

Chapter-3

Transaction Audit Observations

Chapter 3

3 Transaction Audit Observations

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

Government companies

Haryana Power Generation Corporation Limited

3.1 Extra Expenditure

PTPS had to cancel a tender enquiry due to non-incorporation of clause of acceptability of revised bid in NIT and would incur extra expenditure of ₹0.29 crore in the contract period.

Clause 8.7 (i) of the Haryana Power Generation Corporation Limited (Company) Purchase Regulation, 2011 provides that revised price bid submitted by the bidder in any case *suo-moto*, original as well as revised offers shall be opened and lowest will be considered only.

Panipat Thermal Power Station (PTPS) of the Company issued Notice Inviting Tenders (NIT) (3 May 2013) for hiring and operation of diesel driven four buses of 52 seat capacity and one mini bus of 40 seat capacity for a period of three years. The bids were to be opened in two parts *i.e.* Technical bid (Part-I) and Price bid (Part-II). Part-I to be opened on 22 May 2013 and Part-II thereafter, only for those bidders who qualify the NIT conditions of Part-I.

Three bidders *i.e.*, M/s Paul Travels, Panipat, M/s Ranjit Transport Company, Bhatinda and M/s Punjab Transport Company, Panipat participated in the tenders. Part-I of the bid was opened on 22 May 2013 and all three bidders were found eligible for opening of Part-II of the bid. However, one bidder, M/s Punjab Transport Company, Panipat before opening of Part-II of the bid submitted its revised price bid (17 June 2013) and PTPS, Panipat opened the price bids of all the three bidders (including original and revised bid of M/s Punjab Transport Company, Panipat) on 17 June 2013 as per detail given below:

Sl. No.	Description of work	M/s Paul Travels, Panipat	M/s Ranjit Transport Company	M/s Punjab Transport Company	
				Original	Revised bid
		Rate per bus per month (₹)			
1.	Hiring of 52 seat bus	93,232	1,46,048	97,972	90,678
2.	Hiring of 40 seat bus	68,726	1,11,288	72,827	68,843

Thus M/s Punjab Transport Company, Panipat emerged as the L-1 bidder. But

before issue of letter of award, M/s Paul Travels, Panipat, made (19 June 2013) a representation that there was no provision in the NIT to accept revised bid from any bidder; if the revised bids were accepted, then the same was not intimated to them and as such they were the L-1 bidders and the work should be awarded to them. The Store Purchase Committee of PTPS considered the representation and decided (19 June 2013) to cancel the tenders and to re-invite bids. PTPS re-invited (30 June 2013) the tenders and based on the offers received, awarded (17 February 2014) two work orders, one to M/s Paul Travels, Panipat (L-1) for hiring and operation of four buses (52 seat capacity) at a cost of ₹1,09,649 per bus per month and other to M/s Punjab Transport Company, Panipat (L-1) for one bus (40 seat capacity) at a cost of ₹83,749 per bus per month. The period of contract of both the firms was three years from 09 January 2014 to 08 January 2017.

Audit observed (January 2015) that though the Company had accepted the revised price bid from M/s Punjab Transport Company against the tender enquiry of May 2013 in terms of its Purchase Regulation 2011. Since the necessary clause in this regard was not included in the tender terms and conditions, it had to cancel the tender enquiry. The rates received on retendering in June 2013 were higher by ₹16,417 per bus per month for four buses of 52 seat capacity and ₹15,023 per bus per month for one bus of 40 seat capacity as compared to the L-1 bids of cancelled tender enquiry of May 2013. Thus, due to not incorporating the clause of acceptability of revised bids in NIT terms and conditions, the PTPS, Panipat had to award work at a higher cost and would incur extra expenditure of ₹0.29¹ crore during the contract period.

Management and Government stated (October 2015) that NIT was dropped to give equal opportunity to all bidders. Thus the point stays that as the NIT terms and conditions did not contain the clause that revised bids will be acceptable and the Company having accepted revised bid had to cancel the tender enquiry on being represented against. Thus, the Company will be incurring extra expenditure of ₹0.29 crore due to higher rates obtained in retendering.

3.2 Loss due to making of undue payment to Logistic Agent

The Company paid ₹4.71 crore towards railway freight, custom duty, stamp duty and port charges on 21,631.43 MT of imported coal, which was not received.

The Company placed (17 October 2012) Purchase Order (PO) for supply of 14.50 lakh MT of imported coal on MSTC Limited, Kolkata² (Supplier) for its thermal power stations i.e. Deenbandhu Chhotu Ram Thermal Power Plant (DCRTPP) Yamunanagar, Rajiv Gandhi Thermal Power Plant (RGTPP), Khedar, Hisar and Panipat Thermal Power Station (PTPS), Panipat. Of this coal, six lakh MT was to be supplied at PTPS, Panipat; two lakh MT to

¹ ₹16,417 x 4 buses x 12 months x 3 years plus ₹15,023 x 12 months x 3 years.

² A Central Public Sector Undertaking.

DCRTPP and six lakh fifty thousand MT to RGTPP. Adani Enterprises Limited was nominated as Logistic Agent (LA) by the supplier. Accordingly, the Company placed (17 October 2012) work order on the LA for inland logistic activities. The LA was responsible for complete operations involving receipt of cargo at Port till its delivery to power plants and was to be paid handling charges at the rate of ₹250 per MT. Clause 6 read with Clause 6.1 laid down that port charges, custom duty and railway freight were to be paid as per actual (including statutory tax) and other taxes/ statutory duties, if any.

Audit observed (December 2014) during test check of quantity received and payments made in respect of imported coal received through 24 vessels against the above PO that quantity was received short by 21,631.43 MT. The Company while making the payment to LA, deducted the cost of coal short received at the CIF price³. However, while calculating the amount of deduction, it did not consider the cost elements of railway freight, custom duty, stamp duty and port charges which form part of the cost⁴ of coal to be transported by LA. The Company had paid ₹4.71 crore towards railway freight, custom duty, stamp duty and port charges for the quantity of coal never received which should have been deducted and recovered. This resulted in undue favour to LA and loss to the Company by ₹4.71 crore.

Management/ Government stated (November 2015) that the payment of railway freight, custom duty, stamp duty and port charges were required to be paid to LA on actual basis against documentary evidence as per Clause 6.1(ii) of PO irrespective of quantity received. The reply is not acceptable as the said Clause nowhere mentions the term 'irrespective of quantity received'. Further, succeeding Clause 6.2 provided that adjustments for quantity and quality variations shall be carried out for the purpose of payment on the basis of rake to rake results at unloading end *i.e.* HPGCL thermal power stations. Also the recovery for coal not received should be calculated on the basis of its cost taking into account all the cost elements at transportation point and not just CIF price. Therefore payments of railway freight, custom duty, stamp duty and port charges should have been adjusted on the basis of quantity of imported coal actually received at the plant. Further, in another case, Management stated (September 2015) that provision has been made in new NIT, for procurement of 10 lakh MT imported coal, to pay custom duty on net adjusted quantity of imported coal to be received in HPGCL thermal power plants.

3.3 *Excess payment of custom duty*

The Company paid excess custom duty of ₹2.10 crore to a firm on imported coal, which was below guaranteed specifications.

The Company placed (17 October 2012 and 2 September 2013) two Purchase Orders (PO) with M/s MSTC Limited for supply of 14.50 lakh MT and

³ Cost including marine insurance and marine freight at the landing port.

⁴ As per guidance note on Cost Accounting Standard -6 on Material cost issued by Institute of Cost and Management Accountants of India.

