established or to be established or maintained for transmission of electricity. A Telegraph authority can issue Gazette Notification under Indian Telegraph Act, 1885 for smooth execution of works.

The Company approved (January 2006) the proposal of DHBVNL for creation of 132 KV SS Halluwas by utilising idle 132 KV S/C Dadri-Bhiwani line and construction of additional 132 KV line.

We observed that before empowerment (December 2009) the Company issued (19 December 2006) Gazette Notification for construction of link line of proposed SS. The SS was completed at a cost of ₹ 5.39 crore on 14 May 2009, whereas the work of link line was held up due to stay granted (23 January 2008) by Trial Court, Bhiwani in the case filed by land owner on the ground of issuance of notification without rights being conferred by State Government. The appeals filed against the above order were dismissed by the District Court and High Court on 16 October 2008 and 19 February 2009 respectively. Subsequently, the State Government issued (21 December 2009) notification empowering the Company for issue of Gazette Notification and the case was withdrawn by the landowner in April 2011. SS was commissioned on 8 July 2011 i.e. after a delay of more than two years. Thus, due to issue of notification for construction of link line of proposed SS by the Company without being empowered to do so resulted in avoidable litigation and resultantly, SS constructed at cost of ₹ 5.39 crore remained unutilised which led to loss of interest of ₹ 1.05 crore[ϵ].

Management replied (October 2012) that this practice was being followed since the time of erstwhile HSEB and line was delayed due to litigation. The fact remained that the Company overlooked the fact that it required special

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ϒ Iron losses (₹ in lakh) = 0.75 LUs x ₹ 3.34 per unit (2010-11) and 0.14 LUs x ₹ 3.52 per unit (2011-12).

ϵ ₹ 5.39 crore x 9.08 *per cent* (average rate of interest during 2007-11) x 785 days / 365 days.

empowerment consequent to its changed legal status.

Mismatch between Generation Capacity and Transmission facilities

2.1.21 NEP envisaged augmenting transmission capacity taking into account the planning of new generation capacities, to avoid mismatch between generation capacity and transmission facilities. The transmission facilities to be provided by Company to match with the generating Company's generation plans could not be provided in time due to delay in execution of transmission evacuation works, which ultimately resulted in mismatch between generation capacities and transmission facilities and consequent evacuation of the power with the existing and already overloaded transmission lines.

During test check, following cases were noticed where the Company failed to complete the transmission network to match with the creation of generating capacity.

Indira Gandhi Super Thermal Power Project (IGSTPP), Jhajjar

2.1.22 Aravali Power Company Private Limited (APCPL), a Company owned by National Thermal Power Corporation of India (NTPC), Indra prastha Power Generation Company Limited (IPGCL) and HPGCL awarded (July 2007) the work for construction of 1500 MW (3 Units×500 MW) IGSTPP at Jhajjar with scheduled date of synchronization of the Unit-I, II and III on July 2010, October 2010 and January 2011, respectively. Units-I and II were belatedly synchronised on 10 October 2010 and 21 October 2011 respectively. Unit III had not been commissioned so far.

The Company accorded (December 2007) approval for the following transmission works related to the evacuation of Power from IGSTPP.

Sl. No.	Name of work	LOA Date	Commissioning Date		Delay in days
			Schedule	Actual	
1	Construction of 400 KV SS, Daulatabad	19 September 2008	18 April 2010	12 March 2011	328
2	Construction of 400 KV line from IGTPS to Daulatabad	31 October 2008	30 March 2010	7 December 2010	252
3	Construction of 400 KV line from Daulatabad to Sec-72, Gurgaon	3 March 2010	2 January 2011	Not completed (December 2012)	

The SS and one line were not completed in time and delayed by 328 and 252 days respectively. Against the synchronization of Unit I in October 2010, the SS with only one line was completed by March 2011. The line from Daulatabad to Sector-72, Gurgaon had not been completed so far (December 2012).

We observed that construction of above transmission works were delayed due to delayed signing of contract and ROW problems because of non obtaining of prior approval from Haryana Urban Development Authority (HUDA)/ District Town Planning (DTP) authorities. Thus, due to mismatch between creation of generation capacities and transmission facilities, the Company evacuated power *via* overloaded lines as a result availability of quality power, improved voltage *etc*. could not be ensured to the consumers.

Rajiv Gandhi Thermal Power Station, Khedar, Hisar (RGTPS)

2.1.23 HPGCL awarded (January 2007) Erection, Procurement and Commissioning (EPC) contract for construction of RGTPS with two units of 600 MW each with synchronisation schedule for Unit-I and II as November 2009 and February 2010 respectively. The Unit-I and II were actually synchronised on 28 December 2009 and 20 April 2010.

Following table depicts the delay in the transmission works relating to evacuation of power from RGTPS.

Sl. No.	Name of work	LOA Date	Commissioning Date		Delay in days
			Schedule	Actual	
1	Creation of 400 KV SS Kirori	8 April 2008	7 November 2009	19 February 2010	104
2	Creation of 400 KV D/C line from RGTPS (Khedar) to proposed 400 KV SS Kirori (Hisar)	7 January 2008	6 August 2009	19 February 2010	198
3	400 KV D/C line from RGTPS to 400 KV SS Fathebad PGCIL	7 January 2008	6 August 2009	5 January 2010	152
4	Loop in Loop Out of Jind Hisar IA 220 D/C at 400 KV SS Kirori (Hisar)	3 June 2008	2 July 2008	20 May 2009	322
5	Creation of 400 KV SS at Nuhiyawali	1 June 2009	22 April 2011	27 February 2012	311
6	LILO of one circuit of 400 KV D/C RGTPS- Fatehabad line at proposed 400 KV SS Nuhiywali	6 August 2009	5 September 2009	18 July 2011	681

It can be seen from the above that the Company awarded the work for construction of transmission system during January 2008 to August 2009 with the delay ranging from 10 to 20 months from the date of award of work by HPGCL for RGTPS in January 2007. Further, these transmission works were completed belatedly ranging from 104 days to 681 days due to delay in approval of drawings. One SS, (Sl. No. 1) two lines (Sl. No. 2 and 3) and one LILO (Sl. No. 6) were commissioned between May 2009 and July 2011 against commissioning of Units-I & II in December 2009 and April 2010 respectively and one SS (Sl. No. 5) had been completed with delay of 311 days. Only LILO (Sl. No. 4) of Jind-Hisar at Kirori SS could be completed before actual commissioning of Unit I. Due to non timely completion of evacuation system, the Company had to make temporary arrangement (March 2009) of LILO of 400 KV Hisar-Moga line at RGTPS at a cost of ₹ 1.98 crore in May 2009. This line was dismantled after construction of RGTPS Fatehabad PGCIL line in January 2010. However, out of the cost of ₹ 1.98 crore, material worth ₹ 1.56 crore would be reused whereas the remaining expenditure of ₹ 0.39 crore would have to be written off as loss.

Management replied (October 2012) that associated transmission lines were completed late due to delayed receipt of approval from Railway authorities and there was mismatch in synchronisation due to non commissioning of 400 KV line from IGSTPP to Daulatabad in time. Management assured that future plans of evacuation of power would be drawn to ensure supply of quality power to the consumers.

Construction of SSs without assessing load requirement

2.1.24 For construction of a SS, the load growth and anticipated increase of demand in future along with permissible limits of voltage regulations are required to be considered mandatory, prior to taking up of the project, so that unnecessary expenditure can be avoided. The load forecasts for the proposed new schemes should also consider the anticipated physical and financial benefit to be derived. In this regard, the Company receives proposals from Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DISCOMs) for creation/ upgradation of SSs and associated lines.

Construction of 220 KV SS Batta

2.1.25 UHBVNL sent proposal for upgradation of 33 KV SS at Kalayat to 132 KV with feeding by LILO of 132 KV Narwana-Tohana line. But the same could not be finalised due to space constraints. However, the Company without conducting load flow study, approved (August 2008) construction of new 220 KV SS at Batta (Kaithal) and LILO of 220 KV Narwana-Kaithal D/C line at proposed SS Batta and asked (July 2008-January 2009) the UHBVNL to submit comprehensive proposal for creation of new 220 KV SS Batta along with linked lines.

We noticed that without receiving any proposal from UHBVNL, the Company issued (September 2009 and May 2010) work orders for construction of 220 KV SS Batta at a cost of ₹ 25.62 crore and LILO of 220 KV Narwana- Kaithal D/C line at 220 KV SS Batta at ₹ 85 lakh. The scheduled commissioning of both the works was 7 December 2010 and 31 August 2011 respectively. We further observed that the Company had not planned any underlying transmission system for the SS Batta before awarding these works. Subsequently, the Company approved (May 2010) three lines of underlying transmission system out of which proposal of two lines was cancelled (June 2011) due to space constraints for making bays and alternative two lines were approved for covering the same. Batta 220 KV SS and linked lines were commissioned in July and August 2011, but are not being used till date (September 2012).

Construction of SS without load requirement, the expenditure of ₹ 26.47 crore remained unfruitful.

Thus, due to construction of SS without load requirement and planning of underlying transmission system, expenditure of ₹ 26.47 crore remained unfruitful so far (December 2012). Besides this, the Company also suffered iron losses of 2.94 LUs valuing ₹ 10.35 lakh[®] as SS was running on no load since its commissioning.

While admitting the facts in Exit Conference, Management stated that proper study would be under taken while planning transmission systems.

® Iron losses (₹ in lakh) = 1.92 LUs x ₹ 3.52 per unit (2011-12).

Performance of transmission system

2.1.26 The performance of the Company mainly depends on efficient maintenance of its EHT transmission network for supply of quality power with minimum interruptions. In the course of operation of SSs and lines, the supply-demand profile within the constituent sub-systems is identified and system improvement schemes are undertaken to reduce line losses and ensure reliability of power by improving voltage profile. These schemes are meant for augmentation of existing transformer capacity, installation of additional transformers, laying of additional lines and installation of capacitor banks. The performance of the Company with regard to Operation & Maintenance (O&M) of the system is discussed in the succeeding paragraphs.

Transmission capacity

2.1.27 The Company in order to evacuate the power from the Generating Stations and to meet the load growth in different areas of the State constructs lines and SSs at different EHT voltages. A transformer converts AC voltage and current to a different voltage and current at a very high efficiency. The voltage levels can be stepped up or down to obtain an increase or decrease of AC voltage with minimum loss in the process. The evacuation is normally done at 220 KV SSs. The transmission capacity (220 KV) created *vis-à-vis* the transmitted capacity (peak demand met) at the end of each year by the Company during the five years ending March 2012 are as follows:

Transmission capacity (in MVA)				
Year	**Installed (including BBMB capacity used by the Company)**	**After leaving 30 *per cent* towards margin**	**Peak demand including non-coincident demand**	**Excess**
1	**2**	**3**	**4**	**5=(3)-(4)**
2007-08	8750	6125	5458	667
2008-09	9790	6853	5305	1548
2009-10	10340	7238	6426	812
2010-11	11690	8183	6142	2041
2011-12	13130	9191	7125	2066

From the above table, it could be observed that the overall transmission capacity was in excess of the requirement during period covered in performance audit.

Maintenance

Performance of Current transformers (CT)

2.1.28 As Current transformers are one of the most important and cost-intensive components of electrical energy supply networks, it is required of special interest to prolong their life duration while reducing their maintenance expenditure. In order to gather detailed information about the operating conditions of CTs, various kinds of oil analysis like the standard oil Dissolved Gas Analysis (DGA) tests are generally conducted. For CT insulation, a combination of an insulating liquid and a solid insulation impregnated therewith are used. For an evaluation of the actual condition of this insulating system usually a DGA is used, as failures inside the CT lead to a degradation of the liquid insulation in such a way that the compound of the gases enables an identification of the cause of failure. The table below indicates status of failure of transformers during the years 2007-08 to 2011-12:

Year	No. of transformers at the beginning of the year	No. of transformers failed	Expenditure on repair and maintenance (₹ in crore)	Damage rate (in percentage)
2007-08	641	24	6.98	3.74
2008-09	677	21	5.91	3.10
2009-10	741	23	9.79	3.10
2010-11	754	20	6.67	2.65
2011-12	845	29	10.59	3.43

It is evident from above table that Company had 641 current Transformers (CTs) of different capacities as on April 2007 which increased to 845 CTs in April 2011. During five years, 117 nos. of CTs were damaged of which 69 CTs (60 *per cent*) were of 132/11 KV capacity. HERC in its Tariff Orders had also reiterated (2007-08 to 2011-12) that the Company strictly enforce and implement the preventive maintenance schedule to aim at zero damage rates.

Management stated (October 2012) that damage rates of transformers came down from 3.74 *per cent* in 2007-08 to 2.65 *per cent* in 2010-11 but its abnormal increase in 2011-12 was due to damage of 132/11 KV ECE make transformers which have some inherent design/ manufacturing defect. The Company has now reviewed the preventive maintenance schedule of the transformers and have issued fresh schedules and guidelines for strict adherence and implementation.