20.00 lakh MT imported steam coal respectively, to its thermal power stations. Since, M/s MSTC Limited had nominated M/s Adani Enterprises Limited as Logistic Agent (LA), as such simultaneously two Work Orders (WO) were issued by the Company in favour of the LA for handling of imported coal. PTPS Panipat, DCRTTP Yamunanagar and RGTPP Hisar were to receive 15.92 lakh MT, 4.40 lakh MT and 14.18 lakh MT of coal respectively against these two POs. Terms and conditions of WO *inter-alia* provided that the quality of imported coal was to be as per the specification given in the PO and WO. If the specification of coal received was less than the guaranteed specification, then final payment was to be made after adjustment on account of quality variations.

The LA was responsible for complete operations involving receipt of cargo at port till its delivery to thermal power plants and was to be paid handling charges which *inter-alia* involved payment of port charges, custom duty, railway freight and taxes/ statutory duties for which payment was to be made on actual basis.

The firm supplied 9.06 lakh MT⁵ of coal to PTPS Panipat, 13.97 lakh MT⁶ to RGTPP Hisar and 4.66 lakh MT⁷ to DCRTTP Yamunanagar during 2012-13 to 2014-15.

We observed that against this supply, the Company paid custom duty taking the value of imported coal at port. Though the Company recovered ₹58.20 crore from LA on account of quality variations than that specified in the contract but the custom duty paid thereon which worked out to ₹2.10 crore was not recovered. Thus, the Company had paid excess custom duty of ₹2.10 crore to M/s Adani Enterprises Limited.

Management and Government stated (November 2015) that statutory payments like custom duties *etc.* have to be made on the quantity received at discharge port in India and same is paid as actual as per provision of PO/WO. If provision is made regarding payment of custom duty on net adjusted quantity received in plants, then the supplier /LA shall load this factor while submitting their offer for import of coal which would result in extra burden on Company. However, provision has been made in new NIT to pay custom duty on net adjusted quantity of imported coal to be received in HPGCL thermal power plants. The reply is not convincing as Clause 6.2 of *ibid* WO provided for adjustments on the basis of quantity and quality variations at the power stations for the purpose of payment on the basis of results at unloading end *i.e.* HPGCL thermal power stations. Therefore, payments of custom duty should have been adjusted for reduction in value of imported coal on the basis of quality actually received at the plants.

⁵ 6.96 lakh MT through 10 vessels against WO of October 2012 and 2.10 lakh MT through 4 vessels against WO of September 2013.

⁶ 5.48 lakh MT through 7 vessels against WO of October 2012 and 8.49 lakh MT through 9 vessels against WO of September 2013.

⁷ 2.23 lakh MT through 5 vessels against WO of October 2012 and 2.43 lakh MT through 5 vessels against WO of September 2013.

Uttar Haryana Bijli Vitran Nigam Limited

3.4 Loss due to non submission of insurance claims

The Company suffered loss of ₹0.74 crore due to non-submission of claims to the insurance companies in terms of group accidental insurance policy for fatal accidents.

Uttar Haryana Bijli Vitran Nigam Limited (Company) took (16 July 2010) a Group Personal Accident policy to insure its staff viz. gazetted and non gazetted employees against fatal and non-fatal accidents for the period 17 July 2010 to 16 July 2011. As per terms of policy, the insurance company was to give compensation of ₹ three lakh in each fatal accident case which was increased to ₹ five lakh with effect from 1 October 2010. The field offices are required to intimate the claim within 28 days of the accident to the insurer Company.

Audit observed (February 2015) that though the Company issued guidelines to the field offices to intimate claims to insurance companies in time, it had not devised any internal control and monitoring mechanism to ensure that all the claims were being intimated in time and pursued so that claims could be recovered from the insurance companies. The Company paid compensation of ₹0.96 crore (Chief Engineer, Operation, Panchkula ₹0.58 crore in nine fatal accident cases and Chief Engineer, Operation, Rohtak ₹0.38 crore in seven fatal accident cases) during July 2010 to March 2015 but did not intimate claims of ₹0.74⁸ crore to the insurance Companies at all and thus lost the opportunity to recover the same.

The Management (December 2015) and Government (January 2016) stated in their reply that in Rohtak Circle out of total seven cases, in three cases, claims (₹15 lakh) were lodged with delay and were rejected and that departmental action to fix responsibility is underway for both the circles.

The point remains that the Company suffered loss of ₹0.74 crore due to its lack of institutionalised mechanism to watch submission and recovery of insurance claims.

3.5 Loss of revenue

The Company was deprived of ₹2.70 crore revenue due to supplying power under categories not conforming to tariff orders.

Schedule of tariff for supply of energy and general and miscellaneous charges, of the Company issued in January 2001 provided that general/ mixed load exceeding 10 KW to the schools/ colleges/ educational institutions/ railways (other than traction), etc. will be released/ issued under Bulk Supply (BS) category. The sales instructions (1989 and 1993) and reiteration (November 2006) as also tariff order of January 2001, also required clubbing

⁸ ₹3 lakh x 1 case (being prior to October 2010) plus ₹5 lakh x 8 cases = ₹43 lakh (Panchkula)
+ ₹5 lakh x 5 cases plus ₹3.45 lakh+ ₹2.88 lakh on actual basis = ₹31.33 lakh (Rohtak)

of load in same premises. Up to September 2010 the tariff for High Tension (HT) Industrial and BS consumers was same. It was revised (effective from 1 October 2010) and new tariff comprised of energy charges and fixed charges. In case of BS category fixed charges were levied on the basis of Sanctioned Load (SL) and in case of HT industrial category levied on Contract Demand (CD). The fixed charges were leviable at the rate of ₹130 per KW per month on BS consumers and on Non Domestic Supply (NDS) consumers having connected load above 20 KW. Further from April 2014, fixed charges were levied on the basis of CD in both HT industrial and BS categories.

Audit observed:

- (a) Northern Railway has two workshops in the State at Jagadhri and Kalka and their SL & CD was 13288 KW & 5200 kVA and 3407 KW & 900 kVA, respectively. As per *ibid* regulations power supply connection to these workshops was to be charged under BS category instead of HT category.

Audit Report of Comptroller and Auditor General of India for the year 2007-08 (Commercial) - Government of Haryana, had reported incorrect categorisation of Railway Workshop, Kalka in the category of BS consumer and therefore not being entitled to rebate applicable to HT Industrial consumers. During discussions in Committee on Public Undertakings (COPU) (November 2011), the Department accepted the mistake in categorisation and stated that they had charged Railways ₹0.29 crore as peak load consumption charges which are charged on Large Supply (LS) category (now called HT Industrial Category) consumers. COPU accordingly dropped the para.

We observed that despite incorrect categorisation being pointed out and accepted by Company before COPU (November 2011), they did not take corrective action of changing the category of power supply connection of Railway Workshops to BS category for the purpose of billing. Thus, due to incorrect application of tariff the Company deprived itself of additional revenue of ₹2.34 crore⁹ from December 2011 to March 2015.

- (b) National Institute of Technology, Kurukshetra (NIT) had applied (June 2007) for clubbing of existing 31 power supply connections (released under NDS¹⁰ and DS¹¹) and releasing a power supply connection in BS category for 2980 KW. NIT deposited (June 2007) ₹0.30 crore for the same. After a lapse of more than four years, the Company intimated (27 September 2011) NIT that their application had been cancelled due to non-submission of the reports, non-commissioning of 11 kV substation structure/ power off transformers *etc.* and asked NIT to resubmit its application. NIT re-applied (30 September 2011) for clubbing and extension of load and releasing

⁹ ₹1.81 crore in respect of Railway Workshop Jagadhari and ₹0.53 crore in respect of Railway Workshop Kalka.

¹⁰ NDS- Non Domestic Supply.

¹¹ DS- Domestic Supply.

a BS connection for combined load of 4560 KW which was released (November 2012). Further, out of the 31 power supply connections to NIT, Kurukshetra (released under NDS and DS category), eight connections having connected load of 1105 KW were under DS category on which no fixed charges were levied. However, due to Company's delay to club the existing power supply connections and release a power supply connection under BS category, the Company could not recover fixed charges of ₹0.36 crore for the period October 2010 to October 2012 on the 1105 KW of these eight DS power connections.