Transmission losses

2.1.29 While energy is carried from the generating station to the consumers through the Transmission & Distribution (T&D) network, some energy is lost which is termed as T&D losses. Transmission loss is the difference between energy received from the generating station/ Grid and energy sent to DISCOMs. The details of intra State transmission losses from 2007-08 to 2011-12 are given below:

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Power received at HVPNL bus units (in MUs)	26,321.80	27,711.50	32,885.70	34,277.20	36,363.13
2	Net power transmitted	25,688.80	27,017.90	32,024.20	33,380.10	35,358.38
3	Loss in transmission (in MUs) (1)-(2)	633.00	693.60	861.50	897.10	1,004.75
4	Transmission Loss (in *per cent*)	2.40	2.50	2.62	2.62	2.76
5	Target Transmission Loss as per HERC *(in per cent)*	2.60	2.10	2.10	2.10	2.10
6	Transmission loss in excess of HERC norms *(in per cent)* (Sl. No. 4- Sl. No.5)	-	0.40	0.52	0.52	0.66

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
7	Transmission loss in excess of HERC norms (MUs) (Sl. No. 6 x Sl. No. 1/100)	-	110.85	171.01	178.24	240.00
8	Power purchase cost (rate per unit in ₹)		3.06	3.49	3.34	3.03
9	Value of transmission losses (₹ in crore)		33.92	59.68	59.53	72.72

Transmission losses exceeded HERC norms during 2008-12 valuing ₹ 225.85 crore.

It could be seen from the above that the transmission losses were on increasing trend and exceeded HERC norms during 2008-09 to 2011-12 valuing ₹ 225.85 crore. The excessive transmission losses were passed on by the Company to the consumer through DISCOMs. Thus, the consumers had to pay more for the inefficiency of the Company.

Management replied that transmission losses are unavoidable and in Haryana these were lower in comparison with other States in the country. It was also stated that the HERC has been requested to review these norms to make these more practical and realistic. The point stands that transmission losses were higher than HERC norms during period covered under performance audit.

Grid Management

Maintenance of Grid and performance of SLDC

2.1.30 Transmission and Grid Management are essential functions for smooth evacuation of power from generating stations to the DISCOMs/ consumers. Grid Management ensures moment to moment power balance in the interconnected power system to take care of reliability, security, economy and efficiency of the power system. The Grid management in India is carried out in accordance with the standards/ directions given in the Grid Code issued by CERC. National Grid consists of five regions viz., Northern, Eastern, Western, North Eastern and Southern Grids, each of these having a Regional Load Despatch Centre (RLDC), an apex body to ensure integrated operation of the power system in the concerned region. The Haryana State Load Despatch Centre (SLDC), Sewah (Panipat), a constituent of Northern Regional Load Despatch Centre (NRLDC), Delhi, ensures integrated operation of power system in the State. The State Government notified (10 December 2003) that the SLDC shall be operated by the Company. The SLDC has no Area load dispatch centre and is assisted by two Sub State Load Despatch Centres (Sub-SLDs) i.e. Dadri and Narwana for data acquisition and transfer to SLDC and supervisory control of 400/220/132 KV and 66 KV equipments. The SLDC levies and collects such fees and charges from the licensees engaged in intra-state transmission of electricity as specified by HERC.

Infrastructure for load monitoring

2.1.31 Remote Terminal Units/ SS Management Systems (RTUs/SMSs) are essential for monitoring the efficiency of the transmission system and the load during emergency in load despatch centers as per the Grid norms for all SSs.

The Company had 219 SSs of 400/220/132 KV and 18 generators out of which only 43 SSs (19.63 *per cent*) and 16 generators (88.89 *per cent*) were provided with RTUs for recording real time data for efficient Energy Management System. Thus, SLDC had connected with RTU/SMS to the extent of 19.63 and 88.89 *per cent* of its SSs and generators respectively which were restricting its capacity to monitor efficiency of transmission system and load monitoring on real time basis.

Management stated (October 2012) that the Company made an agreement with PGCIL to strengthen the communication system, auxiliary power supply system and providing RTUs on strategic SSs over the next 3-4 years span.

Grid discipline by frequency management

2.1.32 As per Grid Code, the transmission utilities are required to maintain Grid discipline for efficient functioning of the Grid. All the constituent members of the Grid are expected to maintain a system frequency between 49 and 50.5 Hertz (Hz) (49.2 and 50.2 Hz with effect from April 2009). However, due to various reasons such as shortage in generating capacities, high demand, Grid indiscipline in maintaining load generation balance, inadequate load monitoring and management, Grid frequency goes below or above the permitted frequency levels. To enforce the Grid discipline, the NRLDC issues three types of violation messages (A, B, C). Type 'A' is issued when the frequency is less than 49.2 Hz and overdrawal is more than 50 MW or 10 *per cent* of schedule whichever is less. Type 'B' message is issued when frequency is less than 49.2 Hz and over-drawl is between 50 and 200 MWs for more than ten minutes or 200 MW for more than five minutes. Type 'C' (serious nature) is issued 15 minutes after the issue of type message B when frequency continues to be less than 49.2 Hz and over drawl is more than 100 MW or ten *per cent* of the schedule whichever is less.

We observed that 20 type 'C' messages received in 2009-10 increased to 31 in 2010-11 and these decreased to 29 in 2011-12. Increase in the receipt of type C messages denotes grid indiscipline which led to levy of penalty by CERC as detailed below:-

Grid discipline

2.1.33 For maintenance of Grid discipline, CERC takes up *suo motu* petition on overdrawal of power from the Grid at a lower frequency thus putting the grid to the risk. CERC is empowered under the provisions of Section 29(6) and 143 of the Electricity Act, 2003 for imposition of penalty of ₹ one lakh per message on violation of Grid discipline. CERC in its order (September 2011) held that Haryana was selling power under short term and simultaneously overdrawing power from the grid during April 2010 and as such penalty of ₹ eight lakh was imposed for non compliance of the instructions of NRLDC.

Management replied (October 2012) that increase in type 'C' Messages was due to excessive overdrawal made by DISCOMS and penalty is to be recovered from DISCOMs. The reply is not acceptable as SLDC is responsible to maintain grid discipline in term of Electricity Act 2003 and the penalty has been imposed on it.

Backing Down Instructions (BDI)

2.1.34 When the frequency exceeds the ideal limits i.e. situation where generation is more and drawl is less (at a frequency above 50 Hz) SLDC takes action by issuing BDI to the Generators to reduce the generation for ensuring the integrated grid operations and for achieving maximum economy and efficiency in the operation of the power system in the State. Failure of the generators to follow the SLDC instructions would constitute violation of the grid code and would entail penalties not exceeding ₹ five lakh under Section 33 of Electricity Act, 2003.

The Company issued 110 BDIs during 2007-12. Out of these, only 49 BDIs for 249.63 MUs relating to Panipat Thermal Power Station (PTPS) could be quantified in audit and the remaining BDIs could not be quantified due to non maintenance of proper record. However, as per the records of HPGCL it had implemented BDIs for 548.04 MUs in respect of PTPS, Panipat. Thus, the Company was not maintaining proper records of BDIs issued and had not evolved any mechanism to watch the compliance of backing down messages issued.

UHBVNL too had complained that due to non-implementation of backing down messages by HPGCL, excess energy was pumped into the Grid at very low prices which resulted into loss of ₹ 4.84 crore (26 June 2011 and 8 July to 10 July 2011) to DISCOMs towards excess payment on account of costly power generated during high frequency.

Management replied (October 2012) that backing down messages were given by Haryana Power Purchase Centre (HPPC) which are further communicated to HPGCL. Therefore complete record is being maintained by HPGCL Authorities. The complete backing down cannot be done by HPGCL due to technical problems such as poor quality of coal and excessive use of oil etc. Reply is not tenable as SLDC is empowered to issue directions to DISCOMs for maintaining grid discipline under Section 33 of Electricity Act, 2003.

Disaster Management

2.1.35 Disaster Management (DM) aims at mitigating the impact of a major break down on the system and restoring it in the shortest possible time. As per the Best Practices, DM should be set up by all power utilities for immediate restoration of transmission system in the event of a major failure. It is carried out by deploying Emergency Restoration System, DG sets, vehicles, fire fighting equipments, skilled and specialised manpower.

Disaster Management Centre, National Load Dispatch Centre, New Delhi acts as a Central Control Room in case of disasters. As a part of DM programme mock drill for starting generating station during black start operations should be carried out at regular intervals by the Company. We observed that out of two Transmission circles (Karnal and Rohtak) selected in audit, Transmission Circle, Rohtak had not carried out any mock drill for starting up generating station in case of black start• operation in 2007-08 to 2011-12. However,

• The procedure necessary to recover from partial or total blackout.

Transmission Circle, Karnal conducted one exercise during last two years ending March 2012. Thus, the Transmission Circles were not prepared for Disaster Management.

Inadequate security arrangement at SSs

2.1.36 The Company should have adequate facilities for Disaster Management for which all 220 KV SSs should be provided with DG sets.

We noticed that the Company had 51 numbers of 220 KV SSs as on March 2012. A test check of two circles (TC Karnal and Rohtak) revealed that out of 22 number SSs (17 SSs at Karnal and 5 SSs at Rohtak) only 13 DG sets (11 no. at Karnal and two at Rohtak) were available. Further, the Company had not identified vulnerable installations where metal detectors could be installed or where the sites could be handed over to the security forces to avoid sabotage. Thus, the Company had no security setup for its installations. We further, observed that due to inadequate facilities for DM the Company had to sustain a loss of ₹ 11.92 lakh due to sabotage (September 2010) at 400 KV SS of Kirori.

Management assured that security arrangement will be strengthened at SSs.

Energy Accounting and Audit

2.1.37 Energy accounting and audit is necessary to assess and reduce the transmission losses. The transmission losses are calculated reading obtained from the Meter Reading Instruments at Generators to Transmission (GT) and Transmission to Distribution (TD) Boundary metering points.

As on March 2012, there were 814 interfaces Boundary metering points as metering points between TD (781) and GT (33). 25 GT points were provided with Special Energy Meters (SEMs), 8 GT points with mechanical meters and 715 TD points were provided with SEMs and balance 66 were of mechanical class meters. The Company worked out transmission losses on the basis of difference between energy received on Bus Bar of the Company and actually transmitted to DISCOMs.

Energy Centre was established in 2002 to analyse the transmission losses wherein only energy accounts of inter utility, embedded generators & Open access customers were prepared. Energy Centre had not conducted energy audit as there are no manual/ guidelines in this regard. The Company, while filing ARR for 2008-09, had submitted the plan for strengthening energy audit by checking the correctness of energy recorded in main meters with check meters. However, no steps were taken by the Company to implement the same so far (September 2012).

Management replied (October 2012) that SEMs at remaining 37 nos. TD points are likely to be commissioned soon. In Exit Conference (October 2012) Management also stated that financial implications without matching benefits impede installation of necessary infrastructure for collection of data required for energy audit. However, they noted the suggestions for implementation.

Financial Management

Financial position

2.1.38 One of the major objectives of the NEP 2005 was ensuring financial turnaround and commercial viability of Power Sector. The financial position relating to transmission activities of the Company for the five years ending 2011-12 is as under:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
A. Liabilities					
Paid up Capital	773.88	909.16	1158.54	1505.41	1777.17
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve and current Profit and loss)	77.35	89.09	96.47	100.27	354.35
Profit & Loss account	0.00	0.00	63.84	251.46	140.07
Borrowings	2378.79	2707.73	3538.11	3964.32	4402.69
Current Liabilities & Provisions (CL)	547.54	754.83	793.25	859.91	586.41
Total (A)	**3777.56**	**4460.81**	**5650.21**	**6681.37**	**7260.69**
B. Assets					
Gross Block	2057.18	2368.56	2910.62	3243.99	4452.47
Less: Depreciation	462.00	520.05	644.90	784.95	942.28
Net Fixed Assets	1595.18	1848.51	2265.72	2459.04	3510.19
Capital works-in-progress (CWIP)	537.56	924.56	1456.11	2139.12	1561.73
Investments	1007.88	1013.48	1013.48	1013.48	1013.48
Current Assets, Loans and Advances	536.71	652.17	914.90	1069.73	1175.29
Miscellaneous expenditure	0.08	0.00	0.00	0.00	0.00
Accumulated losses	100.15	22.09	0.00	0.00	0.00
Total (B)	**3777.56**	**4460.81**	**5650.21**	**6681.37**	**7260.69**
Debt[ϒ] : Equity	3.17:1	2.77:1	2.68:1	2.13:1	1.94:1
Net Worth	750.98	976.16	1318.85	1857.14	2271.59
Capital employed[∂]	2121.91	2670.41	3843.48	4807.98	4485.51
Profit before Tax	161.70	60.78	127.30	234.31	175.10
Interest & Finance Charges	197.81	199.81	231.31	278.29	306.11
Total Return	**359.51**	**260.59**	**358.61**	**512.60**	**481.21**
Percentage of return on capital employed	16.94	9.76	9.33	10.66	10.73

It may be seen from the above that the Company had accumulated loss of ₹ 100.15 crore in 2007-08. It earned profit of ₹ 63.84 crore in 2009-10 which further increased to ₹ 251.46 crore in 2010-11 but again decreased to ₹ 140.07 crore in 2011-12. The debt-equity ratio of the Company decreased from 3.17:1 to 1.94:1 during the Performance Audit period due to increase in equity from ₹ 773.86 crore (2007-08) to ₹ 1,777.17 crore (2011-12) i.e. 130 *per cent* in comparison to 85 *per cent* increase in borrowings (₹ 2,378.78 crore in 2007-08 to ₹ 4,402.69 crore in 2011-12).

Percentage of return on capital employed decreased from 16.94 (2007-08) to 10.73 (2011-12) due to increase in Capital Work in Progress from

ϒ Debt includes Secured loans and unsecured loans.

∂ Capital employed means Net Fixed assets + Capital work in progress + Net working capital.

₹ 537.56 crore (2007-08) to ₹ 1,561.73 crore (2011-12) and increase in Current liabilities from ₹ 547.54 crores (2007-8) to ₹ 586.41 crore (2011-12).

Current Assets, Loan and Advances increased from ₹ 536.71 crore to ₹ 1,175.19 crore mainly due to sharp increase in Advance Income Tax paid/ Tax Deducted at Source (TDS) by ₹ 131.93 crore; dues recoverable by ₹ 445.82 crore towards transmission charges from DISCOMs and by ₹ 44.87 crore from PGCIL.

Working results

2.1.39 The details of working results like revenue realisation, net surplus/ loss and earnings and cost per unit of transmission are given below:

(₹ in crore)

Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12
1	**Income**					
(a)	Revenue from transmission & SLDC charges	644.05	657.46	776.60	1,019.11	919.31
(b)	Other income including interest/ subsidy	43.23	105.41	37.48	65.67	71.63
	Total Income	**687.28**	**762.87**	**814.08**	**1084.78**	**990.94**
2	**Transmission**					
(a)	Installed capacity (in MVA)	16268.17	18375.50	20582.00	24097.50	27062.00
(b)	Power received from generating units (in MUs)	13189.71	15835.08	16522.45	17535.31	20335.27
(c)	Power Purchased (in MUs)	13132.09	11876.42	16363.25	16741.89	16027.76
(d)	Total Power received at HVPNL Bus (MUs)	26321.80	27711.50	32885.70	34277.20	36363.13
(e)	Loss in transmission (in MUs)	633.00	693.60	861.50	897.10	1004.75
(f)	Net power transmitted (b) + (c) –(e)	25688.80	27017.90	32024.20	33380.10	35358.38
3	**Expenditure**					
(a)	**Fixed cost**					
(i)	Employees cost	242.95	344.47	329.40	356.62	224.45
(ii)	Administrative and General expenses	7.86	9.19	9.12	10.98	11.76
(iii)	Depreciation	53.71	61.96	122.41	138.72	159.90
(iv)	Interest and finance charges (Net after capitalization)	195.24	197.77	228.98	272.23	298.33
(v)	Other expenses	36.25	6.51	3.61	58.44	108.85
	Total fixed cost	**536.01**	**619.90**	**693.52**	**836.99**	**803.29**
(b)	**Variable cost**					
(i)	Repairs & maintenance	10.90	14.44	13.06	12.00	12.56
	Total variable cost	**10.90**	**14.44**	**13.06**	**12.00**	**12.56**
C.	**Total cost 3(a) + (b)**	**546.91**	**634.34**	**706.58**	**848.99**	**815.85**
4	Realisation (₹ per unit) 1(a)/2(d)	0.24	0.24	0.24	0.30	0.25

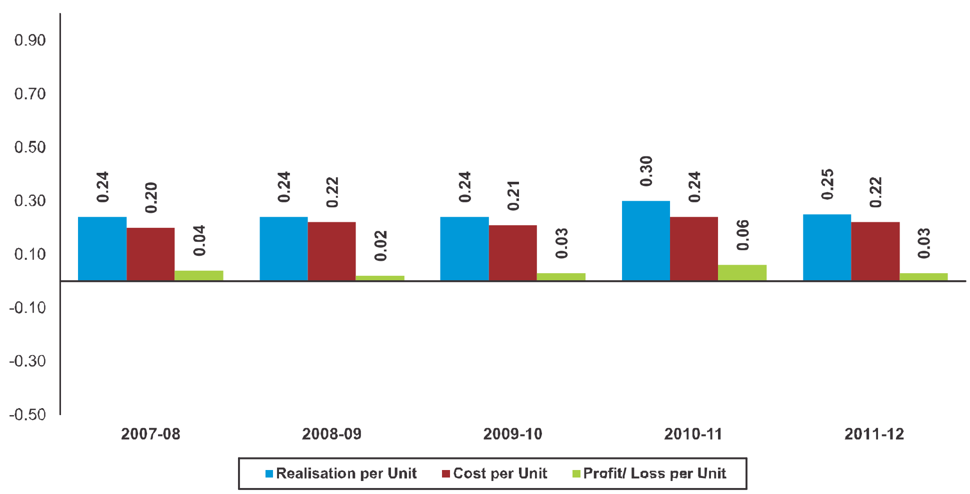
Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12
5	Fixed cost (₹ per unit)	0.20	0.22	0.21	0.24	0.22
6	Variable cost (₹ per unit)	0.00	0.00	0.00	0.00	0.00
7	Total cost ₹ per unit (5+6)	0.20	0.22	0.21	0.24	0.23
8	Contribution (4-6) (₹ per unit)	0.24	0.24	0.24	0.30	0.22
9	Profit (+)/ Loss(-) (4-7) (₹ per unit)	0.04	0.02	0.03	0.06	0.03

It may be seen from the above that the realisation per unit increased from ₹ 0.24 in 2007-08 to ₹ 0.30 in 2010-11 but decreased to ₹ 0.25 in 2011-12 where as the cost per unit increased from ₹ 0.20 to ₹ 0.23 (15 *per cent*) during the corresponding period. Further, the contribution per unit had increased from ₹ 0.24 to ₹ 0.30 but decreased to ₹ 0.22 in 2011-12.

Employees cost, interest and finance charges (net after capitalization) and depreciation constituted the major elements of cost in 2011-12 which represented 27.51, 36.57 and 19.60 *per cent* of the total cost in that year respectively. On the other hand, revenue from transmission & SLDC constituted the major elements of revenue in 2007-12 which ranged between 86 to 93 *per cent* of the total revenue.

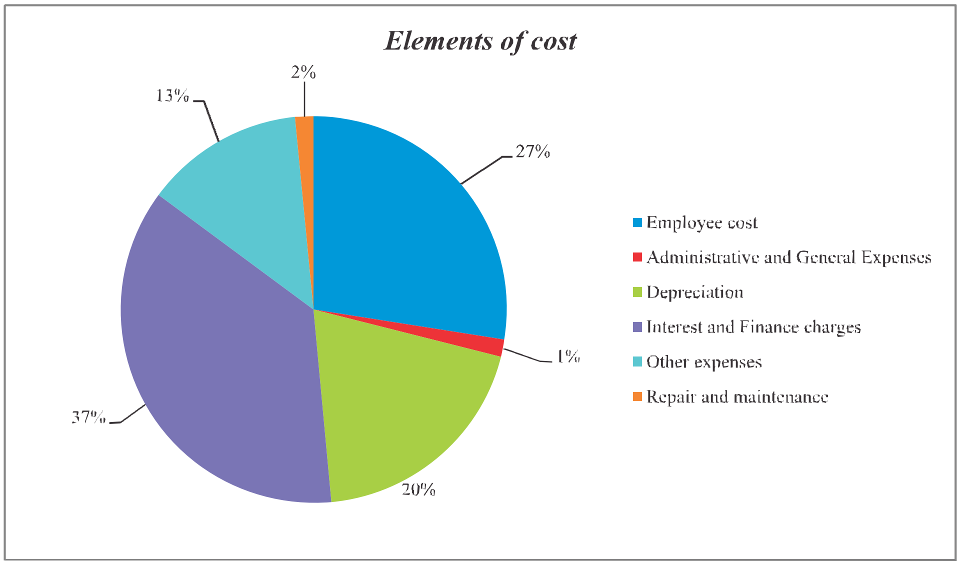
Recovery of cost of operations

2.1.40 During the last five years ending 2011-12, the profit per unit is given in the graph below:



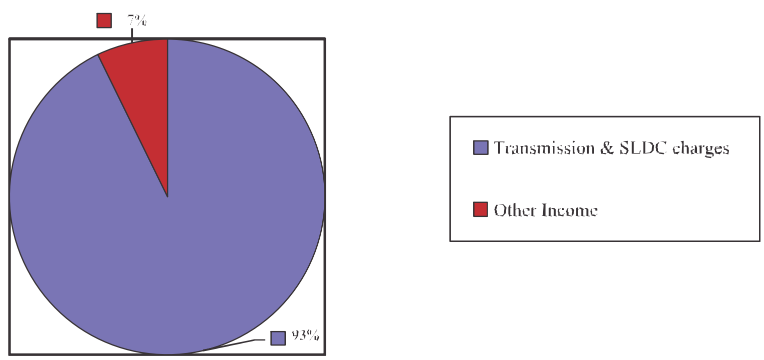
Elements of cost

2.1.41 The percentage break-up of major elements of costs for 2011-12 is given below:



Elements of Revenue

2.1.42 Transmission charges constitute the major element of revenue. The percentage break-up of revenue for 2011-12 is given below in the pie chart



Drawal of loan at a higher rate of interest

Drawal of loan at a higher rate of interest resulted in additional interest burden of ₹ 0.94 crore.

2.1.43 The Company signed (August 2009) an agreement with the World Bank for loan of ₹ 1,250 crore at an interest rate of 0.75 *per cent per annum* for creation of transmission system. The first installment was released in March 2010. Meanwhile, the Company placed (June-August 2009) seven work orders valuing ₹ 313.41 crore, in respect of the projects to be funded through World Bank and paid (September 2009-February 2010) mobilization advance of ₹ 31.03 crore to contractors by availing cash credit limit and a drawing short term loans from banks at a higher rate of interest. We observed that due to non synchronizing the placement of work order with the funding arrangement from the World Bank, the Company had to pay excess interest of

₹ 0.94 crore[Υ] on the loan drawn at a higher rate as compared to the rate on the loan drawn from World Bank.

Management replied that due to evacuation of power from RGTPS, Khedar projects were awarded before disbursement of loan by World Bank. However, the fact remained that the Company failed to synchronize the placement of work order with funding agency.

Non recovery of HUDA claims

2.1.44 For operation, maintenance and development of Transmission system, the Company borrowed funds from various agencies. With a view to curtail borrowings, it was decided in the meeting (27 July 2000) with Principal Secretary to Chief Minister (PSCM) that HUDA would make provisions for new SSs and would pay the cost of these SSs. On 27 November 2000 (conveyed to the Company in January 2001) HUDA decided that it would bear the cost of only those SSs which were created after 27 November 2000. Subsequently, in the meetings (16 May 2006 and 7 April 2008) held by HUDA with the Chief Minister of Haryana it was decided that cost of 220/132 KV SSs was to be shared by the Company with HUDA in the ratio 50:50 and the entire cost of 66/33 KV SSs and 132 KV SSs was to be borne by HUDA, if exclusively meant for HUDA.

Delay in lodging claims with HUDA resulted in blocking up funds of ₹ 223.88 crore and annual interest burden of ₹ 20.28 crore.

We observed that the Company had constructed SSs and their associated transmission lines in Haryana on the area acquired/ developed by HUDA after November 2000 and incurred ₹ 223.88 crore from November 2000 to March 2012. However, the Company did not lodge claims timely with HUDA. First partial claim of ₹ 144.05 crore was lodged (4 March 2008) in respect of Faridabad and Gurgaon TC only (including those SSs created prior to November 2000) despite the fact that decision to share cost was taken during 2000. This claim was returned by HUDA pointing out that claims should be lodged as per meeting on 27 November 2000 wherein it was decided that HUDA would bear the cost of creation of only those SSs which were created after 27 November 2000. Thereafter, the Company again lodged (January/ November, 2011) claims of ₹ 223.88 crore[∞]. Despite the pursuance by the Company for its claim, no amount had been paid by HUDA so far. Resultantly the Company's funds of ₹ 223.88 crore had been blocked besides it had to bear annual interest burden of ₹ 20.28 crore[ƒ].

In Exit Conference, Management assured to pursue the issue.

Tariff Fixation

2.1.45 The financial viability of the Company depends upon generation of surplus (including fair returns) from the operations to finance their operating

Υ Worked out on the basis of difference in rate of interest between Dena Bank (7.5 *per cent)* and World Bank (0.75 *per cent)*.

∞ Representing cost of SSs created after November 2000.