Management (October and December 2015) and Government (January 2016) in their reply stated that the category of the Railway Workshops connection was 'HT Industrial' since date of release of connection as per prevailing instructions and it was not possible for the Company to change the category from HT Industrial to Bulk supply at the later stage as the agreement is for HT Industrial supply and Company cannot go beyond the agreement. Further, there is no loss of revenue as in the new tariff also the rate of HT Industrial supply is more than the bulk supply rates and for case of NIT Kurukshetra, the Management (October 2015) and Government (November 2015) stated that delay was due to non-compliance of conditions by consumer and natural process which took time in order to complete the job.

The reply was not acceptable as the Company cannot go beyond HERC Regulations and it cannot charge tariff under wrong category only because it would be beneficial to it and it has to adhere to HERC Regulations and sales instructions (1989 and 1993) and reiteration (November 2006) as also tariff order of January 2001, required clubbing of load in same premises which was delayed despite being financially detrimental to its own interests. Thus the Company was deprived of the revenue of ₹2.70 crore due to its own negligence and failure to take corrective action in a timely manner.

Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited

Haryana Power Purchase Centre

3.6 Extra payment

Diminution in Gross Calorific Value of imported coal resulting in extra payment of ₹75.39 crore.

Haryana Power Purchase Centre (HPPC) entered (07 August 2008) a Power Purchase Agreement (PPA) with M/s Jhajjar Power Limited (JPL), a subsidiary of M/s China Light Power (CLP) India Private Limited, Mumbai, for purchase of power. Accordingly, 1,320 Mega Watt (MW) Mahatma Gandhi Super Thermal Power Project was set up by M/s JPL at Jhajjar to cater to the power requirement of Haryana. As per Schedule 7 of the PPA, tariff was

to be paid on monthly basis and in two parts comprising of (i) capacity/ fixed charges and (ii) energy/ variable charges. The recovery of annual capacity charges (fixed cost) is related to the norms of approved Plant Load Factor (PLF). The energy/ variable charges were based on the net quoted heat rate *i.e.* 2396 Kcal/ kWh and cost of coal & Gross Calorific Value(GCV) of coal at the time of consumption. As per formula¹² for payment of energy charges, increase in cost of coal or decrease in the GCV of coal would result in increase in energy charges for raising bills to HPPC. JPL was using imported coal (having higher GCV with high cost) along with indigenous coal for generation of power.

We observed that during August 2013 to March 2015 there was diminution in the GCV of the imported coal at the time of consumption as compared to the GCV at the time of unloading and it ranged between 150 to 690 Kcal/ Kg. But PPA did not have any clause to restrict the diminution in GCV for the purpose of payment to JPL. Due to diminution in the GCV of the imported coal, the HPPC had to pay ₹75.39 crore¹³ extra to JPL for the period August 2013 to March 2015. Besides, due to excess payment to JPL, the consumers had to bear higher cost of power.

HPPC in its reply stated (March 2015) that there were various reasons for diminution in GCV of coal *viz.* significant time gap between receipt of coal and its final feeding to the boiler, loss of volatile matter due to drying up of coal, auto ignition in the coal yard *etc.* Besides, there was no unlimited assurance that samples drawn at the time of unloading were truly representative of the bulk all the time. The reply was not convincing as HPPC had not fixed any limit for diminution in value of GCV taking into account various factors which result in diminution in value of GCV. Besides, Appellate Tribunal for Electricity (APTEL) in the case of Punjab State Power Corporation Limited Versus Punjab State Electricity Regulatory Commission also held (December 2014) that diminution in the GCV at the receiving at thermal power stations and firing or bunker end could be minimised within 150 Kcal/Kg. Due to non inclusion of any clause in the PPA to restrict the payment in case of diminution in GCV, the Company paid ₹75.39 crore extra to M/s JPL.

Further HPPC (September 2015) and Government (November 2015) stated that GCV on Air Dried Basis (ADB) will always be significantly higher than GCV on As Received Basis (ARB) as surface moisture is not considered in measurement of GCV (ADB). The reply is not relevant as in audit comparison of GCV of the coal at receipt and fire end has been made on ADB basis. HPPC also stated that APTEL judgment is not applicable to JPL. The reply is not convincing as audit has pointed out that there was no suitable provision in contract to restrict the diminution in GCV of coal and thus inefficiencies of JPL are passed on to DISCOMs. Margin of diminution in GCV of 150 Kcal/Kg. is only indicative to work out the extra payment.

¹² Energy charges payment = Quoted net heat rate (2396 Kcal/ kWh) x weighted average rate of coal (₹/Kg)/ weighted average GCV (Kcal/Kg).

¹³ Calculated after allowing a margin of diminution of 150 Kcal/Kg GCV

Furthermore, Central Electricity Regulatory Commission in its Regulations for 2014-19 has provided for payment of variable energy charges on the basis of GCV at the time of receipt of coal at power plant and no margin of diminution in value of GCV in the power plant has been provided. However, audit has taken a conservative view and worked out the loss after allowing a margin of 150 Kcal/Kg.

3.7 Loss in execution of contracts

DISCOMs suffered loss of ₹33.51 crore due to irregular termination of contract and overpayment to contractors.

To segregate agriculture load from rural domestic load by the two power distribution Companies (DISCOMs) viz. Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) awarded contracts for supply and erection of additional 11 kV feeders which hitherto were being fed through common feeders.

- a. UHBVNL awarded (15 June 2007) contract for supply and erection of material at a cost of ₹33.89 crore to M/s Teracom for construction of 145¹⁴ feeders of 11 kV to be completed by 31 March 2008. The work was delayed and extension up to 31 December 2008 was granted. During currency of this extension period, UHBVNL issued (26 November 2008) 15 days show cause notice for delay in works and terminated the contract on 10 December 2008 after reviewing the progress of work. By that time M/s Teracom had carried out work of ₹21.15 crore¹⁵ against which ₹10.59 crore had been paid after deducting delay penalty of ₹2.40 crore.

The Contractor represented (January 2009) to UHBVNL for appointment of an Arbitrator who held (30 July 2011) the termination illegal as UHBVNL had terminated the contract by 14th day from the date of issue of notice and within the extended completion period (31 December 2008). It ordered UHBVNL to pay the due amount and release Bank Guarantee along with interest besides rejecting the claims of ₹6.29 crore¹⁶ of UHBVNL. The Company paid the balance of cost of work done of ₹10.54 crore alongwith interest of ₹4.53 crore. Company's appeals filed in High Court of Punjab and Haryana and Special Leave Petition filed in the Hon'ble Supreme Court against the Arbitration award were dismissed on 19 March 2014 and 11 July 2014 respectively.

We observed that UHBVNL while terminating the contract had ignored the terms and conditions of the contract and thus had to suffer loss of ₹8.01 crore due to non-recovery of claims ₹6.29 crore and interest on the Bank Guarantee not encashed of ₹1.72 crore.

After payment to M/s Teracom as per Arbitration award, UHBVNL belatedly

¹⁴ Subsequently reduced to 121.

¹⁵ Supplied material worth ₹20.54 crore and executed erection work valuing ₹0.61 crore.

¹⁶ Delay penalty ₹2.40 crore, liquidated damages ₹1.69 crore and extra expenditure incurred in completion of left over work ₹2.20 crore

observed during reconciliation (July 2014) that the Contractor had not returned material supplied valuing ₹1.07 crore and decided (July 2014) to initiate legal proceedings against the contractor. However, action is yet to be initiated (November 2015). Thus, due to delay in reconciliation of the material supplied, UHBVNL overpaid ₹1.36 crore (including interest of ₹0.29 crore¹⁷).