ƒ Worked out on the basis of weighted average rate of interest of 9.08 *per cent per annum* during 2010-11.

needs and future capital expansion programmes by adopting prudent financial practices. Revenue collection is the main source of generation of funds for the Company. The issues relating to tariff are discussed here under:

The Company was required to file the ARR for each year 120 days before the commencement of the respective year. The HERC accepts the application filed by the Company with such modifications/ conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders. The table below shows the due date of filing ARR, actual date of filing, date of approval of tariff petition and the effective date of the revised tariff.

Year	Due date of filing	Actual date of filing	Delay in days	Date of approval	Effective date
2007-08	10 November 2006	8 December 2006	28	8 May 2007	1 April 2007
2008-09	30 November 2007	30 November 2007	-	23 April 2008	1 April 2008
2009-10	30 November 2008	28 November 2008	-	18 May 2009	1 April 2009
2010-11	30 November 2009	30 November 2009	-	16 April 2010	1 April 2010
2011-12	30 November 2010	6 December 2010	6	26 April 2011	1 April 2011

Loss due to non-allowing of Interest by HERC

2.1.46 The table given below depicts the amount of interest on loan for capital works proposed by Company and interest allowed on loans for capital works by HERC in its ARR orders during last five year ending March 2012:

(₹ in crore)

Year of ARR	Interest on loans of Capital transmission works proposed by HVPNL	Interest on loans of capital transmission works allowed by HERC	Interest disallowed by HERC
2007-08	71.94	58.63	13.31
2008-09	82.39	62.16	20.23
2009-10	107.04	75.26	31.78
2010-11	171.24	76.82	94.42
2011-12	162.42	103.35	59.07
Total	**595.03**	**376.22**	**218.81**

Interest on loan of ₹ 218.81 crore on unapproved capital works during 2007-12 was not allowed by HERC.

It is evident from the table that HERC had disallowed interest on loans for capital transmission works amounting to ₹ 218.81 crore due to inclusion of unapproved works in ARR proposal by Company for the period 2007-08 to 2011-12. Despite the reiteration of direction by HERC in ARR order for 2008-09 to take approval for all capital works included in their investment plan, HVPNL continued to undertake works without ensuring their funding arrangement, which led to denial of interest of ₹ 218.81 crore on capital borrowings. The amount of interest of ₹ 218.81 crore was otherwise recoverable through ARR during 2007-08 to 2011-12. Due to disallowing interest on loans, the capital expenditure had to be funded through working capital loans which had negative impact on the profitability of the Company.

Non-lodging of Reactive Energy Charges

2.1.47 Reactive Energy is the portion of electricity that establishes and sustains the electric and magnetic fields of alternating-current equipment. The beneficiaries (DISCOM/ Short/ long terms Open Access[f] customers) are expected to provide local reactive energy compensation so that they do not draw reactive power from the EHV grid, particularly under low-voltage condition.

We observed that PGCIL had been levying and recovering reactive energy charges from the Company since 2002 on account of excess/ low voltage withdrawal/ return of reactive energy. Therefore, the Company was also entitled to file claim with HERC to recover Reactive Energy charges from DISCOM/ Open access customers during low/ high voltage conditions, in line with Indian Electricity Grid Code (IEGC).

Non-claiming of reactive energy charges for 2007-10 resulted in loss of revenue of ₹ 12.70 crore.

We noticed that Company had claimed reactive energy charges of ₹ 12.70 crore (paid to PGCIL) from DISCOMs in the ARR proposal filed with HERC for the years 2007-08, 2008-09 and 2009-10. However, HERC in its order (September 2007) stated that reactive energy charges would be allowed by it only on the basis of actual invoices received by the Company. However, the Company had not submitted its claim on the basis of actual invoices as directed by HERC so far (September 2012).

Management replied that since such charges cannot be projected with any degree of accuracy and at times HVPNL gets credit from the common pool too. The Commission shall allow Reactive Energy charges based on the actual invoices received by HVPNL and are adjustable in the subsequent ARR of HVPNL. The fact remains that the Company did not lodge claims of the revenue of ₹ 12.70 crore in method prescribed.

Diversion of funds meant for repayment of Haryana State Agricultural Marketing Board (HSAMB) loan

2.1.48 The erstwhile HSEB had raised loan of ₹ 168.24 crore (HVPNL: ₹ 123.55 crore and UHBVNL: ₹ 44.69 crore) during 1979-80 to 1997-98 from HSAMB for capital works as well as for purchase of power. The loan was taken in the form of Fixed Deposit Receipts (FDRs) which was converted into loan on 30 April 2002 at the rate of 10.50 *per cent* interest *per annum* for the period of 61 months. The loan was renewed as and when due for a further period of 61 months.

The Company redeemed ₹ 70.58 crore up to 31 March 2008 leaving a balance of ₹ 52.97 crore. HERC in its tariff order for 2008-09 had allowed repayment of balance outstanding of ₹ 52.97 crore and interest. The Company repaid ₹ 15 crore leaving outstanding loan of ₹ 37.97 crore and interest which had accumulated to ₹ 138.98 crore (December 2011). HERC in its tariff order of 2009-10 asked the Company to explain the diversion of funds allowed for repayment of loan and interest. The Company claimed interest of ₹ 14.17 crore

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[f] Enabling of non discriminatory sale/purchase of power between two parties utilising the system of third party.

for 2009-10, 2010-11 and 2011-12 on account of HSAMB loan through its respective ARRs but was disallowed by HERC in its ARR Order on the ground that entire amount had already been allowed to the Company.

Management replied (October 2012) that due to lesser allowance of capital expenditure repayment in 2008-09 by HERC, fund was spent against repayment of loan and interest towards REC, PFC, NCRPB, and NABARD. Thus, facts remained that the Company had diverted the funds and same was agreed by Management in Exit Conference.

Material Management

2.1.49 The key functions in material management are laying down inventory control policy, procurement of materials and disposal of obsolete inventory. The Company had not formulated any procurement policy and inventory control mechanism for economical procurement and efficient control over inventory. The details of consumption *per annum* and per month, net closing stock, and closing stock in terms of months to consumptions, for the period from 2007-08 to 2011-12 (up to March 2012) are detailed below:

(₹ in crore)

Opening Year	Consumption (per annum)	Consumption (per month)	Net Closing stock (as per Balance Sheet)	Closing stock in terms of months to consumption
2007-08	129.71	10.81	43.06	3.98
2008-09	210.41	17.53	44.94	2.56
2009-10	214.57	17.88	38.08	2.13
2010-11	104.56	8.71	33.02	3.79
2011-12	188.53	18.85	31.13	1.97

The Company had effectively restricted its closing stock to 1.97 months consumption levels and was carrying out ABC analysis.

Non-conducting of physical verification

2.1.50 The Company has five[•] Dedicated Stores under its control. However, Physical Verification (PV) of the stores was not being conducted annually. The PV was last conducted in all stores during February-April 2011. The value of non-moving, surplus, obsolete, unserviceable and scrap material during the last five years ending March 2012 is given below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Surplus/ obsolete/ Unserviceable/ scrap	2.28	2.96	5.44	6.32	5.77
Non-moving	1.37	1.63	1.96	2.05	3.01
Total	**3.65**	**4.59**	**7.40**	**8.37**	**8.78**

From the above, it was observed that the value of the scrap, obsolete and non-moving stock was on increasing trend during 2007-08 to 2011-12. The Company had not taken action to conduct survey and dispose of the scrap/ obsolete material, which could have earned revenue and resulted in creation of space for stocking of other materials.

• Ballabhgarh, Hisar Khera, Panipat, and Sewah (Panipat).

Management noted and assured for future compliance and stated that instructions will be issued for periodical physical verification of stock.

Monitoring and Control

Improper Management Information System (MIS)

2.1.51 The performance of the SSs and lines of 400/220/132 KV on various parameters like maximum and minimum voltage levels, breakdowns, voltage profiles should be recorded/ maintained as per the Grid code standards.

We noted that though Divisions under Karnal and Rohtak Circle submitted monthly MIS reports regarding performance of the SSs to the Headquarters regularly, but they were not submitted to BODs. However, in the review meetings conducted under the Chairmanship of MD, these reports were occasionally put up as part of Operation and Maintenance status of SSs. Further, records of year-wise cumulative performance of the SSs and lines were not being maintained for evaluation of annual performance thereof.

We noticed that only one agenda regarding remedial measures for overcoming under loading/ overloading of critical position of transformers was discussed (June 2010). However, it was not continued as regular practice.

Further, scrutiny of MIS reports of Divisions under Karnal and Rohtak Circle revealed that details regarding planned overhauling of equipments, due dates of next oil change, OLTC• operations, dates of maintenance works, performance of SS batteries and performance of relays were not being included in these reports. In the absence of this, these reports did not serve much purpose.

Management in Exit Conference assured for compliance.

Review of the envisaged benefit of T & D schemes

2.1.52 The Company executed and commissioned 92 EHT SSs and erected a total length of 3,442.90 CKMs of EHT lines of 400/220/132/66 KV during review period. While approving the T&D schemes, the Company envisaged benefits in terms of reduction in line losses, improvement in voltage levels and the load growth to be achieved by the new schemes. It was, however, observed that Company did not evolve any feedback system with DISCOMs to assess the benefit actually derived on implementation of T & D schemes after commissioning of the new projects.

In reply (October 2012), Management appreciated the audit suggestions and assured in Exit Conference that feedback system will be created to analyse the benefits as envisaged in the transmission scheme.

Internal Control and Internal Audit

2.1.53 Internal control is a process designed for providing reasonable assurance for efficiency of operations, reliability of financial reporting and compliance with applicable laws and statutes which is designed to ensure

• On Load Tap Changer.

proper functioning as well as effectiveness of the internal control system and detection of errors and frauds.

The Company has its own internal audit wing which had conducted financial audit up to 2008-09 and thereafter, for 2009-10, it was outsourced. The Company terminated (7 July 2011) the contract and no payment was made to the firm. The Statutory Auditors' too in their Reports suggested for strengthening of internal audit system. No action had been taken by the Company so far (September 2012).

The Central Vigilance Commission (CVC) guidelines (15 January 2002) provide that each Company should have purchase manual containing detailed purchase procedures and guidelines. We observed that the Company had not prepared its procurement manual and still follows old Purchase Regulations 1974 framed by erstwhile HSEB.

Management stated (October 2012) that process for outsourcing of internal audit for 2009-10 to 2011-12 has been initiated and consultant has been appointed for preparation of purchase manual.

Audit Committee

2.1.54 The Company constituted an Audit Committee (AC) as required under Section 292A of the Companies Act, 1956. This AC was to discuss periodically with the auditors about internal control systems, the scope of audit including the observations of the auditors and review the half-yearly and annual financial statements before submission to the BoDs and also ensure compliance of internal control systems. But AC had met only once (31 July 2007) during 2007-09. Further, the Company had approved (31 March 2009) new Business Rules (Audit Committee) 2009 wherein it was prescribed that the Audit Committee should meet once in a quarter and not more than four months should elapse between two meetings. We observed that AC met thrice in 2009 but no AC meeting was conducted during 2010-12

Management in Exit Conference assured for compliance.

Conclusions

- **The Company failed to adhere to the guidelines of Task force relating to reduction in delays in completion of transmission projects and consequential delays ranging from one to forty one months in execution of transmission projects besides delay in evacuation works. The Company in fact does not draw a time frame for its projects.**

- **The construction of SSs and associated lines were delayed due to improper planning as a result of which the Company not only failed to get envisaged benefits of transmission system improvement but also failed to earn ₹ 36.21 crore in the shape of non-receipt of additional revenue and suffered iron losses of ₹ 0.36 crore.**

- **During 2008-12, the transmission losses valuing ₹ 225.85 crore were in excess of HERC norms. The inefficiencies contributed to consumer**

being charged higher tariffs.

- **Recovery from HUDA was not perused effectively resulting into blocking of funds of ₹ 223.88 crore and annual interest burden of ₹ 20.28 crore; and**

- **The Company included unapproved works in ARR for the year 2007-12 and as a result HERC disallowed interest of ₹ 218.81 crore on loans obtained for the disallowed capital works.**

Recommendations

The Company should:

- **ensure that the recommendations of Task Force on transmission projects are followed and plan for evacuation system in synchronization with generation system. It should draw time line for all its projects to monitor their stage of completion.**

- **ensure adherence to the standards/ norms fixed in MTPC/ Grid Code for effective functioning and maintenance of transmission network, enforcing strict energy audit so that transmission losses are reduced.**

- **ensure effective steps to recover claims; and**

- **ensure that no capital works are carried out without approval of HERC.**

2.2 Haryana State Industrial and Infrastructure Development Corporation Limited

Executive Summary

Haryana State Industrial and Infrastructure Development Corporation Limited (Company) was incorporated in 1967 for promoting medium/large scale industries and developing industrial estates in the State. The Company had 17 field offices spread over in the State to carry out its activities. The Company has developed 25,725 acre area in the State up to 31 March 2012.The Company has earned profit from its activities during all the years covered under performance audit.

Financing Activity

The Company disbursed ₹ 239.73 crore loans against sanctioned amount of ₹ 467.28 crore during 2006-11 representing shortfall of 48.70 per cent. The percentage of recovery against net amount recoverable ranged between 47.58 and 62.60 during 2006-11. No separate targets were fixed for recovery of old dues. The Company settled 34 cases sacrificing ₹181.20 crore under OTS.

Acquisition of Land

For development of industrial estates in the State, the Company acquired 10,279 acre land at a cost of ₹ 4,542.27 crore during 2006-11. Due to non-compliance of the provisions of Land Acquisition Act, 1894, the Company had to pay extra payment of interest ₹ 1.58 crore on acquisition of land. The Company suffered a loss of ₹ 8.98 crore as land acquired was not free from encumbrances. The Company also suffered a loss of ₹1.71 crore due to delay in taking possession of land.

Development of Land

The Company did not fix physical targets for development of land during 2006-11. The Company developed 25,725 acre area out of which 87.37 per cent area fell within National Capital Region which impeded balanced industrial growth in the State. The Company suffered a loss of ₹ 2.19 crore due to non-obtaining of exemption of excise duty on DI pipes.

Fixation of price

The Company did not fix physical targets for allotment of plots during 2007-12. Out of 14,297 plots/sheds carved up to March 2012, 2,390 plots/sheds were lying vacant. Due to allotment of additional land at old rate the Company suffered a loss of ₹6.84 crore and due to non-resumption of plot it suffered a loss of ₹2.33 crore.

Mega Projects

The Company has been implementing a number of mega infrastructure projects in the State. Against completion by 29 July 2009 of Kundli-Manesar-Palawl (KMP) Expressway the concessionaire could achieve physical progress of 66.86 per cent and financial progress of 77 per cent up to 31 March 2012. The Company imposed a penalty of ₹17.88 crore on the firm but no amount had been recovered up to October 2012. Reliance Haryana SEZ Limited failed to set up SEZ in Gurgaon within the specified period and offered to return land 1,383.68 acre at ₹1,172 crore which was taken from the Company at a cost of ₹399.85 crore. Due to wrong valuation of land by consultant and non examination of the same by the Company before selling to M/s DLF Limited, the Company suffered loss of ₹438.91crore.

Conclusions and Recommendations

The Company did not achieve targets in sanction and disbursement of loans. The percentage of recovery against net amount recoverable ranged between 47.58 and 62.60 per cent. Out of 34 cases settled under OTS, 17 cases were settled only for ₹23.03 crore against outstanding dues of ₹127.48 crore whereas market value of

the assets of these Unit was ₹56.91 crore. The Company did not fix physical targets for development of industrial estates and system for identification of land for acquisition was faulty which resulted in blockage of funds. The Performance Audit contains five recommendations to improve the performance of the Company.

Introduction

2.2.1 Haryana State Industrial and Infrastructure Development Corporation Limited (Company) was incorporated (1967) for promoting medium/large scale industries and developing industrial estates in the State. The State Government further entrusted (December 2005) the function of development of infrastructure in the State to the Company. The Company has developed area of 25,725 acre in the State into 20 Industrial Model Townships (IMTs)/Industrial Estates (IEs)/Growth Centres (GCs) up to 31 March 2012.

The main objectives of the Company are to:

- promote, improve, manage and administer industries, projects or enterprises for manufacture and production of plant, machinery, implements, material, goods or things of any description;
- carry out infrastructure development activities directly or through Public Private Partnership (PPP) or by engaging Agency/Consultants, and also to provide infrastructure facilities including amenities such as roads, water, and power;
- aid, assist and finance any industrial undertaking, project or enterprise, whether owned or run by Government, statutory body, private company, firm or individual ; and
- acquire land for integrated industrial townships/parks including housing and related social infrastructure, institutional, recreational and commercial infrastructure.

Presently, the Company is engaged in providing term and other loans to medium and large scale industrial Units, development of IEs at various places in the State and development of all type of infrastructure in the State.

Organisational set up

2.2.2 The Management of the Company is vested with a Board of Directors (BoDs) appointed by the State Government. As of March 2012, the Board had five directors including the Managing Director (MD) who was the Chief Executive of the Company and was assisted by a team of officers. The Company has 17 field offices to carry out its activities.

Scope of audit

2.2.3 The activities of the Company relating to 'Disbursement of loans, recoveries and investment activities', and 'Setting up of Industrial Estates' were analysed in performance audit and included in the Reports of the Comptroller and Auditor General of India for the year ended 31 March 2003 and 31 March 2007 (Commercial)-Government of Haryana, respectively. Both the performance audits had been discussed by Committee on Public Undertakings (COPU) and their recommendations on some of the paras were contained in 53rd and 57th Reports of COPU, presented to the State Legislature on 22 March 2007 and 15 March 2011, respectively. The paras are yet to achieve finality.

As large scale industrial development has been undertaken in the State in the preceding years it was felt that the activity should be once again analysed for the benefits that have accrued. The present performance audit conducted during December 2011 and May 2012 covers working of the Company for the last five years ending March 2012. Besides examining the records maintained at head office, we test checked records of six[ϒ] out of its 17 field offices. The selection of field offices for detailed scrutiny was made by adopting 'Simple Random Sampling without Replacement Method' and selected units covered 72 *per cent* of the total expenditure on acquisition and development of industrial estates and 59 *per cent* of total land acquired during the period 2007-12.

Audit objectives

2.2.4 The objectives of the performance audit were to ascertain whether:

- the laid down norms and procedures were followed in sanctioning and disbursing loans and other financial assistance to the industrial units;
- the loans were recovered as per terms and conditions of loan agreements and adequate action was taken against the defaulters for non payment of its dues;
- the Company prepared and implemented a plan for integrated development of industrial estates in the State after making proper surveys and investigations to assess the requirement of industrial estates in terms of the infrastructure, financial management, raw material availability, market and other inputs;
- the farmers/landowners were getting compensation for their land as per Land Acquisition Act, 1894 (LA) and socio-economic objectives were achieved;
- project management including infrastructure development, maintenance of industry and implementation of projects were economical, efficient and effective;

ϒ Barhi, Bawal, Faridabad, Gurgaon, Manesar and Rohtak.

- the Company adopted a transparent system for allotment of plots and prices were fixed on 'No profit no loss' basis as per its policy; and
- adequate internal audit/internal control system existed.

Audit criteria

2.2.5 The following are the sources of audit criteria:

- policy/guidelines/targets of the State Government for industrial development, land acquisition and financing of industries;
- long term and annual plans of the Company for furtherance of the State Government plans and policy;
- guidelines of Government of India (GOI) for acquisition of land for industrial development and State Industrial Policy (SIP); and
- internal audit and other control procedures adopted by the Company.

Audit methodology

2.2.6 Audit methodology included the review of the following:

- examination of records relating to sanction and disbursement, recovery and settlement of loans;
- examination of land acquisition records;
- examination of records relating to award and execution of works relating to development of industrial estates; and
- compliance of relevant provisions of the LA Act,1894.

Financial position and working results

2.2.7 The financial position and working results of the Company for the last five years up to 31 March 2011 are given in the ***Appendix 8***.

We observed:-

- the net profit of the Company had a rising trend during 2006-07 and 2010-11. It increased from ₹ 26.26 crore to ₹ 69.95 crore during this period except during 2009-10 due to acquisition of land for ₹ 1,276.65 crore in this year.
- during 2010-11, the interest income of ₹ 104.12 crore included ₹ 42.20 crore as interest earned on amount realised against auction sale of two

non-industrial area sites♠ and ₹ 5.13 crore as interest recovered from National Highways Authority of India (NHAI) which was not from its main activity. It also included ₹ 34.15 crore on account of interest on fixed deposits from surplus funds from Industrial Area (IA) activity despite the fact that the IA activity is done on "No profit no loss" basis.

Audit Findings

2.2.8 We explained the audit objectives to the Company during an 'Entry Conference' meeting held on 15 March 2012. Our audit findings are discussed in subsequent paragraphs. The audit findings were reported to the Government/Management in September 2012 and discussed in the Exit Conference held on 20 December 2012, which was attended by the MD and heads of the departments of the Company. Views of the Management have been duly considered while finalising this report.

Financing activity

2.2.9 The Company provides financial assistance up to ₹ 25 crore under General Term Loan, Equipment Finance Scheme (EFS), Working Capital Term Loan (WCTL), Line of Credit (LoC), Financing Commercial Complex, Corporate Loan etc. for setting up new medium and large sector industrial projects as well as for expansion, diversification and modernisation of the existing units. The Statement below shows the status of receipt of loan applications, their sanction and disbursements made during the last five years ended 31 March 2011:

(₹ in crore)

Particulars	2006-07		2007-08		2008-09		2009-10		2010-11	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
a) Applications pending at the beginning of the year	36	132.51	50	228.14	46	242.68	64	489.97	62	579.03
b) Applications received	100	404.37	62	317.60	64	526.06	42	480.53	41	326.20
Total (a+b)	**136**	**536.88**	**112**	**545.74**	**110**	**768.74**	**106**	**970.50**	**103**	**905.23**
c) Applications rejected /lapsed /withdrawn/ filed	44	208.22	46	211.83	25	185.33	28	299.03	29	308.30
d) Applications sanctioned	42	100.52	20	91.23	21	93.44	16	92.44	14	89.65
Amount disbursed	-	45.71	-	55.02	-	64.86	-	47.65	-	26.49
Target fixed for disbursement of loans	-	80.00	-	60.00	-	70.00	-	80.00	-	80.00
e) Applications pending at the end of the year	50	228.14	46	242.68	64	489.97	62	579.03	60	507.28
f) Amount for which loans applications considered (c+d)	86	308.74	66	303.06	46	278.77	44	391.47	43	397.95

♠ M/s DLF Limited and M/s Brahma Centre Development (P) Ltd at Gurgaon.

Particulars	2006-07		2007-08		2008-09		2009-10		2010-11	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Percentage of loan disbursed to loan sanctioned	-	45.47	-	60.31	-	69.41	-	51.55	-	29.55
Percentage of applications rejected/lapsed/withdrawn/filed to application considered	51.16	-	69.70	-	54.35	-	63.64	-	67.44	-
Percentage of disbursement to target	-	57.14	-	91.70	-	92.66	-	59.56	-	33.11

The table above revealed the following:

- Applications received for grant of loans continued to decline during the period. These declined from 100 in 2006-07 to 41 in 2010-11 except for marginal increase from 62 in 2007-08 to 64 in 2008-09 which indicated that the Company could not attract entrepreneurs to its financing schemes.
- The Company failed to achieve the targets fixed for disbursement of loans during the entire period covered under audit and percentage of disbursement of loans to targets ranged between 33.11 and 92.66 *per cent.*
- The Company disbursed loans amounting to ₹ 239.73 crore against the sanctioned amount of ₹ 467.28 crore representing shortfall of 48.70 *per cent* during last five years ending March 2011.

While agreeing to the audit observation, the Management informed in Exit Conference that there was economic slowdown worldwide, competitive rates offered by the banks and strict security coverage norms required by the Company had resulted in non achievement of targets for disbursement of loan. The reply of the Management was not convincing as index of industrial production in Haryana had been on increase over the years and impact of economic slowdown in Haryana was not very significant.♥

Recovery Performance

2.2.10 Loan amounts due for recovery targets fixed for recovery, amount recovered and the shortfall during the last five years ended March 2011 were

♥ Source: Department of Economic and Statistical Analysis, Haryana.

as under:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Amount due for recovery	92.67	78.14	77.94	72.52	47.83
	Add amount due during the year (disbursement and interest)	82.03	77.61	64.13	77.70	85.47
	Less: Amount rescheduled/ written off	1.23	4.77	3.73	29.41	7.22
	Net amount recoverable	162.47	150.98	138.34	120.81	126.08
2.	Targets fixed for recovery	85.00	72.00	70.50	71.00	74.34
	Percentage of target to amount recoverable	52.32	47.69	50.96	58.77	58.96
3.	Amount recovered					
	a) Old dues (recoverable up to previous year)	22.50	13.13	12.32	13.63	07.02
	b) Current dues	55.81	51.13	46.11	54.66	50.10
	c) Prepayment	06.02	08.78	07.39	04.69	21.80
	Total (a+b)	**84.33**	**73.04**	**65.82**	**72.98**	**78.92**
4.	Amount recoverable at the end of the year	78.14	77.94	72.52	47.83	47.16
5.	Percentage of recovery to					
	a) Amount recoverable	51.90	48.38	47.58	60.41	62.60
	b) Target	99.21	101.44	93.36	102.79	106.16

It would be seen from the above table that:

- targets fixed for recovery ranged between ₹ 70.50 crore and ₹ 85 crore against the net amount recoverable, which ranged between ₹ 120.81 crore and ₹ 162.47 crore during 2006-11. The percentage of recovery against net amount recoverable ranged between 47.58 and 62.60 *per cent* only during 2006-11. The Company should make strenuous efforts to improve its recovery position as the same would help in creating cash surplus, which would improve the financial position of the Company.