UHBVNL (July 2015) and Government (November 2015) replied that the contract was terminated as the contractor failed to execute works in line with the execution schedule, the payment was made as per decision of courts and that legal proceedings for accounting/ recovery of ₹1.36 crore are under process and shall be filed accordingly in the legal case. The fact remained that the termination was illegal as also held by arbitrator as UHBVNL had terminated the contract before the expiry of the extended period granted by it for completion of work.

b. DHBVNL awarded (30 March 2007) four turnkey works to M/s Teracom for construction of 261 feeders at a total cost of ₹154.50 crore to be completed by 29 October 2007. DHBVNL observing the delay, terminated the contract on 10 December 2008.

As per terms of the contract, ₹36.34 crore¹⁸ was recoverable from M/s Teracom. Against this, DHBVNL was having coverage/ security of ₹33.86 crore¹⁹. M/s Teracom filed (December 2008) a case in Civil Court against the termination of contract and the same was dismissed (January 2009).

The case went to arbitration where DHBVNL proposed a settlement agreement (June 2011) to reduce delay penalty and Liquidated Damages (LD) from ₹34.76 crore to ₹11.85 crore²⁰. The Company released (July 2011-February 2012) the coverage/ security of ₹24.14 crore. However, M/s Teracom disputed (January 2012) the amount worked out by DHBVNL. The Board of Directors (BoD) of DHBVNL decided (October 2012) to obtain legal opinion from Advocate General, Haryana, who opined (January 2013) to contest the case on merits. DHBVNL filed (18 March 2013) application before arbitrator seeking withdrawal of the terms of settlement. In the meantime M/s Teracom has been referred (October 2014) to Board of Industrial and Financial Reconstruction (BIFR).

We observed that DHBVNL agreed for a settlement proposal despite the fact that Civil Court had already decided the case on merit in its favour. Further MD released the coverage/ security without the approval of settlement proposal from the BoD which *inter-alia* included terms within the exclusive competency of BoD/ HPPC. Thus, DHBVNL gave undue favour to

¹⁷ Interest at the rate 9 per cent per annum from the date of Arbitration award i.e. July 2011 to July 2014 i.e. date of payment.

¹⁸ Delay penalty of ₹19.31 crore, LD of ₹15.45 crore and extra expenditure of ₹1.58 crore in completion of leftover work.

¹⁹ Retention money of ₹18.41 crore and BG of ₹15.45 crore encashed in January 2009.

²⁰ Delay penalty of ₹8.81 crore and LD of ₹3.04 crore.

M/s Teracom by irregular release of ₹24.14 crore and deprived itself with the coverage available towards recovery of ₹24.49²¹ crore besides suffering interest loss of ₹10.56 crore²² (August 2015). Further, the recovery is also doubtful even if DHBVNL wins the case as M/s Teracom has already gone to BIFR.

The matter was referred to Government and DHBVNL (July 2015): their replies were awaited (January 2016).

Haryana Vidyut Prasaran Nigam Limited

3.8 Extra expenditure

The Company incurred extra expenditure of ₹1.41 crore in purchase of transformers at higher rate.

For the purchase of six power transformers of 25/31.5 MVA rating, the Store Purchase Committee (SPC) of the Haryana Vidyut Prasaran Nigam Limited (Company) opened (25 April 2011) financial bids in which the lowest equated rate²³ of ₹3.52 crore per transformer discovered was of M/s Technical Associates Limited (L-1). SPC apprised (17 May 2011) Whole Time Directors²⁴ (WTDs) during the meeting that L-1 Firm had been blacklisted by Madhyanchal Vidyut Vitaran Nigam Limited (MVVNL), Uttar Pradesh on 12 August 2010, but Allahabad High Court stayed (22 December 2010) the blacklisting of the firm. WTDs recommended (14 July 2011) to the Utility Level High Powered Purchase Committee²⁵ (ULHPPC) to consider L-1 Firm because its blacklisting was on account of different power rating transformers and no adverse report for 25/31.5 MVA rating transformers was reported. There was substantial difference of ₹1.41 crore²⁶ in total equated cost between L-1 and L-2 rates. However, ULHPPC decided (20 July 2011) to place order for three transformers each on L-2 Firm (M/s Vijai Electricals Limited) and L-3 Firm (M/s ECE Industries Limited) at the equated rate of L-2 Firm of ₹3.76 crore per transformer keeping in view that safety and reliability could not be compromised due to uncertain fate of the order of blacklisting of the L-1 Firm. As total value of the purchase proposal was now ₹10.04 crore, approval of State Level High Powered Purchase Committee (SLHPPC) was required but the Company in ignoring the procedure issued (3 August 2011) the Letter of Acceptance (LOA) to L-2 and L-3 firms. Meanwhile, the blacklisting of the L-1 firm was revoked on 5 August 2011. The validity of

²¹ Amount recoverable includes delay penalty of ₹10.50 crore, LD of ₹12.41 crore and extra expenditure of ₹1.58 crore in completion of leftover work.

²² ₹24.14 crore x 12.5/100 x 42 months/ 12 months.

²³ It is total of FOR destination price (₹157.54 lakh) and loading (₹194.61 lakh) due to capitalisation of transformation losses by use of transformer.

²⁴ Comprised of Director/ Project, Director/ Technical, Director/ Finance, Chief Engineer and Managing Director

²⁵ Comprised of Whole Time Directors, Chairman, Power Utilities Haryana and Financial Advisor, Finance Department, Haryana.

²⁶ ₹375.53 lakh (L-2) - ₹352.15 lakh (L-1) x 6 transformers.

bids was up to 31 August 2011. The Company received the communication of revocation on 9 August 2011. SLHPPC granted (21 September 2011) ex-post facto approval of the decision taken by ULHPPC on 20 July 2011.

Audit observed that the initial decision to ignore the L-1 firm and place order with L-2 and L-3 firms was not justified as Allahabad High Court had already stayed the blacklisting orders of L-1 Firm on 22 December 2010 before the opening of the technical bids by the Company on 12 January 2011. Also ULHPPC was not competent to take the decision as purchase value was in excess of ₹10 crore. In view of the financial implications, stay given by High Court and sufficient time available (9 August 2011 to 31 August 2011) till expiry of validity of the bids, the Company should have reviewed the proposals and issued the order to L-1 firm.

This decision of Company to award the work to L-2 and L-3 firm by ignoring L-1 firm which was eligible and having satisfactory track record with the Company is unjustified which resulted in extra expenditure of ₹1.41 crore.

Management (August 2015) and Government (November 2015) stated in their reply that the firm was ignored not only on account of concealment of blacklisting but also due to blacklisting by MVVNL due to poor performance of power transformers. Management further stated that ULHPPC had approved the unit rates and while preparing purchase order it was found that value of total purchase exceeded ₹10 crore and accordingly post facto approval of SLHPPC was obtained.

The reply is not justified as ULHPPC decision to ignore L-1 (20 July 2011) and accept rates quoted by L-2 bidder was beyond its competency and that instead of negotiating and deciding the purchase it should have placed its proposal before SLHPPC to decide the case. Further, the firm was legally not required to disclose the fact of blacklisting as the same had been stayed by the Court and the firm had already supplied transformers to HVPNL, on which there was no adverse report.

Haryana State Industrial and Infrastructure Development Corporation Limited

3.9 Undue favour to an allottee

The Company granted undue favour of ₹1.89 crore to an allottee by not charging interest on extension fee.

The Company allotted (October 1994) a plot measuring 8,800 square meters to M/s Indian Hotel Company Limited (allottee) at a cost of ₹0.62 crore in Phase-VI, Udyog Vihar, Gurgaon for setting up a laundry unit. The allottee took possession of plot on 12 October 1995. As per terms and conditions of the allotment and the industrial policy as amended from time to time, the allottee was to construct a minimum 25 *per cent* of Permissible Covered Area

(PCA) and commence commercial activity by 29 April 2001²⁷, failing which plot was liable to be resumed. The allottee completed construction of required built up area up to July 2001 but it did not commence any commercial activity. The Company issued (August 2001 to December 2012) various show cause notices regularly to the allottee but the allottee either did not respond to the notices or in response to a few notices requested for extension in implementation of the project. The Company neither allowed extension nor resumed the plot.

The Company issued another show cause notice (December 2012) in response to which the allottee informed (May 2013) that its laundry project could not be implemented as the hotel industry had been badly hit during the recent years and also terrorist attack on their group hotel at Mumbai. Allottee also informed that it had reworked the project and would be in a position to complete it by January 2014. It requested for grant of suitable extension in the time period on payment of all applicable charges, extension fee *etc.*, as per the applicable rules. The Company on recommendations of the standing Committee empowered to address such issues headed by Principal Secretary, Industries Department, (GoH), regularised the period of delay in implementation of project and allowed (March 2014) extension up to 29 April 2015 on payment of extension fee of ₹250 per square meter per year as per its Estate Management Procedure (EMP) 2011 but without charging any interest which was also a recommendation. The allottee deposited the extension fee ₹3.08 crore during February to April 2014.

Audit observed that EMP of 2011 provided that grant of extension in implementation of the project would be subject to the payment of extension fee and interest at the rate of 11 *per cent* per annum on the amount due for the delayed period. There was no provision in the rules/ policy of the Company to waive interest on extension fee. Thus, the Company extended undue favour to allottee by not charging interest on extension fee which worked out to ₹1.89 crore²⁸ which was in contravention of its EMP 2011.

The Company and Government in their reply stated (October 2015) that the action was duly approved by the BoD which had approved the EMP 2011 and subsequent changes therein from time to time. The reply was not convincing as this action resulted in undue favour to the allottee and loss of ₹1.89 crore to the Company.

3.10 Extra expenditure

Provision of rejection of price quote which resulted in skewed bidding process led to extra expenditure of ₹1.27 crore.

The Company floated (January 2012) Request for Proposal (RFP) for

²⁷ Including maximum period of extension of one year granted to the allottee on payment of extension fee.

²⁸ Worked out on annual extension fee of ₹22 lakh due, for the period 2001-02 to 2012-13 at 11 *per cent* per annum as amount was received during February 2014 to April 2014.

engaging an agency for development, implementation and maintenance of internet based application for Estate Management, Central Account System and Rehabilitation and resettlement Annuity payment administration in phases. The bid process was a two stage evaluation. Clause 4.1.2 of the RFP laid down that those bidders who had a score of minimum 70 *per cent* in the pre-qualification cum technical bids only qualified for the financial bids. Clause 4.1.3 of RFP provided that a quote with value less than or more than 50 *per cent* of average quotes shall be out rightly rejected. Selection of bidder was to be based on highest final score to be worked out on the basis of 70 *per cent* weightage for technical score and 30 *per cent* weightage for financial score (Clause 4.2).

The Company received seven bids which were opened on 29 February 2012 of which three bids qualified the pre-qualification cum technical bids evaluation criteria. Financial bids of the three qualified bidders were opened on 26 March 2012 whose results were as below:

Sl. No.	Name of the bidder	Financial quote (excluding taxes) in ₹	Technical Scores
1.	M/s Mars Telecom System Private Limited, Hyderabad	65,25,000	83
2.	M/s Silver Touch Technologies Limited, Ahmedabad	1,92,15,201	80
3.	M/s Dev Information Technologies Limited, Ahmedabad	2,25,00,000	82

The bid of M/s Mars Telecom though being the lowest was disqualified as it was less than 50 *per cent* of average quotes (₹80.40 lakh²⁹) of the three bidders, in terms of Clause 4.1.3 of RFP document. The bids of other two bidders were taken up for determination of final score. In terms of Clause 4.1.4 of the RFP document, final score of remaining two bidders were worked out and M/s Silver Touch Technologies Limited, scoring 86 marks was awarded (June 2012) the work for ₹1.92 crore. The entire work was to be completed before 31 May 2013 but has now been completed (November 2015).

We observed (February 2014) that Clause 4.1.3 (to determine the financial proposal) was inserted in the RFP document on the basis of guidelines issued on 14 November 2011 by Secretariat for Information Technology, Government of Haryana for engagement of consultants/ System integrators for IT and e-governance projects. In circulating these guidelines, the Government had indicated that they were at best indicative and there was opportunity for improvisation based on progressive maturity. Thus the guidelines were not mandatory. Further, it was observed that no cost estimates were prepared.

The Company nevertheless adopted the guidelines in *toto*. Annexure A to Para 14 of the Guidelines mentioned that “Provision for disregarding price quotes that are extremely low or inordinately high can also be considered to weed out skew arising in the ‘Quality and Cost based Selection’ method *e.g.*,

²⁹ (₹65.25 lakh + ₹192.15 lakh + ₹225 lakh) / 3 = ₹160.80 lakh/ 2.

disregarding quotes that are less than 50 *per cent* of average price” and the company had included this provision in the RFP.

Audit observed that this provision should have not been included in case of those tenders wherein two part bids (technical and financial) are invited because technical bids are invited to assess the capability of the bidders to execute the order. Once the bidders qualify technically then it being clear that the bidder is capable to execute the work, the financial bids should be opened only to find out the lowest bidder. Moreover, to provide further assurance as regard to technical acceptance, the final score under Clause 4.1.4 had already given weightage of 70 *per cent* for technical input. In the above case, the lowest bidder (L-1) *i.e.* M/s Mars Telecom had got the highest score (83) in the pre-qualification cum technical bid which showed that they were capable of executing the work order. However, since the Company had inserted injudicious provision in RFP that a quote with value less than 50 *per cent* of average quotes or more than 50 *per cent* of average quotes would be rejected, it had to reject the lowest bidder. In absence of any estimates, they had no other means to assess the non-seriousness of the bidder.

Thus, above provision of rejection of those price quotes skewed the bidding process resulting in extra expenditure of ₹1.27 crore (₹1.92 crore - ₹0.65 crore).

The Government/Company in their reply stated (September 2015) that Clause 4.1.3 was inserted in RFP in line with standard guidelines issued by Government of Haryana to avoid the risk of failure of E-governance project. The reply is not convincing as the guidelines were not mandatory and the Company should have considered the consequences of the guidelines before its implementation. The point stands that due to rejection of a technically qualified firm, who was also L-1 on the ground that its quote was less than 50 *per cent* of the average quotes, resulted in Company incurring an extra expenditure of ₹1.27 crore.

Haryana State Forest Development Corporation Limited

3.11 Extra expenditure

The Company incurred extra expenditure of ₹0.48 crore on account of higher energy charges and maintenance of electric gadgets.

The Company received an order (October 2013) from the Director, Elementary Education, Haryana, Panchkula for the supply of 37,300 tables and 1,11,900 chairs valuing ₹23.05 crore. The Company distributed this order to its six³⁰ Regional Offices (ROs) including RO Ambala and RO Kurukshetra. RO Ambala and RO Kurukshetra were to supply 28,136 tables (14,299 and 13,837 tables respectively) and 84,408 chairs (42,897 and 41,511 chairs respectively). The two RO offices manufactured and supplied 28,093

³⁰ Ambala, Gurgaon, Hisar, Jind, Kurukshetra and Rohtak.

tables (14,256 and 13,837 tables, respectively) and 84,279 chairs (42,768 and 41,511 chairs, respectively).