- recovery of old dues decreased from ₹ 22.50 crore in 2006-07 to ₹ 7.02 crore in 2010-11 which indicated lack of efforts on the part of the Company. Further, as the time elapses, effecting recovery of the chronic old defaulters would be remote. The Company should fix separate targets for recovery of old dues.

The Management in Exit Conference stated that though substantial efforts were made to recover the Non Performing Assets (NPAs), the slow recovery as pointed out by the Audit was due to good number of cases under litigation/liquidation. It was also stated that over the last five years, the NPAs had decreased from 40 *per cent* to 20 *per cent*.

A few interesting cases of recovery performance are discussed below:

Undue benefit on settlement of loan account

2.2.11 M/s Naraingarh Sugar Mills, Ambala (Unit) availed equity assistance and five term loans of ₹ 15.25 crore during 1992 to 2003. Since the Unit was in default, the Company restructured (March 2001) term loan (₹ 1.57 crore) and additional term loan (₹ 1.53 crore) besides allowing certain other concessions *viz.* reduction in interest rate, waiving of interest and penal interest and one *per cent* rebate for timely payments subject to payment of ₹ 1.08 crore by the Unit before 31 March 2001. Further, if the Unit failed to comply with any of the above provisions, the Company was to withdraw aforesaid concessions without any notice in this regard.

The Unit remitted ₹ 1.08 crore up to 31 March 2001 but defaulted in further payment of ₹ 26.20 lakh in term loan (₹ 1.57 crore) and ₹ 24 lakh in additional term loan (₹ 1.53 crore) respectively. Even though the Unit was in default, the Company further sanctioned and disbursed (March 2003) a Corporate Loan (CL) of ₹ seven crore. Since the Unit defaulted in payment of CL to the tune of ₹ 2.35 crore (principal ₹ 1.75 crore and interest ₹ 60.22 lakh), the Company issued (January 2004) Recovery Certificate (RC) against the promoters besides withdrawing concessions, earlier given to the Unit due to default in repayment of loans, non-execution of documents for extension of *pari passu* charge of primary security and extension of charge on collateral security. The Unit made a request (February 2004) to restore the concessions which was declined (February 2004) and the Company continued to decline the same up to 2009 and ultimately agreed (April 2010) with the same and restored concessions worth ₹ 4.26 crore (as worked out by the Company) to the Unit. Thus, restoration of concessions to the Unit, even when it was in default led to loss of revenue of ₹ 4.26 crore to the Company.

The Management in Exit Conference stated that benefits withdrawn from the Units had only notional value and these were withdrawn to pressurize the Unit. But the fact was that the concessions worth ₹ 4.26 crore were withdrawn (worked out by the Company) and were subsequently restored despite the fact that this was against the conditions of the grant of benefits since the Unit was already in default.

Doubtful recovery of loan

2.2.12 The Company sanctioned (March 1996 to March 2009) various loans aggregating to ₹ 45.22 crore to the promoters of two Units *viz.* M/s Rexor India Limited, Faridabad and M/s Super Fibres Limited, Faridabad. The promoters availed loans amounting to ₹ 45.05 crore. The Company had exclusive charge on plant & machinery acquired by the promoters through loans and got the charge entered in the records of Registrar of Companies (ROC), New Delhi and *pari passu*• charge on land & building after obtaining 'No Objection Certificate' (NOC) from State Bank of Patiala (SBoP) for both the Units. Both the loanee Units started making default in the payments of installments due from 30 April 2009. The SBoP intimated (September 2009) the Company that they had never issued NOC for ceding charge on the assets of both the Units in favour of the Company besides asking (November 2009) it to furnish copy of documents of extension of charge on *pari passu* basis on land and buildings as the bank was in possession of original title deed of mortgaged property which was exclusively mortgaged to the bank. In the

• *Pari-passu* means that the charge to be created is in continuation of an earlier charge which might be held by the same institution or by another institution.

meanwhile, the SBoP filed the case with Debt Recovery Tribunal (DRT) for effecting recovery of its dues. During verification, however, the Company found (November 2010) that the promoters of the loanee Units got its first charge vacated on plant and machinery by giving false letter on the letter head of the Company. Thereafter, the Company issued (November 2010) RC against the promoter besides filing the FIR against them. During hearing (3 June 2011) against case filed by SBoP, the Company contended that it had *pari passu* charge on land and building and exclusive charge on machinery financed in respect of both the Units. DRT passed (December 2011) the orders in favour of SBoP and dismissed the submission of the Company.

Disbursement of loan without verifying the documents before disbursement and non verification of charge created on plant and machinery with ROC put the recovery of ₹ 13.62 crore at stake.

Thus, due to non verification of documents submitted by the promoters which subsequently were found to be fake and fabricated, the principal amount of ₹ 13.62 crore had become doubtful for recovery for which responsibility had not been fixed so far (October 2012).

The Management in Exit Conference stated that there was no specific system in vogue to secure the charges on mortgaged property. The reply was not acceptable as there should have been a system to verify the existence of all mortgaged properties.

One Time Settlement (OTS) Policy

2.2.13 The Company approved (2006) the policy for Compromise Settlement of Chronic Non Performing Assets (NPAs)*. The policy covered the accounts of the borrowers/defaulters which were classified as NPAs as of 31 March 2004. This policy was further extended on yearly basis up to March 2011. Under the Scheme, no settlement was to be done below the outstanding principal amount.

The following table depicts the position of amount outstanding at the time of settlement, amount of settlement and amount waived of under the OTS Scheme during the last five years ended 31 March 2011.

(₹ in crore)

Year	Units whose loan accounts were settled under OTS Scheme			
	No. of Units	Amount outstanding Principal (P), Interest (I), Misc. (M)	Amount of settlement Principal (P), Interest (I), Misc. (M)	Amount waived of Principal (P), Interest (I), Misc. (M)
2006-07	8	P-9.30 I- 38.60 M-0.13	P-9.30 I- 1.47 M-0.13	P-0.00 I- 37.13 M-0.00
2007-08	10	P-7.24 I- 47.12 M-0.01	P-7.24 I-0.30 M-0.01	P-0.00 I-46.82 M-0.00
2008-09	3	P-4.51 I- 9.92 M-0.00	P-4.51 I-0.23 M-0.00	P-0.00 I-9.69 M-0.00
2009-10	5	P-6.79 I- 27.20 M-0.06	P-6.79 I-1.21 M-0.06	P-0.00 I-25.99 M-0.00

* Non-performing Assets are those in which interest and/or installment of principal remains overdue for more than 90 days.

Year	Units whose loan accounts were settled under OTS Scheme			
	No. of Units	Amount outstanding Principal (P), Interest (I), Misc. (M)	Amount of settlement Principal (P), Interest (I), Misc. (M)	Amount waived of Principal (P), Interest (I), Misc. (M)
2010-11	8	P-11.41 I- 61.96 M-0.07	P-11.41 I-0.39 M-0.07	P-0.00 I-61.57 M-0.00
Total	**34**	**P-39.25 I- 184.80 M-0.27**	**P-39.25 I-3.60 M-0.27**	**P-0.00 I-181.20 M-0.00**

The company had foregone ₹ 181.20 crore in 34 Units settled under OTS.

Above table revealed that the Company settled 34 cases at ₹ 43.12 crore against the due amount of ₹ 224.32 crore thereby sacrificing ₹ 181.20 crore. Further, it could recover only ₹ 26.22 crore out of ₹ 43.12 crore, thereby leaving shortfall of ₹ 16.90 crore up to 31 March 2011. Eight Units whose accounts were settled in OTS even did not make payment of ₹ 1.45 crore (10 *per cent* of principal amount of ₹ 14.53 crore). It clearly indicated that the Company did not make sincere efforts even to recover the settlement amount despite foregoing 81 *per cent* of the due amount.

We further observed that out of above 34 cases, 17 cases having dues of ₹ 127.48 crore were settled at ₹ 23.03 crore only although the assessed value of securities available was ₹ 56.91 crore. The Company should not have gone for settlement below the assessed value of the securities.

While agreeing to the audit observation, the Management in Exit Conference stated that since the securities in these cases were not readily enforceable due to pending litigation, the value of these securities could not be linked with settlement amount.

A few interesting cases settled under OTS are discussed below:

Undue favour in settlement of loan

2.2.14 The Company sanctioned (November 2001) a term loan of ₹ two crore to M/s Auto Pins India Limited, Faridabad (Unit) under EFS and released ₹ 1.99 crore during December 2001 and January 2002. The Company further sanctioned and disbursed (March 2002) a WCTL of ₹ 90 lakh. On receipt of various requests from the Unit to sell machinery and Collateral Security (CS) to clear the dues, the Company allowed (March 2004) the same, subject to deposit of ₹ 2.43 crore against total outstanding dues of ₹ 3.26 crore (Principal ₹ 2.89 crore and interest ₹ 0.37 crore). The Unit deposited only ₹ 1.94 crore (February 2003 to October 2004) from sale proceeds. As per accounting practice being followed by the Company, the amount received from the borrower is appropriated first against the actual miscellaneous dues, then against outstanding interest and thereafter balance amount is adjusted against the outstanding principal amount. Accordingly, the amount paid by the Unit was adjusted against outstanding dues (₹ 1.07 crore as interest and ₹ 0.87 crore as principal).

Meanwhile, the Unit requested (December 2005) the Company to settle loan account under OTS at ₹ 1.25 crore stating that the proceeds from sale of securities of ₹ 1.94 crore already remitted with the Company may be adjusted against principal amount outstanding and balance amount of principal may be recovered from it. However, the Company rejected (May 2006) the offer of the Unit. The Unit requested time and again to settle its loan account at ₹ 1.25 crore. Ultimately, the Company settled (March 2010) the case under OTS at ₹ 1.25 crore against the due principal amount of ₹ 2.02 crore (₹ 2.89 crore, principal amount outstanding less ₹ 0.87 crore amount adjusted from sale proceeds towards principal) by changing its accounting policy (March 2010) with retrospective effect to favour the Unit and it could also adversely affect future recoveries from other Units which was in contravention of SIDBI guidelines to follow uniform accounting policy. Thus, due to settlement of loan account at less than principal amount in contravention of its OTS/accounting policy, the Company suffered loss of ₹ 0.77 crore (₹ 2.02 crore- ₹1.25 crore).

The Management in Exit Conference admitted the fact that it was due to erroneous accounting of the recoveries made in 2004.

Loss due to settlement of loan account

2.2.15 The Company sanctioned a term loan of ₹ 3.47 crore and bridge loan of ₹ 30 lakh to M/s S.K. Cotex Limited, Panipat (Unit). The Unit availed a loan of ₹ 3.45 crore and ₹ 30 lakh respectively during October 1994 and September 2000. As per agreement of loan, the Unit mortgaged agricultural land measuring 11 bighas and 2 biswas worth ₹ 97.06 lakh at village Simla, district Panipat as CS[Υ]. Since the Unit was in default of ₹ 81.36 lakh (Principal ₹ 63.27 lakh and interest ₹ 18.09 lakh) as of November 2000, the Company took (July 2002) the possession of the Unit and sold (February 2003) it for ₹ 1.62 crore. After adjusting the sale proceeds, ₹ 48.36 lakh (₹ 2.10 crore, outstanding amount including interest as on February 2003 less ₹ 1.62 crore) were recoverable (February 2003) from the Unit.

The Company got assessed (July 2003) the value of CS from M/s North India Technical Consultancy Organisation Limited (NITCON) (July 2003) at ₹ 13.20 lakh. However, the same could not be sold as the owner had already sold a part of land without obtaining permission from the Company. The Company again got assessed (June 2006) the value of this CS from NITCON at ₹ 51.75 lakh. The Unit requested (July 2007) the Company to consider its loan account under OTS Scheme. The Company approved (September 2007) the OTS at ₹ 28.64 lakh plus miscellaneous expenses against outstanding amount of ₹ 98.16 lakh[ʃ].

We observed that since the assessed value of CS mortgaged with the Company was ₹ 51.75 lakh, the Company should not have settled the case under OTS at outstanding principal amount of ₹ 28.64 lakh. Thus, the acceptance of CS (₹ 97.06 lakh) at inflated value without verifying the title of land, not taking due care of the CS mortgaged and settlement of account under OTS at

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Υ Primary security means specific assets against which loan is granted and Collateral Security is the extra security provided by the borrower to supplement the primary security.

ʃ (Principal ₹ 28.64 lakh and interest ₹ 69.52 lakh).

₹ 28.64 lakh against due amount of ₹ 58.94 lakh worked out by the Company, resulted in loss of ₹ 30.30 lakh.

The Management in Exit Conference clarified that since the CS was under dispute, the BoDs took conscious decision to recover the amount due under OTS Scheme from the party though he was a willful defaulter. But since the Unit sold a part of the CS without informing the Company, it was not eligible for OTS.

Equity Participation Scheme (EPS)

2.2.16 Under the Scheme, the Company participated in the equity of new entrepreneurs to enable them to mobilise the required funds for the projects at the initial stage. The Company invested ₹ 34.35 lakh during March to June 1995 in the equity shares of M/s Jiwan Flora Limited (Unit) to set up a floriculture project in Gurgaon district. As per agreement, the Unit was bound to buyback the equity after the expiry of three years from the date of commencement of commercial production by or at the expiry of five years from the date of first disbursement towards equity capital, whichever was earlier. Accordingly, the Unit was to buyback the equity by March 2000.