The Company has its own workshop including a saw mill at RO Kurukshetra and manufactured the tables and chairs by purchasing raw material, fixers, paying wages for carpentry (with tools and machines) and polish to the contractors. However, at RO Ambala, the raw material *i.e.* wood, *etc.* was purchased by the Company but the manufacturing work was awarded to L-1 contractors after inviting quotations (for rate of carpentry; labour charges for polishing and cost of energy & maintenance of electric gadgets).

Audit observed (December 2014) that before awarding the work to the contractors in RO Ambala, the Company did not compare the rates of carpentry, labour charges *etc.* at RO Kurukshetra (where the Company is having its own saw mill). The energy charges paid to the contractors should have been on actual basis and payment made on account of maintenance of electric gadgets should not have exceeded the cost of such gadgets. However, RO Ambala paid energy charges to contractor at ₹186.57 per table and ₹53.77 per chair as against ₹20.29 per table and ₹5.75 per chair at RO Kurukshetra which resulted in extra expenditure of ₹0.44 crore³¹. Further, RO Ambala paid ₹0.35 crore as cost of maintenance of electric gadgets to the contractors at the specified rate whereas RO Gurgaon office, which had also executed part of this order, had executed the order by purchasing electric gadgets at a cost was ₹0.10 crore only. RO Ambala had not only incurred extra expenditure of ₹0.25 crore as compared to expenditure at RO Gurgaon but had also not created any an asset for future use. Thus, had RO Ambala awarded the work keeping in view the energy charges paid on actual basis by RO Kurukshetra and purchased its own electric gadgets, the Company could have avoided extra expenditure of ₹0.69 crore (₹0.44 crore and ₹0.25 crore).

The Management stated (September 2015) that RO Ambala was not having its own workshop space for executing this order and had hired a building on monthly rental basis in rural area having sufficient space. Due to acute shortage of electricity in rural areas, generator sets were used whereas RO Kurukshetra had its own premises in urban area. The cost of energy generated through generator sets was 4-5 times more than the supply given by UHBVNL. Further, due to lack of space at RO Ambala for installation of saw mill machines and generator sets and uncertainty to receive such type of bulk order again, RO Ambala did not purchase these electric gadgets.

The management reply was not acceptable as the electricity charges paid were much higher even after considering the fact that the rates of generation of electricity by generator sets is five times of cost of energy payable to UHBVNL and accordingly the Company incurred extra expenditure of ₹0.23 crore³² on electricity charges. Further, payment of ₹0.35 crore to contractor as cost of maintenance for the gadgets which could have been

³¹ Extra expenditure: 14256 tables x (₹186.57- ₹20.29) + 42768 chairs x (₹53.77- ₹5.75).

³² Extra expenditure: 14256 tables x (₹186.57- ₹20.29x5) + 42768 chairs x (₹53.77- ₹5.75x5).

purchased for ₹0.10 crore (cost of acquisition at RO Gurgaon) could not be justified on the ground that there was no certainty for repeat of such bulk order.

The Government stated (October 2015) that decision of the Company to hire the building in rural area was prudent as rent for the same size building in urban area was higher by ₹0.29 crore per year and the Company's object included generation of employment in rural area, increasing financial status of farming and labour community and promoting development of forest based allied industries. The reply is not convincing as the excess expenditure of ₹0.23 crore incurred on higher energy charges could not be compensated with the amount saved on account of hiring of building in rural area because the Company was to pay higher energy charges (five times of cost of energy charged by UHBVNL) on account of electricity used through generator sets.

Thus, the Company incurred extra expenditure of ₹0.48 crore (excess energy charges ₹0.23 crore and excess payment made towards maintenance for the gadgets ₹0.25 crore³³) to contractor.

Haryana Agro Industries Corporation Limited

3.12 Loss of revenue

The Company suffered loss of ₹7.89 crore due to unscientific and improper preservation of wheat stock.

Haryana Agro Industries Corporation Limited (Company) procures wheat from *mandis* for central pool on behalf of Food Corporation of India (FCI) and delivers it to FCI as per schedule given from time to time. After delivery of wheat, the Company claims reimbursement of the cost of the foodgrains and other charges from FCI. The claims of the Company are based on the Minimum Support Price³⁴ plus statutory charges and other incidental charges of wheat as fixed by the Government of India (GoI) from time to time. As per guidelines of FCI, if the stocks are damaged while in the custody of the Company, the GoI does not reimburse the loss as the safe custody/preservation of procured foodgrains is the responsibility of Company.

Audit observed (November 2014) that FCI had not taken over 5,974.85³⁵ MT wheat of crop year 2010-11 and 2011-12 as the same were damaged and non-issuable due to improper preservation and unscientific storage. FCI categorized the quantity of damaged wheat as unfit for human consumption and as cattle feed to be disposed off through sale to cattle feed manufacturers.

³³ ₹35.42 lakh (payment made towards maintenance for the gadgets)- ₹10.44 lakh (cost of gadgets purchased by RO Gurgaon)

³⁴ MSP is the price at which Government is ready to purchase the crop from the farmers directly if crop price goes lower than MSP.

³⁵ Stored at Jeet Ram Plinth (Indri-2,440 MT), HAIC Mandi (Kurukshetra-1,471.15 MT), Agro Complex (Pipli-617 MT), R.D. Rice Mill (330 MT) and Agro Mandi (Kurukshetra-1,471.15 MT).

Out of 5,974.85 MT of damaged stock, Company disposed 2,457.55 MT after inviting tenders in January 2014, thereby leaving balance quantity of 3,517.30 MT. Subsequently in May 2014, 895.50 MT wheat (794.50 MT: Nilokheri, Karnal for the crop year 2011-12 and 101 MT: Amin, Kurukshetra for the crop year 2012-13) was also identified as damaged. Out of total 4,412.80 MT of wheat (3,517.30 MT and 895.50 MT), 4,327.70 MT was disposed off after inviting tenders in June 2014. The balance 85.10 MT was designated as either weight loss or shortage. The Company recovered ₹5.46 crore from the disposal of damaged stock against ₹13.35 crore that would have been recovered from FCI had the wheat been stored as per the guidelines of the FCI. Thus, the Company incurred avoidable loss of ₹7.89 crore (₹13.35 crore - ₹5.46 crore) on disposal of damaged wheat (crop year 2010-11 & 2011-12) due to unscientific and improper preservation.

The Company in its reply (June 2015) while admitting the facts stated that wheat stocks were damaged due to longer storage on open plinths. It was also informed that departmental action had been initiated against the concerned officials.

The matter was referred to the Government (May 2015); their reply was awaited (January 2016).

Haryana State Roads and Bridges Development Corporation Limited

3.13 Unauthorised toll collection

The Company continued to impose and collected toll of ₹29.31 crore on five State Highways despite their declaration as National Highways in violation of the provisions of Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996.

Section 3 of the Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996 provided that no toll shall be levied on any mechanical vehicle crossing or using any toll facility once any State Highway is declared as National Highway. As per Constitution of India, National Highways are covered under Union List and making law on the subject matter is exclusive prerogative of the Parliament.

The Company develops the State Highways and collect toll thereon as per directions/ approval of the State Government from time to time. On the five State highways³⁶ developed by the Company, it was collecting toll at five toll points on its own or through contractors. The period of validity of these five contracts ranged between April 2014 to February 2016. Terms and conditions of the contracts, *inter-alia*, provided that the Company could terminate their contracts any time without assigning any reason, after issuing 15 days' notice to them.

³⁶ Gurgaon-Sohana Road, Sohana-Nuh-Ferozepur-Zhirkha-Alwar Road, UP border-Sonepat Gohana Road, Sardulgarh-Sirsa Road, Narnaul-Singhana road

The Government of India (GoI), Ministry of Road Transport and Highways, declared these five State Highways as National Highways on 4 March 2014. We observed that the Company continued to charge toll on these roads up to 25 December 2014 and collected ₹29.31 crore, in violation of the provisions of Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996 despite the fact that Company could terminate their contracts any time without assigning any reason, after issuing 15 days' notice.