We observed that the Unit had abandoned the project as the water at project site was not fit for floriculture. The Company asked (December 1997) the Unit to buy back the equity along with interest. One of the guarantors gave (September 2004) a proposal for buyback of equity at face value of ₹ 34.35 lakh and deposited requisite 10 *per cent* amount of ₹ 3.50 lakh. In addition to this, ₹ 37 lakh was also deposited in the Company's account. The Company decided (July 2005) that action against remaining guarantors/promoters may be initiated for recovery of interest amount of ₹ 2.70 crore due as on 31 March 2005. The promoter gave a proposal (March 2010) for buy-back of equity at face value of ₹ 34.35 lakh. The Company, however, approved (May 2010) the OTS for buy back of equity at already received amount of ₹ 41.25 lakh*.

We further observed that Haryana Agro Industries Corporation Limited (HAIC), another Government Company, had got approved (March/April 2010) disinvestment policy for buy-back of equity from the State Government which, *inter-alia,* provided buy-back of equity shares at their face value plus 10 *per cent* simple interest or double the amount of equity invested, whichever was lower. HAIC received ₹ 99.53 lakh from the instant Unit against its investment of ₹ 48.82 lakh. But the Company in absence of any policy settled the case for only ₹ 41.25 lakh.

The Management in Exit Conference agreed to the factual position given in the para and intimated that the Company had settled the amount as per OTS policy approved by the BoDs in June 2000. The reply was not convincing as the Company should have revised its OTS policy in line with HAIC which was able to recover more from the Unit.

* ₹ 40.50 lakh from the guarantor and ₹ 0.75 lakh (net) from the promoter.

Acquisition of Land

2.2.17 The Company prepares proposal for acquisition of land after assessing the requirement in accordance with the scheme of GOI, State Government, and Industrial Policy and as per the local demand of industrialists. The acquisition is made under the provisions of the LA Act, 1894. During last five years from 2006-07 to 2010-11, the Company acquired 10,279 acres of land at 48 locations at a cost of ₹ 4,542.27 crore.

Our analysis brought out the following deficiencies:

Avoidable expenditure of interest

2.2.18 The Company approved (February 2007) the proposal for detailed studies for preparation of feasibility report for setting up of multi product township in Mewat district. Notification under Section 4 of the LA Act, 1894 was issued (31 March 2008) for acquisition of 1,558 acres of land pertaining to nine villages for setting up of industrial estate Roj-ka-Meo, district Mewat. Subsequently, the State Government issued (27 March 2009) notification under Section 6 of the *ibid* Act.

Accordingly, the LAC, Mewat asked (23 December 2009) the Company to deposit ₹ 370 crore immediately so as enable it to announce the award of land. The Company asked (8 January 2010) LAC, Mewat to intimate the account number along with the name of the bank and date of announcement of award for transfer of funds. As the Company did not pursue the matter vigorously, LAC, Mewat intimated (5 April 2010) the account number with Gurgaon Gramin Bank, Nuh after a gap of three months and further informed that award would be announced immediately after receipt of amount by April 2010. The Company asked (20 April 2010) the LAC, Mewat to open account in nationalised bank instead of Gurgaon Gramin bank. Thereafter, the LAC Mewat opened new account in Union Bank of India, Mewat and provided (29 April 2010) requisite details. The LAC, Mewat announced (21 May 2010 and 31 May 2010) awards for acquisition of 1,501 acres land at a cost of ₹ 374.48 crore including interest of ₹ 62.16 crore (at the rate of 12 *per cent* from 31 March 2008 to 21/31 May 2010). Accordingly, the Company deposited ₹ 360 crore from May 2010 to August 2011 and balance payment of ₹ 14.48 crore was yet to be paid (October 2012).

Due to delay in depositing amount of compensation with LAC, the Company suffered loss of interest of ₹ 7.15 crore.

We noticed that LAC, Mewat asked (23 December 2009) the Company to deposit the fund with it immediately for announcement of award but it failed to deposit the same. Had the Company taken prompt action for completion of requisite formalities, actively pursued the matter after issuing letter to LAC in January 2010 and deposited the award amount immediately, it would have enabled the LAC to make the award by January 2010, and thus could have saved interest amounting to ₹ 7.15 crore worked out at 6 *per cent* from (1 February 2010 to 21/31 May 2010).

The Management agreed to the audit observation in Exit Conference.

Blockage of funds due to improper survey

2.2.19 Before the acquisition of land for development/establishment of industrial estates/IMTs/Growth Centers, a survey is conducted in to ascertain that land being acquired is free from encumbrances and no residential structures/houses are falling in that area. Thereafter, proposal for acquisition of land is submitted to State Government. The Company got conducted survey from a private party for acquisition of land at Industrial Model Township (IMT), Manesar and on the basis of demand notice issued by the LAC Gurgaon (February 2007) the Company deposited (February 2007) ₹ 29.31 crore with LAC, Gurgaon for acquisition of 163 acres 3 kanal and 15 marla of land in Gurgaon district after the issue and award of notification under Section 4 (24 November 2006) and 6 (24 February 2007) of LA Act, 1894 respectively. The Company could not take the possession of land so far (March 2012) due to large number of structures on the above said land and several petitions filed by villagers. The Chief Town Planner of the Company informed (4 January 2012) that aforesaid land acquired could not be developed due to encroachment at site. Further, 9 SLPs were filed in the Supreme Court by land owners, wherein it was alleged that residential houses situated just outside the above area belonging to the petitioners had been acquired. The decision of the court was awaited (October 2012).

We noticed that survey for acquisition of land, was neither done properly by the private party nor was it analysed properly by the Company. Thus, incorrect survey report which was not verified by the Company resulted not only in delay in development of area but also blocked the amount of ₹ 29.31 crore for around five years besides incurring loss of interest of ₹ 8.98 crore (worked out at six *per cent* from February 2007 to March 2012).The Company initiated no action to retrieve the amount from LAC.

During Exit Conference the Management stated that at the time of survey, the land was clear from all encumbrances except for some temporary structures which would be demolished early.

Development of land

2.2.20 The following table depicts the position of financial targets for development of land and achievement there against during last five years 2007-12.

(₹ in crore)

Year	Budgeted	Actual Expenditure	Percentage	Shortfall
2007-08	166.33	157.24	94.53	5.47
2008-09	195.60	177.52	90.76	9.24
2009-10	320.05	204.60	63.93	36.07
2010-11	589.34	234.28	39.75	60.25
2011-12	712.09	385.70	54.16	45.84

The Company could not achieve financial targets for development of land in any of the five years.

Above table revealed that though the Company fixed financial targets for development of land during 2007-12, but it could not achieve the same in any of the five years and the short fall ranged between 5.46 and 60.25 *per cent*. The Company did not fix any norms for the development of land and as such physical achievements made by it could not be analysed. Further, the Company's main thrust was on development of industries in the area, falling within National Capital Region (NCR), as out of total area of 25,725 acres developed by it up to March 2012, 22,476.79 acres (87.37 *per cent*) fell within the NCR. This impeded balanced industrial growth in the State.

Loss due to non-availing of benefit of excise duty exemption

2.2.21 The Ductile Iron (DI) pipes to be used in the development of industrial estates are exempted from excise duty and the Company was availing this benefit while procuring DI Pipes for its various Industrial Estates (IEs) *viz.* Industrial Model Township (IMT) Manesar, Growth Centre (GC) Saha, IE Karnal and IE Kundli).

We observed that the DNIT was prepared by the Consultant inclusive of excise duty and informed that benefit of exemption of Excise Duty (ED) on DI pipes is provided by GOI. It was also narrated that an undertaking from the lowest bidder be taken to pass on the benefit of ED to the Company. However, the Company while finalising the DNIT for development of IMT Faridabad on turnkey basis did not consider the aspect of exemption of ED on DI pipes and allotted (May 2010) the work to M/s Ramky Infrastructure Limited (Contractor) at lowest quoted rates of ₹ 310 crore. The Contractor availed benefit of ₹ 1.15 crore on account of exemption of ED on the entire quantity of pipes ordered in May 2011 but did not pass on the same to the Company.

We further observed that the Company did not avail benefit of exemption of ED of ₹ 1.04 crore on DI pipes, used for development of IE Barhi, IMT Rohtak and IE Panipat and work for these three projects was awarded on turnkey basis in November 2010, November 2011 and March 2012 respectively. Thus, due to non-availment of benefit of excise duty, exemption on purchase of DI pipes, the Company suffered a loss of ₹ 2.19 crore in four works.

During Exit Conference the Management agreed to recover the excise duty benefits availed by the contractors from them.

Fixation of Price

2.2.22 The Company allots industrial plots on 'no profit no loss' basis and works out allotment rates by aggregating the development expenditure, interest cost, land cost on estimated basis divided by the area to be allotted. The Company did not fix any year wise physical targets during 2007-12 for allotment of plots/sheds. As such, the performance of estate division of the Company could not be evaluated. However, out of 14,297 plots/sheds carved up to March 2012, 2,390 plots/sheds (16.72 *per cent*) were lying vacant.

Following interesting cases relating to fixation of price were noticed in audit.

Loss due to allotment of additional land at old rates

2.2.23 M/s Khandhari Beverages Private Limited (Unit) had applied (May 2009) for 20 acres of land at GC, Saha for setting up bottling of aerated drinks (soft drinks) plant. The Company allotted (15 June 2009) 13.40 acres of land at ₹ 1,100 per square metre to the Unit and the remaining land of 6.60 acres was to be allotted as and when available, at the rates prevalent at that time. The Company later on allotted (8 March 2011) an additional area of 11.40 acre (46,170[♣] square metre) at a cost of ₹ 11.54 crore[ƒ] to the Unit at the current price of ₹ 2,500 per square metre. The Company informed (March 2011) the Unit to submit an undertaking and pay application money of 10 *per cent* price of plot within 15 days so that RLA could be issued to it. As the Unit had already paid (24 May 2010) ₹ 1.28 crore as application money and submitted the undertaking on 9 March 2011, so the Company issued (22 March 2011) RLA to the Unit and also asked it to deposit ₹ 1.61 crore to make it 25 *per cent* i.e. ₹ 2.89 crore (₹1.28 crore+ ₹ 1.61 crore) of the allotment price within 30 days (21 April 2011). The Unit deposited this amount on 4 September 2011, i.e. 135 days after the expiry of due date.

The EMP 2011 stipulated that in case of allotment of plots/sheds, the allottee is required to remit 15 *per cent* payment within a period of 30 days. This period can be extended by another 30 days on payment of interest at the rate of 14 *per cent* for the delayed period. On expiry of 60 days, the allotment of plot/shed stands lapsed. It further provided that in case of extreme hardship, MD shall be competent to revive the allotment and accept 15 *per cent* payment within 120 days of issuance of RLA, on payment of interest at the rate of 14 *per cent* for the delayed period and in case of revision of allotment rate in that estate/area, the allottee pays the difference of current allotment price minus original allotment price, or the interest at the rate of 14 *per cent* for the delayed period, whichever is higher.

Allotment of additional land at old rates resulted in loss of ₹ 6.84 crore.

We observed that the Company revised allotment rate to ₹ 4,000 per square metre from 1 April 2011. But it accepted the old rate of ₹ 2,500 per square metre for additional land of 11.40 acres (4 September 2011) from the allotee while receiving the balance payment of 15 *per cent* subject to payment of interest for the delayed period by the Unit as per the EMP 2011. The Company advised (January 2012) the Unit to deposit ₹ 8.46 lakh towards payment of interest accrued on the defaulted amount (₹ 1.61 crore) for the period from 22 April 2011 to 4 September 2011 and the same was deposited (January 2012) by the Unit. Thus, the Company did not charge the applicable revised rate and resultantly suffered loss of ₹ 6.84 crore[∞].

The Management in Exit Conference stated that though there was delay in depositing 15 *per cent* payment by the Unit, the BoDs with a view to provide the impetus to industrial activities in the State, allotted the additional land at the old rate and amended its EMP 2011 for similar cases. The reply was not convincing as the Company did not charge the revised rates as the Unit had delayed the payment and was not eligible for payment at the old rate.

Mega Projects

2.2.24 As a part of the industrial development of the State, the Company is implementing a number of mega infrastructure projects, which are discussed

[♣] one acre=4,050 square metre, so 11.40 acre=46,170 square metre.

[ƒ] 46170 square metre x ₹ 2,500 per square metre.

[∞] 46170 square metre x (₹ 4000-2500)-₹ 8.46 lakh received on account of interest.

below:

Abnormal delay in completion of Kundli Manesar Palwal (KMP) Expressway

2.2.25 The State Government appointed the Company as executing agency for the development of Kundli-Manesar-Palwal (KMP) Expressway. The development of KMP expressway was undertaken with a view to provide high speed link to the Northern Haryana with its southern districts like Jhajjar, Rewari, Faridabad and Gurgaon besides opening up of new areas adjoining Delhi border as future corridors of development. The estimated cost of the project was ₹ 1,200 crore excluding land cost of 135.65 kilo metre which was to be shared among Government of National Capital Territory, Delhi, Government of Uttar Pradesh and Government of Haryana in the ratio of 50:25:25. The share of Haryana was to be further shared between State Government, HUDA and the Company in the ratio of 50:25:25 respectively.

The work was allotted (31 January 2006) to Concessionaire, M/s. KMP Expressway Limited on Built Operate Transfer (BOT) basis. The concession period of the project was 23 years nine months including three years construction period with Commercial Operation Date (COD) as 29 July 2009. The concessionaire submitted (27 February 2009) detailed revised work completion programme with target date of completion as 31 December 2010. The High Powered Committee (HPC) headed by Chief Secretary in its meeting (June 2009) agreed to the proposal for extension of COD as 31 December 2010. The concessionaire assured (December 2010) the Chief Minister, Haryana that Manesar Palwal stretch would be opened by August 2011 and remaining stretch by November 2011. The HPC reviewed the progress of project from time to time and expressed concern over concessionaire's inability to achieve even its own committed targets besides recommending (November 2011) to impose penalty for delay at the rate of 0.01 *per cent* of the total project cost per week.

We observed that due to non existence of any mechanism regarding receipt of requisite funds in advance from various contributors, ₹ 12.76 crore was recoverable (March 2012) by the Company from the State Government. Further, the concessionaire could achieve physical progress of 66.86 *per cent* and financial progress of 77 *per cent* as on 31 March 2012. The Company, however, levied (July 2012) penalty of ₹17.88 crore for delay in achievement of COD, but no amount had been recovered so far (October 2012).Thus, due to inordinate delay in completion of project, the intended benefits of the development of KMP expressway could not be achieved.

During Exit Conference, the Management stated that the State Government was vigorously pursuing the matter for early completion of the project.

Non-setting up of SEZ

2.2.26 The GOI introduced the Special Economic Zone (SEZ) Act 2005 to attract investment in export promotion and to boost exports. Reliance Industries Limited (RIL) approached (September 2005) State Government for creating multi product SEZ Reliance Venture Limited (a 100 *per cent* subsidiary of RIL) entered into (June 2006) a Joint Venture Agreement (JVA) for the purpose and a Special purpose Vehicle under the name of Reliance Haryana SEZ Limited (RHSL) was incorporated (9 October 2006) to implement the project. The project was approved by Haryana Investment Promotion Board (HIPB). In the first phase SEZ was to be established at Gurgaon and in the second phase at Jhajjar. In accordance with the agreement, the Company transferred (December 2006) 1,383.68 acre land at Gurgaon at a cost of ₹ 399.85 crore to RHSL. RHSL was required to acquire 25,000 acre land for both the places but it could acquire only 8,350 acre of land even up to extended date of 31 March 2012 and so setting up of SEZ could not fructify. In terms of agreement RHSL was required to pay 15 *per cent* penalty on the value of land transferred to it, in case the project failed. However, instead of paying any penalty RHSL demanded ₹ 1,172 crore for returning the land back to the Company as it claimed development cost, stamp duty refund, annuity paid and 18 *per cent* per annum interest. To settle the case amicably, HIPB in the meeting (13 October 2012) deferred the matter. Further development in the matter was awaited (October 2012).We observed (May 2012) that due to failure of RHSL to set up SEZ in Gurgaon and Jhajjar, the objective of boosting of export was defeated.

During Exit Conference, the Management stated that there was no further development in the case.

Less recovery due to wrong costing of land

2.2.27 The State Government acquired (January 2006) 274.74 acres of land for ₹ 55.66 crore of land at Gurgaon for development of recreational, leisure projects and other connected project by the Company in Gurgaon. The State Government also transferred (November 2007) 75.98 acres of HUDA land to the Company at acquisition cost of ₹ 1.11 crore. We observed that out of 350.72 acre land transferred to the Company, 97.72 acre land was free for this activity and balance 253 acre land was under plantation /forest land (Aravali plantation scheme-161.03 acre and Punjab Land Preservation Act (PLPA) 1900, 91.97 acre). Inspite of this fact, the State Government transferred this land to the Company for recreational/leisure projects. M/s ILFS Infrastructure Development Corporation Limited, Chandigarh was appointed (March 2008) as consultant for assessment of land cost and preparation of all handholding documents who submitted their report in April 2008. We observed that the consultant valued the land cost by using a mixed approach i.e. multiplying average market rate of land with average DC rate.

Analysis of rates considered by the consultant revealed that the market rate for residential plots was 2.79 times (average) more of average DC rates and average market rate for commercial plots was 3.105 times more of average DC rate. The consultant, however, by ignoring the actual market rates took factor of 1.8 times of average DC rates instead of 2.79 times for reasons not on record for valuation of residential land and factor of 3.12 times for valuation of commercial plots.

The value of property considering factors adopted by valuers, thus, worked out to ₹ 1,683.58 crore whereas valuation of property by considering correct average factors of 2.79 times for residential area and 3.105 times for commercial plots works out to ₹ 2,142.11 crore as depicted in ***Appendix 9.*** The Company, however, approved (April 2008) the reserve price of above land at ₹ 1,700 crore on the basis of valuation by the consultant without looking into the calculations made by the consultant.

In response to advertisement (January 2009), for sale of area M/s DLF limited (DLF) submitted (April 2009) its bid which was found to be technically qualified and its financial bid (₹ 12,000 per square metre) was opened (May 2009). M/s DLF submitted its bid with certain terms and conditions like the Company to clear legal and procedural complexities etc. The Company re-advertised (July 2009) the project with revised terms. In the meantime, the FCPS, Town and Country Planning Department, Haryana decided (July 2009) that additional Floor Area Ratio (FAR)[ϒ] at the rate of 20 *per cent* of area should be allowed to the successful bidder. In the second attempt, the technical bids of three bidders (*viz.* M/s DLF, M/s Country Heights Holding Berhad and M/s Unitech Limited, New Delhi) were opened on 12 August 2009. The Company rejected (18 August 2009) the bids submitted by M/s Unitech Limited and M/s Country Height Holdings Berhad, Malaysia on the ground of their being non responsive bids due to not fulfilling the minimum criteria and decided not to open their financial bids. The bid of M/s DLF was accepted at ₹ 1,703.20 crore (₹ 12,000 per square metre) which was subsequently approved by the State Government and RLA was issued by the Company to M/s DLF (February 2010) for sale of 350.715 acre land.

Due to non verification of valuing of land made by consultant by adopting wrong factor resulted in loss of ₹ 438.91 crore.

We observed that M/s DLF submitted bid at the rate of ₹ 12,000 per square metre in April 2009 also and the rate quoted by them was same even in August 2009 in spite of the change in terms that all the permissions/clearance this time were to be taken by the Company/State and extra FAR of 20 *per cent* of the area was allowed and permitted to be used by the DLF at any residential project in Gurgaon Manesar development plan, the value of which could not be worked out in audit.

Thus, the Company transferred 253 acre land under plantation/forest in violation of PLPA, 1,900 at a cost worked out by the consultant who did not follow the rules of valuation in its entirety. This has resulted in undervaluation of land by ₹ 438.91 crore. The Company by accepting the consultants valuation without any analysis and study suffered a loss of ₹ 438.91 crore. Besides, it was allowed benefit of extra FAR and the Company took upon itself the responsibility of obtaining permissions/clearance.

The Management in Exit Conference stated that the bid parameters along with benefits of extra 20 *per cent* FAR were revised before the re-advertisement and expenses on getting the clearance was the liability of DLF and no financial burden accrued to HSIIDC/HUDA. The reply was not convincing as the Company had fixed the reserve price of the land on the lower side due to wrong costing of land. The Management agreed to submit revised replies which were awaited (December 2012). It is recommended that M/s. ILFS IDC Limited should be debarred from entering into any business with the Company

ϒ FAR is the ratio of the total floor area of buildings on a certain location to the size of the land of that location, or the limit imposed on such a ratio.

for its improper valuation of land.

Non monitoring of Industrial units

2.2.28 The Company is required to monitor that the allottees are using the allotted plots strictly in terms and conditions of RLA. We noticed that the Company has not set up any monitoring cell in the Company to monitor that the allottees are maintaining/ operating their business in the required manner. On review of reports of revenue audit & physical survey of industrial estates prepared by the firm of chartered accountants appointed by the Company we noticed as under:

- Out of total 7,064 plots of six[ʃ] industrial estates test checked in audit, unauthorised transferees were carrying activities in 423 plots. As per terms of RLAs, the allottees were required to implement the project on the industrial plots within a period of three years from the date of offering of possession. However, 731 allottees (10.35 *per cent*) had not started the production.

- 48 allottees were carrying out non-industrial activities viz. sale outlet of auto, office of financial services and godowns etc.

During Exit Conference, the Management assured creation of monitoring cell to reduce such cases.

Internal Audit and Internal Control

Internal Audit

2.2.29 The State Government issued (May 1981) instructions for introduction of uniform internal audit system in all Public Sector Undertakings (PSUs). In 2002, the State Government formulated and circulated guidelines for conducting internal audit. As per the instructions, the work of internal audit of PSUs, where internal audit cell did not exist was to be entrusted to a firm of Chartered Accountants, clearly defining the scope of work and reports of the same were to be placed before the BoDs.

We observed that the Company did not have an independent internal audit cell. Though, the Company arranged the internal audit from a firm of Chartered Accountants (CAs), its reports were submitted to head of the units and not to Audit Committee and BoDs. The Company failed to comply with the instructions of the State Government.

During Exit Conference, the Management assured that internal audit reports would be submitted before the Audit Committee for good corporate governance.

[ʃ] Barhi, Bawal, Faridabad, Gurgaon, Manesar and Rohtak.

Internal Control

2.2.30 Internal control is a management tool for providing reasonable assurance that the management objectives are being adhered to in an efficient and effective manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and reliability of accounting data, efficiency in operation and safe guarding of the assets. A review of internal control procedure adopted by the Company revealed the following deficiencies:

i) The Company had not prescribed any time limit for sanction of term loan from the date of receipt of loan application. It resulted in accumulation of loan applications.

ii) The Company had not devised any system for conducting inspections of loanee Units at regular and periodical intervals and had also not evolved any system of collection/analysis of balance sheets/working results of loanee Units to know their financial health.

iii) Though the Company receives monthly progress reports from field offices, the consolidated position of various works/projects of industrial estates had never been compiled and brought to the notice of the BoDs for better control on field activities.

iv) The Company did not have year wise and estate-wise details of awards of land acquisition received, details of payment deposited with LAC, amount disbursed, and amount lying undisbursed with LACs concerned. These records were never reconciled. This shows that there was no co-ordination between the Country Town Planning division, Accounts division and the field offices. Due to non-maintenance of proper record, the amount and the period for which they are lying with LACs and reasons for non-disbursement of funds could not be ascertained in audit and no time limit was laid down for development of land acquired under LA Act, 1894.

During Exit Conference, the Management assured that necessary steps would be taken to strengthen internal control mechanism in the Company.

The matter was referred to the Government (September 2012); their reply was awaited (December 2012).

Conclusions

- **The Company did not achieve targets in respect of sanction and disbursement of loans. Disbursement of loans decreased from ₹ 45.71 crore in 2006-07 to ₹ 26.49 crore in 2010-11.**

- **The percentage of recovery to total amount due for recovery ranged between 47.58 *per cent* and 62.60 *per cent* during 2006-11, indicating poor recovery efforts made by the Company.**

- **In settlement of 34 cases under OTS, the Company had to forego ₹ 181.20 crore during 2006-11. Of these 34 cases, 17 cases were settled only for ₹ 23.03 crore as against the pending dues of ₹ 127.48 crore though the Company got assessed the market value of assets at ₹ 56.91 crore.**
- **The performance of the Company with regard to setting up of industrial estates was poor and it had not fixed any physical targets for development of industrial estates in a time bound manner and percentage of development of land to financial targets ranged between 39.75 and 94.53 during 2006-11.**
- **While making payment of compensation for acquisition of land, the Company had not complied with the provisions of LA Act, 1894 with regard to payment of interest in two cases test checked.**
- **The system for identification of land for acquisition was faulty which resulted in blocking up of funds.**
- **There were deficiencies in the internal audit and internal control system of the Company.**

Recommendations

The Company may consider the following recommendations for implementation:-

- **Strict adherence to achieve targets in respect of sanction, disbursement and recovery of loans and benefit of OTS should be given only to eligible loanees.**
- **Ensure preparation of long term action plan for acquisition of land for development of industrial estates.**
- **Ensure strict adherence to relevant provisions of the Land Acquisition Act to avoid excess payment of interest.**
- **Attempt fixing of physical targets for development of industrial estates with a fixed time frame.**
- **Internal audit and internal control system should be strengthened to be commensurate with the size and nature of the business of the Company for effective and efficient financial monitoring.**