The Management stated (June 2015) that collection of toll on notified toll points could not be closed without concurrence of Finance Department and approval of Council of Ministers. The notification for closure of toll points was issued (10 December 2014) after the proposal to close these toll points was approved (25 November 2014) by the Council of Ministers and were accordingly closed on 26 December 2014. So, the collection of toll on these five points was not unauthorised. The reply was not convincing as the Company did not immediately initiate the process of seeking approval of the Government to close the collection of toll once it came to know of the declaration of State Highways as National Highways in March 2014. The late initiation of process of seeking approval for termination of tolls resulted in late decision making and the imposition and collection of toll from March 2014 to December 2014 was an unnecessary burden on the users.

The matter was referred to the Government (May 2015); their reply was awaited (January 2016).

Haryana Tourism Corporation Limited

3.14 Review of Core Activities

The Company has started suffering operational losses in its core activities from the year 2012-13 and it suffered loss of ₹5.44 crore in 2014-15 due to high food and fuel cost, high manpower cost, lack of innovative marketing strategies and low quality of services at its complexes.

3.14.1 Introduction

Haryana Tourism Corporation Limited (Company) was incorporated (May 1974) to promote tourism in the State. It operated 42 to 43 complexes during 2010-11 to 2014-15 which were assigned on lease by Tourism Department. The Company has divided its activities into core activities (accommodation, catering and liquor) and non-core activities (leasing, parking, gate entry, boating and petrol pumps). Audit examined the operation of core activities, which is the main constituent, for promotion of tourism in the State. The share of revenue from core activities in the company ranged between 16.59 and 20.30 per cent during 2009-14. Audit selected a sample of

11 complexes³⁷ which contributed 43 *per cent* of turnover from core activity for detailed scrutiny to assess the efficiency.

Audit observed that the contribution of core activities to total operational profit³⁸ of Company decreased from ₹5.79 crore in 2010-11 to ₹2.37 crore in 2011-12 and turned into loss in the subsequent years which increased from ₹0.64 crore in 2012-13 to ₹5.44 crore in 2014-15. The number of loss making tourist complexes increased from 26 (60 *per cent*) in 2010-11 to 32 (76 *per cent*) in 2014-15. Of these, 24 complexes were consistently incurring losses in their core activities during 2010-15 and had incurred operational loss of ₹35.26 crore during this period.

3.14.2 Tourist Arrivals

The number of domestic tourists³⁹ visiting the complexes of the Company decreased from 68.25 lakh in 2010-11 to 64.47 lakh in 2013-14 and increased to 75.46 lakh in 2014-15. At the same time, the number of foreign tourists visiting the Complexes increased from 1.30 lakh to 3.06 lakh during 2010-15. However, the overall tourist arrival decreased from 69.55 lakh in 2010-11 to 66.87 lakh in 2013-14 but increased to 78.52 lakh in 2014-15. The Company needs to deploy new tourist friendly facilities to attract more tourists to its complexes by analysing their feedbacks.

3.14.3 Non-achievement of targets

The Company fixed quarterly financial targets⁴⁰ for each complex for core activities. It was observed that the number of complexes achieving the target had decreased from 12 in 2010-11 to 2 in 2014-15 and percentage of shortfall in respect of complexes not achieving the targets ranged between 9.02 and 77.02 of all the complexes during this period. Trends on the key parameters *i.e.*, profitability, occupancy and other cost factors in respect of selected complexes are given in *Appendix 7*.

The Management (September 2015) and Government (December 2015) stated that the targets were kept usually on higher side to build up pressure on the complexes and these could not be achieved due to high raw material cost, high salary cost and reduction of business due to difficulty in access to complexes. The reply is not convincing and the Company should have set realistic and achievable targets, the factors of increase in raw material cost and wage bills having been factored in. The complexes with shortfall in targets of above 20 *per cent* had increased from 3 in 2012-13 to 39 in 2014-15.

³⁷ The complexes of Yadavindra Gardens Pinjore, Kingfisher Ambala, Magpie Faridabad, Badkhal lake Faridabad, Hotel Rajhans Surajkund, Hermitage Huts Surajkund, Saras Damdama, Barbet Sohna, Grey Pelican Yamunanagar, Tilyar Rohtak and Skylark Panipat were selected on the basis of their turnover on 'Probability Proportionate to Size Method'.

³⁸ Worked out in audit on the basis of total operational profits/ loss in the complex *minus* sales from non-core activities. Total operational profits worked out without charging apportioned cost of depreciation and common overheads of the Company.

³⁹ Data compiled by Tourism Department, Haryana.

⁴⁰ The targets were fixed in terms of turnover up to 2012-13 and in terms of operational profits from 2013-14.

3.14.4 Food Cost and Fuel Cost

The Company had fixed norms for food cost (August 2008) and fuel cost (December 2012) according to which food cost was to range between 20 and 35 *per cent* and fuel cost between 5 and 12 *per cent* of the turnover for all its complexes. In the selected 11 complexes, the number of complexes where the food cost was more than norms ranged between 3 and 5 during 2010-15. There was extra expenditure of ₹0.44 crore at these complexes. Similarly, complexes where the fuel cost was more than norms increased from 4 in 2010-11 to 9 in 2013-14 and came down to 7 in 2014-15. There was extra expenditure of ₹0.31 crore at these locations.

COPU had also recommended (March 2013) that the Company should keep food cost close to the norms and efforts be made to maintain quality and cost should be reasonable. The Company failed to control its food cost during 2013-14 and 2014-15. The food cost at 4 and 5⁴¹ out of eleven selected Complexes was still more than norms and excess consumption ranged between 4.55 *per cent* and 25.92 *per cent* during the two years.

The Management (September 2015) and Government (December 2015) stated that some units were not able to meet the norms due to increase in rates of raw material and fuel cost and review of norms was under process. The reply is not acceptable as the norms are fixed keeping in view progression in the cost of the raw material and fuel.

3.14.5 Cost of Electricity

We observed that the Company had not fixed norms for consumption of electricity in its tourist complexes. In the selected 11 complexes, the average cost of electricity as a percentage of turnover, ranged between 5.39 (Hermitage Huts, Surajkund) and 32.31 (Yadavindra Gardens, Pinjore) during 2010-15. The Company needs to fix norms to control high electricity cost. Further, the Company had installed key card system⁴² in the guest rooms in only two⁴³ out of 11 test-checked complexes. With the use of key card system, the consumption of electricity in rooms could be reduced⁴⁴ by 20 to 30 *per cent* and consequently the Company could have saved ₹1.71 crore (20 *per cent* of electricity bill of ₹8.54 crore) from its electricity charges.

For the electricity connections obtained at its Complexes, the Company had been paying fixed charges on the total sanctioned load. In five⁴⁵ complexes maximum demand recorded in the electricity bills was lesser than its

⁴¹ Badkhal Faridabad, Hermitage huts Surajkund, Hotel Rajhans Surajkund, Yadavindra Gardens Pinjore, and Barbet Sohna.

⁴² An energy saving system in which when the client inserts the card attached with the room key on entering his room, electricity is switched on and when the client leaves the room and retrieves the card, electricity is switched off.

⁴³ Sohna and Yamunanagar.

⁴⁴ As per paper on Energy Efficiency in Hotel Energy Solutions (a United Nations World Tourism Organisation initiated project).

⁴⁵ Hotel Rajhans, Tilyar Rohtak, Skylark Panipat, Kingfisher Ambala and Magpie Faridabad

sanctioned/ connected load. Had the Company got its sanctioned load reduced on the basis of actual requirements, it could have avoided the payment of ₹0.44 crore during 2012-13 to 2014-15 in these five complexes.

While admitting the points, Management stated (September 2015) that directions have been issued (September 2015) to save electricity and reassess the sanctioned load at unit level.

Audit observed that Hotel Rajhans, Surajkund had obtained a bulk supply electricity connection of 802 KW for its Complex including residential staff quarters. The residential area had 81 to 66 staff quarters with connected load ranging between 197 KW and 164 KW during 2009-15. It had not installed any sub meters to measure electricity consumption in residential area and instead charged a lumpsum amount from the allottee employees. Thus, Company had to bear an amount of ₹0.83 crore⁴⁶ during 2009-15 due to non-installation of separate meters for staff quarters.

The Management (September 2015) and Government (December 2015) stated that separate domestic electricity connection in each residential dwelling unit has been provided in June 2015. However the fact remains that due to delayed action of installation of separate meters for staff quarters, the Company had to bear an amount of ₹0.83 crore during 2009-15.

3.14.6 Manpower cost

The Company had decided (March 1989) that salary cost at each complex should not exceed 20 to 25 *per cent* of the turnover of that complex. During 2010-15 in the selected 11 complexes, salary cost ranged between 29.03 *per cent* (Hermitage Huts, Surajkund) and 58.75 *per cent* (Skylark, Panipat) of the turnover. Against the total turnover of ₹149.88 crore the complexes incurred ₹68.40 crore (45.64 *per cent*) towards salary cost. Audit observed that despite consistent high manpower cost during 2010-15, Management did not take steps to rationalise it.

The Management (September 2015) and Government (December 2015) stated that efforts were being made to increase the sales and reduce the number of regular posts by maximising the outsourcing of services.

3.14.7 Occupancy of Complexes

The Company had neither fixed any targets for occupancy nor worked out breakeven level for its Complexes. The occupancy levels of the complexes ranged between 55 *per cent* (2012-13) and 71 *per cent* (2010-11) during 2010-15.

Against the All India average of total room occupancy during 2009-14 of 60 *per cent*⁴⁷, the average occupancy of three Complexes⁴⁸ out of 11 selected

⁴⁶ This has been worked out by assuming a connected load of 2 KW for one room, 3 KW for two rooms and 5 KW for officer quarter as per norms of electricity distribution companies.

⁴⁷ Source: Federation of Hotel and Restaurant Association of India data.

⁴⁸ Yadavindra Gardens Pinjore, Hotel Rajhans and Saras Damdama.

complexes ranged between 44 *per cent* and 57 *per cent*. Average occupancy of Hotel Rajhans was the lowest at 31 *per cent* during 2009-14.

The Tourism Policy 2008 of the State envisaged that the Company may use the services of Event Managers for marketing and promotion of tourism and introduce facilities in its hotels to make them more tourists friendly. However, the Company had not availed the services of Event Managers except at two occasions⁴⁹ during 2010-15.

The Management (September 2015) and Government (December 2015) stated that the occupancy percentage had been affected due to difficulty in access to the tourist complexes as a whole and not for individual complex and flexibility of rates of rooms had been implemented (June 2015) in Hotel Rajhans on experimental basis. The reply is not acceptable as accessibility to the complexes had been affected in only two⁵⁰ out of 11 selected complexes and the poor business performance of individual complexes would adversely affect the performance of Company as a whole.

COPU had also recommended that in order to improve the occupancy, powers be provided to officer- in- charge of the complexes to offer flexible rates of rooms to compete with the private hotels but the Company had taken action only at one complex on experimental basis, so far (November 2015).

3.14.8 Quality of Services

Quality of services includes quality of food, hygienic environment, cleanliness, security of premises and behaviour of staff to achieve customer satisfaction. However, the Company has not formulated any policy/ norms on quality of services to be provided in its Complexes.

To check and maintain the quality of services, regular inspection of the Complexes has to be undertaken. However, only eight inspections (against the norm of 96 inspections) were carried out during October 2013 to March 2014 and 40 inspections during 2014-15 (against norm of 192 inspections). Thus, an important mechanism, through which services and customer satisfaction should have been closely monitored and improved, was treated in a perfunctory manner.

Conclusion

There was decreasing trend of complexes which achieved the financial targets for core activities set by the management. The Company had suffered losses in its core activities during the last three years from 2012-13 to 2014-15 due to food, fuel and electricity costs exceeding the norms set as also high manpower costs coupled with low occupancy.

⁴⁹ Mango Mela 2014 and Heritage Festival 2014 at Pinjore.

⁵⁰ Kingfisher Ambala and Skylark Panipat

Statutory Corporation

Haryana State Warehousing Corporation

3.15 Avoidable expenditure

The Corporation incurred avoidable expenditure of ₹0.69 crore on construction of building without getting the mutation done in its name.

The State Government decided (19 June 2012) to enhance the State foodgrains storage capacity and directed Haryana State Warehousing Corporation (Corporation) to increase the storage capacity by seven lakh MT. Government accorded approval (19 December 2013) for transfer of land⁵¹ pertaining to Government Livestock Farm (GLF), Hisar to the Corporation for creation of this additional storage. The Corporation paid (26 March 2014) ₹12.78 crore to the GLF and took possession of the land (1 April 2014). It also got the land demarcated (14 May 2014) from Revenue authorities, Hisar. However, without getting mutation done in its name and obtaining Change of Land Usage (CLU) from District Town Planner, Hisar, the Corporation allotted (19 May 2014) a work order after inviting (06 February 2014) tender for construction of warehouse for ₹6.97 crore. The contractor started the construction work on 1 June 2014.

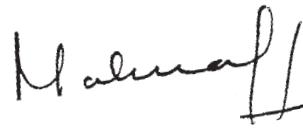
Managing Director of the Corporation in the Officers' meeting (7 June 2014) instructed that Corporation would not start construction unless the requisite mutation is got done in the name of the Corporation and possession is taken free from all encumbrances. While the work was in progress, the Corporation came to know (7 August 2014) that major part of the land which it had purchased, had already been acquired by Government of India (GoI) for proposed National Highway. The Corporation in a meeting (14 August 2014) with National Highway Authority of India (NHAI) requested for alteration of the bye-pass project but NHAI did not agree and asked (12 September 2014) the Corporation to dismantle the construction already made.

Audit noticed that though it was directed (7 June 2014) that construction would not start till mutation is done in Corporation's name, yet construction work continued up to 20 August 2014 without mutation. The Corporation had paid by March 2015 ₹0.69 crore against the execution of work of ₹1.17 crore to the contractor.

Thus, had the Corporation stopped the construction work immediately after decision was taken (7 June 2014) not to start the construction without requisite mutation, the expenditure incurred by the Corporation on construction could have been avoided. The construction on the land without obtaining mutation and continuing with construction work, despite directions to the contrary, resulted in avoidable expenditure of ₹0.69 crore which will further increase to ₹1.17 crore when the entire payment to the contractor shall be made.

⁵¹ Measuring 15 acre 6 kanal and 12 marla

The Government and Management in their reply (September 2015) stated that in many cases where the Corporation had constructed the godowns, mutation of land was yet to be done and is being pursued. However, to prevent recurrence of such incidents in future, the Corporation decided (June 2015) that MD should ensure that the construction works were taken up only after getting NOC from the office of Deputy Commissioner of the district where the works were to be taken up clearly stating that the land is free from all encumbrances. It also stated that the Chief Minister Office had approved (May 2015) allotment of additional one acre land against token money of ₹one to compensate the loss incurred on construction activities on acquired land by NHAI. The reply is not convincing as had the corporation implemented its decision of 7 June 2014, the expenditure of ₹0.69 crore could have been avoided.



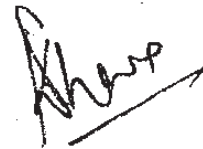
(Mahua Pal)

Principal Accountant General (Audit), Haryana

Chandigarh

Dated:

Countersigned



(Shashi Kant Sharma)

Comptroller and Auditor General of India

New Delhi

Dated:

