

Chapter 5

Government Commercial and Trading Activities

5.1 Overview of State Public Sector Undertakings

5.1.1 Introduction

The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Delhi, the State PSUs occupy an important place in the State economy. The State PSUs registered a turnover of Rs. 3,555.63 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 2.47 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Delhi State PSUs are concentrated in power, services and transport sector. The State PSUs incurred a loss of Rs. 1476.99 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 0.35 lakh employees as of 31 March 2009. The State PSUs do not include any prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

As on 31 March 2009, there were 12 PSUs (10 Government Companies and 2 Statutory Corporations- all working). Of these, no company was listed on the stock exchange(s).

During the year 2008-09, two PSUs i.e. Geospatial Delhi Limited and Shajhanabad Redevelopment Corporation were established.

5.1.2 Audit Mandate

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which not less than 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies

Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

Audit of Statutory corporations is governed by their respective legislations. Out of two Statutory corporations, CAG is the sole auditor for Delhi Transport Corporation. In respect of Delhi Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

5.1.3 Investment in State PSUs

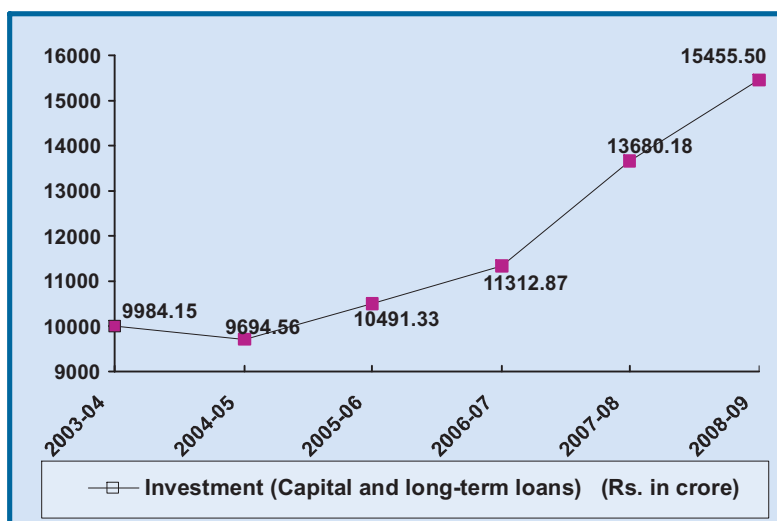
As on 31 March 2009, the investment (capital and long-term loans) in 12 PSUs was Rs. 15455.50 crore as per details given below.

(Rupees in crore)

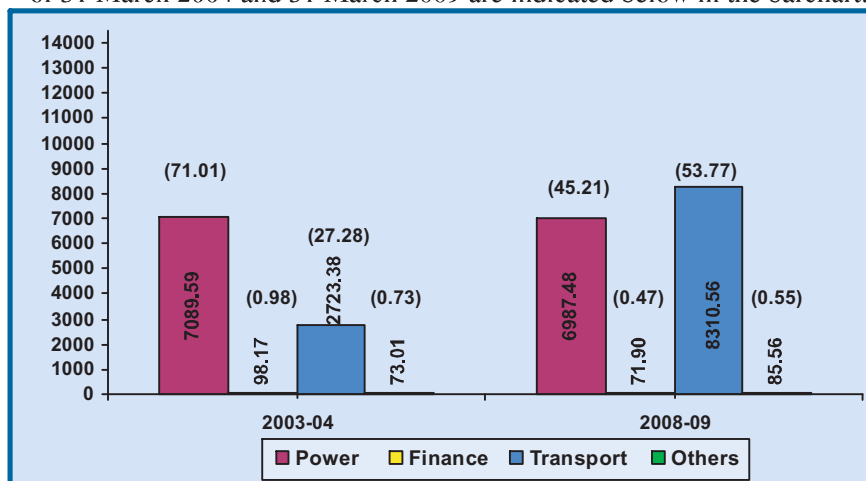
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	5774.70	1298.33	7073.03	770.30	7612.17	8382.47	15455.50

A summarised position of Government investment in State PSUs is detailed in **Appendix 5.1.**

As on 31 March 2009, total investment in State PSUs was in working PSUs. This total investment consisted of 42.35 *per cent* towards capital and 57.65 *per cent* in long-term loans. The investment has grown by 54.80 *per cent* from Rs. 9984.15 crore in 2003-04 to Rs. 15455.50 crore in 2008-09 as shown in the graph below.



The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart.



(Figures in brackets show the percentage of total investment) (Rs. in crore)

As may be seen from the above chart the thrust of PSU investment was mainly on transport sector, which increased from 27.28 *per cent* in 2003-04 to 53.77 *per cent* in 2008-09 of the total investment. The percentage share in the power sector has decreased from 71.01 *per cent* in 2003-04 to 45.21 *per cent* in 2008-09 of the total investment.

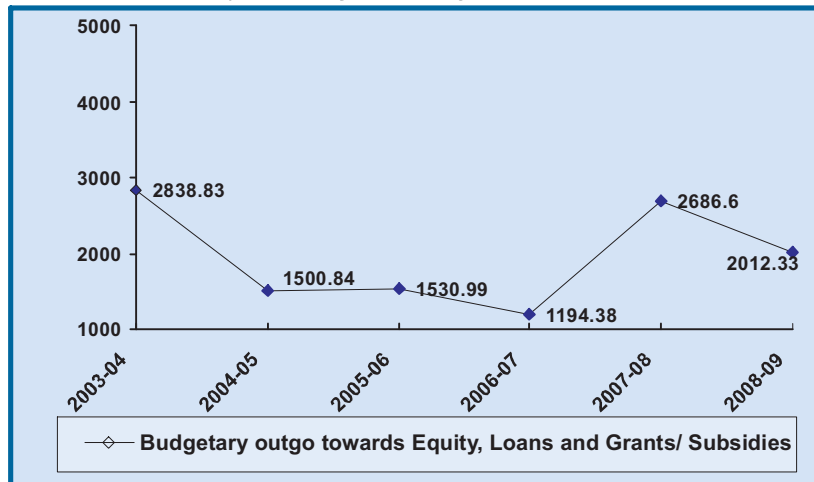
5.1.4 Budgetary outgo, grants/subsidies, guarantees and loans

The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 5.3**. The summarised details are given below for three years ended 2008-09.

(Amount Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	2	8.30	4	1367.34	3	260.82
2.	Loans given from budget	4	976.66	3	1222.78	2	1651.55
3.	Grants/Subsidy received	3	209.42	4	96.48	5	99.96
4.	Total Outgo (1+2+3)		1194.38		2686.60		2012.33
5.	Loans converted into equity	-	-	1	3452.00	-	-

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below:



The budgetary outgo towards equity, loans, grants and subsidy decreased from Rs. 2838.83 crore in 2003-04 to Rs. 1194.38 crore in 2006-07 but again increased to Rs. 2686.60 crore during 2007-08 but again came down to Rs. 2012.33 crore during 2008-09.

No guarantees were issued by State Government to any of the PSUs during 2003-09

5.1.5 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below:

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	6306.64	6205.17	101.47
Loans	-*	8210.83	-
Guarantees	Nil	Nil	-

Audit observed that the differences occurred in respect of six PSUs and some of the differences were pending reconciliation since many years. In order to reconcile the discrepancy in figures of investment by the State Government in Government companies/ corporations, letters were written (July 2009) to the Principal Secretary (Finance), Government of NCT of Delhi and the

* Loan figure as per finance accounts not compiled for Delhi State PSUs.

concerned State PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

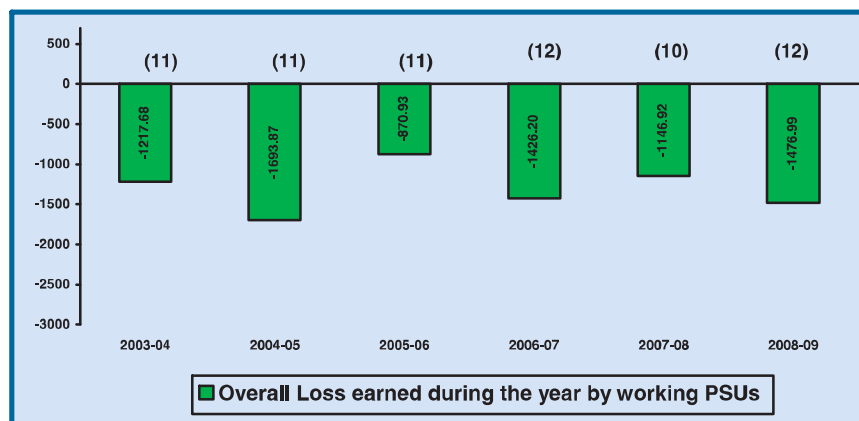
5.1.6 Performance of PSUs

The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Appendices 5.2, 5.5 and 5.6** respectively. The ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

(Rupees in crore)						
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [∞]	3948.98	6886.00	7734.21	8283.41	3019.71	3555.63
State GDP	78804	89920	101800	118240	126150	143911
Percentage of Turnover to State GDP	5.01	7.66	7.60	7.01	2.39	2.47

It may be seen from the above that the turnover of PSUs had declined drastically in 2007-08. The reason for such decline was that Delhi Transco Limited ceased to carry on the business of purchase and sale of power w.e.f 1 April 2007 and was only carrying on the business of transmission of power (wheeling) from 2007-08 onwards. In view of the above percentage of turnover to State GDP declined from a high of 7.66 per cent to 2.47 per cent during these years.

Losses incurred by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart



(Figures in brackets show the number of working PSUs in respective years)

From the above it can be seen that the working PSUs incurred overall losses which ranged between Rs. 870.93 crore to Rs. 1476.99 crore during 2003-04

[∞] Turnover as per the latest finalised accounts as of 30 September.

to 2008-09. During the year 2008-09, out of 12 working PSUs, 5 PSUs earned profit of Rs. 334.38 crore and 5 PSUs incurred loss of Rs. 1811.37 crore^{*}. The major contributors to profit were Pragati Power Corporation Limited (Rs. 195.29 crore), Delhi Transco Limited (Rs. 72.29 crore) and Indraprastha Power Generation Company Limited (Rs. 61.90 crore). Heavy losses were incurred by Delhi Transport Corporation (Rs. 1697.69 crore), Delhi Power Company Limited (Rs. 106.53 crore) and Delhi State Civil Supplies Corporation (Rs. 5.01 crore).

The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running of operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 804.92 crore and infructuous investment of Rs. 194.56 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rupees in crore)				
Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	(1426.20)	(1146.92)	(1476.99)	(4050.11)
Controllable losses as per CAG's Audit Report	210.52	17.78	576.62	804.92
Infructuous Investment	13.12	4.96	176.48	194.56

The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

Some other key parameters pertaining to State PSUs are given below.

(Rupees in crore)						
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (<i>Per cent</i>)	-	-	-	-	6.78	-
Debt	6193.13	8844.32	9639.21	10452.39	7857.61	8910.50
Turnover [†]	3948.98	6886.00	7734.21	8283.41	3019.71	3555.63
Debt/ Turnover Ratio	1.57:1	1.28:1	1.25:1	1.26:1	2.60:1	2.51:1
Interest Payments [*]	354.20	902.40	791.64	964.81	1302.00	1474.21
Accumulated Profits (losses)	(3006.61)	(7142.65)	(8104.09)	(8712.51)	(10851.79)	(12395.49)

(Above figures pertain to all PSUs).

^{*} Accounts for the year 2008-09 in respect of Shahjhanabad Redevelopment Corporation, incorporated in 2008-09, were not received and in respect of Geospatial Delhi Limited, incorporated in 2008-09, there was no activity and consequently there was no profit/ loss for 2008-09.

[†] Turnover of working PSUs as *per* the latest finalised accounts as of 30 September.

^{*} Excluding Delhi SC/ST/OBC/ Handicapped and Minorities Financial and Development Corporation whose accounts are in arrears for the last 9 years.

The above parameters exhibit deterioration in the financial position of the PSUs. The return on capital employed had shown some improvement in 2007-08 but has been negative for all other years from 2003-04 to 2008-09. The debt turnover ratio has shown improvement from 1.57:1 in 2003-04 to 1.25:1 in 2005-06 but has again increased to 2.60:1 in 2007-08 and shown marginal improvement in 2008-09 by declining to 2.51:1. However, the accumulated losses have steadily increased from Rs. 3006.61 crore in 2003-04 to Rs. 12395.49 crore in 2008-09.

As per the recommendations of the Twelfth Finance Commission the State must adopt a modest rate of return on the investment made in public enterprises at the rate of five *per cent* as dividend on equity. As per their latest finalised accounts five PSUs earned a profit of Rs. 334.38 crore however, only three companies declared dividend of Rs. 31.90 crore.

Performance of major PSUs

The investment in working PSUs and their turnover together aggregated to Rs. 19011.13 crore during 2008-09. Out of 12 working PSUs, the following four PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These four PSUs together accounted for 91.49 *per cent* of aggregate investment *plus* turnover.

(Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Delhi Transport Corporation	8310.56	368.00	8678.56	45.65
Delhi Transco Limited	4235.65	373.40	4609.05	24.24
Pragati Power Corporation Limited	1744.95	524.74	2269.69	11.94
Indraprastha Power Generation Company Limited	969.60	866.55	1836.15	9.66
Total	15260.76	2132.69	17393.45	91.49

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

Delhi Transport Corporation

The Corporation did not have any arrears of accounts.

The losses incurred by the corporation have increased continuously in the past five years from Rs. 708.58 crore in 2004-05 to Rs. 1697.69 crore in 2008-09. The turnover has decreased from Rs. 407.05 crore in 2004-05 to Rs. 354.05 crore in 2007-08 and slightly increased to Rs. 368.00 crore in 2008-09.

Deficiencies in Planning

- The Corporation lost an opportunity to earn additional revenue of Rs. 10.84 crore due to its failure to re-deploy CNG buses having more Earning Per Km (EPK) to city operations and replacing them with diesel buses on inter-state routes during period from October 2003 to March 2006 (Paragraph 5.10.13 of AR 2005-06).
- Automatic Vehicle Tracking System (AVTS) implemented at a cost of Rs. 4.91 crore failed to demonstrate desired results. (Paragraph 5.10.19 of AR 2005-06)
- Over 3.26 lakh bus days lost due to non-availability of spares resulting in loss of revenue of Rs. 52.33 crore (Paragraph 5.10.23 of AR 2005-06).

Deficiencies in Implementation

- The Corporation failed to collect Rs. 67.85 crore of terminal fees from private bus operators despite enabling provisions in the Act (Paragraph 5.19 of AR 2004-05).
- Lower fuel efficiency of buses resulted in excess consumption of CNG worth Rs. 17.16 crore (Paragraph 5.10.15 of AR 2005-06).
- Excess consumption of engine oil and coolant with reference to norms fixed resulted in extra expenditure of Rs. 1.45 crore (Paragraph 5.10.16 of AR 2005-06).

Deficiencies in Monitoring

- Retainer Crew Conductors appointed under a scheme for Private bus operators were neither gainfully utilised nor terminated after discontinuation of the scheme resulting in unfruitful expenditure of Rs. 18.80 crore (Paragraph 5.20 of AR 2004-05).
- Administrative laxity in obtaining fitness certificates resulted in loss of revenue of Rs. 9.90 crore during 2002 to 2006 (Paragraph 5.10.17 of AR 2005-06).
- Failure to ensure timely availability of engineers and assemblies resulted in loss of revenue of Rs. 17.81 crore during 2002 to 2006 (Paragraph 5.10.21 of AR 2005-06).

Deficiencies /non-achievement of objectives

- Non-operation of scheduled kilometers for want of conductors despite having surplus conductors resulted in loss of revenue of Rs. 1.43 crore (Paragraph 5.10.13 of AR 2005-06).

- Load factor decreased from 82.66 *per cent* to 74.42 *per cent* during 2001-02 to 2005-06 resulting in loss of revenue of Rs. 6.47 crore (Paragraph 5.10.12 of AR 2005-06).

Deficiencies in Financial Management

- Deficiencies in utilisation of the Plan Loans as well as adhocism and delay in investments resulted in loss of interest of Rs. 3.60 crore (Paragraph 5.10.24 of AR 2005-06).

Delhi Transco Limited

The Company did not have any arrears of accounts.

The Company incurred losses of Rs. 910.52 crore in 2004-05 and thereafter turned into a profitable PSU in all the years from 2005-06 to 2008-09 (Rs. 72.29 crore). The turnover had, however, reduced from Rs. 4569.66 crore in 2004-05 to Rs. 373.40 crore in 2008-09. The return on capital employed has increased from negative in 2004-05 to 17.45 *per cent* in 2008-09.

Deficiencies in Planning

- Failure to take cognizance of objections raised by Archaeological Survey of India (ASI) regarding construction of a sub-station resulted in blocking of funds of Rs. 2.24 crore and wasteful expenditure of Rs. 30 lakh (Paragraph 5.17 of AR 2004-05).

Deficiencies in Implementation

- Lack of adequate validation checks coupled with deficiencies in system design in pay roll and GPF applications undermined the utility and reliability of the IT system in place (Paragraph 5.12 of AR 2005-06).

Deficiencies in Financial Management

- Inefficient cash management and failure to place surplus funds in Corporate Liquid Term Deposit Receipt/Flexi Deposits resulted in loss of interest of Rs. 12.52 crore (Paragraph 5.13 of AR 2004-05).

Pragati Power Corporation Limited

The Company did not have any arrears of accounts.

The profit earned by the company has increased from Rs. 16.25 crore in 2004-05 to Rs. 195.29 crore in 2008-09. Similarly turnover has increased marginally from Rs. 502.33 crore in 2004-05 to Rs. 524.74 crore in 2008-09. The return on capital employed has increased from 4.56 *per cent* in 2004-05 to 9.97 *per cent* in 2008-09.

Deficiencies in Planning

- Failure to draw up realistic drawal schedules to avoid payment of commitment charges and delayed payment of interest instalments resulted in avoidable expenditure of Rs. 99.90 lakh. (Paragraph 5.14 of AR of 2004-05)

Deficiencies in Implementation

- Delay in registration under the Sales Tax Act deprived the company of the benefit of payment of Sales Tax at concessional rate and resulted in avoidable additional expenditure of Rs. 6.20 crore (Paragraph 6.11 of AR of 2007-08).

Deficiencies in Monitoring

- Failure of the Company to ensure payment on the basis of power actually consumed resulted in avoidable payment of Rs. 13.75 lakh for power which it did not actually consume (Paragraph 5.15 of AR 2004-05).

Deficiencies in Financial Management

Inefficient Management and failure to place surplus funds in Corporate Liquid Term Deposit Receipt/Flexi Deposits resulted in loss of interest of Rs. 62 lakh (Paragraph 5.13 of Audit Report 2004-05).

Indraprastha Power Generation Company Limited

The Company did not have any arrears of accounts.

The company incurred losses in all the years from 2004-05 to 2007-08 ranging from Rs. 18.07 crore to Rs. 47.72 crore, however, earned profit of Rs. 61.90 crore in 2008-09. The turnover of the company increased from Rs. 588.71 crore in 2004-05 to Rs. 866.55 crore in 2008-09. The return on capital employed also significantly improved from negative in 2004-05 to 14.38 *per cent* in 2008-09.

Deficiencies in Planning

- Inordinate delay in repair, non-procurement of new rotor and inaction to keep stand by rotor resulted in loss of generation of 345.213 MU valuing Rs. 71.86 crore (Paragraph 5.10.13 of AR 2006-07).
- The Company suffered generation loss of 84.773 MU valuing Rs. 14.79 crore in overhauling of boiler due to avoidable delay in supply of spare parts by contractor on account of delay in placing of indent (Paragraph 5.10.14 of AR 2006-07).

Deficiencies in Implementation

- Generation of Power at higher heat rate resulted in loss of generation of 341.701 MU valuing Rs. 48.52 crore during 1999-2005. (Paragraph 5.10.7 of Audit Report 2004-05)
- Under performance of Waste Heat Recovery Units (WHRUs) resulted in loss of generation of 747.553 MU during 1999-2005 valuing Rs. 108.15 crore (Paragraph 5.10.8 of Audit Report 2004-05).
- Excess heat consumption than Delhi Electricity Regulatory Commission norms resulted in excess consumption of Coal and Light Diesel Oil valuing Rs. 94.05 crore during 2002-07 (Paragraph 5.10.19 of AR 2006-07).

Deficiencies in Monitoring

- Procedural delays and poor coordination in placement of order, receipt of material and commissioning of turbines resulted in loss of generation of 200.18 MU valuing Rs. 28.42 crore (Paragraph 5.10.11 of Audit Report 2004-05).
- Excess auxiliary consumption of 89.134 MU during 2002-07 resulted in loss of Rs. 18.05 crore (Paragraph 5.10.12 of AR 2006-07).

Deficiencies / non-achievement of Objectives

- Non-achievement of availability factor equivalent to similar power plants during 2002-07 entailed loss of Rs. 227.67 crore (Paragraph 5.10.8 of AR 2006-07).
- Non-achievement of Plant Load Factor (PLF) equivalent to similar power plants during 2002-07 entailed loss of Rs. 367.68 crore (Paragraph 5.10.10 of AR 2006-07).

Deficiencies in Financial Management

- Inefficient cash management and failure to place surplus funds in corporate Liquid Term Deposit Receipt/Flexi Deposit resulted in loss of interest of Rs. 2.20 crore. (Paragraph 5.13 of Audit Report of 2004-05)

Conclusion

The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

5.1.7 Arrears in finalisation of accounts

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	11	11	12	10	12
2.	Number of accounts finalised during the year	15	14	11	14	11
3.	Number of accounts in arrears	16	13	14	10	11
4.	Average arrears per PSU (3/1)	1.45	1.18	1.17	1.00	0.92
5.	Number of Working PSUs with arrears in accounts	6	3	4	2	3
6.	Extent of arrears	1 to 10 years	1 to 11 years	1 to 9 years	1 to 8 years	1 to 9 years

The State Government had invested Rs. 18.10 crore (equity: Rs. 8.81 crore, loans: Rs. 2.49 crore and grants/ subsidy: Rs. 6.80 crore) in two PSUs during the years[®] for which accounts have not been finalised as detailed in **Appendix 5.4**. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remained outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts is taken up every month with the Principal Secretary (Finance), Government of NCT of Delhi to expedite clearance of the backlog of arrears in accounts in a time bound manner. The matter was also taken up with the Chief Secretary, Government of NCT of Delhi in October 2009.

[®] In respect of Delhi SC/ST/OBC/Minorities & Handicapped Financial and Development Corporation Limited Annual Accounts are in arrear for the years from 2000-01 to 2008-09 and Shahjhanabad Redevelopment Corporation (incorporated in May 2008) for the year ending 2009.

In view of above state of arrears, it is recommended that:

- The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

5.1.8 Accounts Comments and Internal Audit

Seven working companies forwarded their audited seven accounts to AG during the year 2008-09. Of these, six accounts of six companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	4	6.79	3	4.94	3	41.21
2.	Increase in loss	1	4728.28	2	1048.67	2	658.29
3.	Non-disclosure of material facts	-	-	1	5.04	-	-
4.	Errors of classification	2	5.85	1	29.21	-	-

During the year, the statutory auditors had given unqualified certificate for one account, qualified certificates for six accounts. Additionally, CAG gave qualified certificate for three accounts, unqualified certificate for three accounts and non-review certificate for one account during the supplementary audit. The compliance of companies with the Accounting Standards (AS) was good as there was only one instance of non-compliance with AS during the year.

Some of the important comments in respect of accounts of companies are stated below:

Delhi Power Company Limited (2008-09)

- Loans and Advances of Rs. 321.43 crore and Sundry Debtors relating to cases under litigation and connections allotted to Government

department amounting to Rs. 335.76 crore taken over from erstwhile Delhi Vidyut Board are doubtful of recovery and need to be provided for, thus overstating Loans and Advances and Sundry Debtors by that amount.

- Current assets, loans and advances include tax deducted at source of Rs. 4.27 crore, receivable from Income Tax Department for 2004-05. The Company was assessed to have incurred loss of Rs. 63.84 crore and hence TDS was refundable to the Company along with interest. The Company has not accounted for interest of Rs. 1.02 crore receivable along with refund of TDS resulting in understatement of Current assets, loans and advances and corresponding overstatement of losses by that amount.

Indraprastha Power Generation Company Limited (2008-09)

- Provision for doubtful recoveries from Haryana Vidyut Prasaran Nigam Limited was understated by Rs. 33.73 crore towards recoveries outstanding for more than three years.
- Plant and Machinery is overstated by a sum of Rs. 3.67 crore on inclusion of repair expenditure incurred on the replacement of tubes which should have been charged off to revenue as there was no increase in the capacity as per the requirement of AS-10 for capitalisation purposes. This has resulted in overstatement of Plant and Machinery and net profit of the company to the tune of Rs. 3.67 crore.

Delhi Tourism and Transportation Development Corporation Limited (2008-09)

- Non reconciliation and consequent non provision for Rs. 81.52 lakh relating to excise consumption has resulted in overstatement of profit by that amount.
- No provision has been made against stagnant capital work-in-progress of Rs. 1.38 lakh, Rs. 15.06 lakh and Rs. 12.78 lakh in respect of Dilli Haat at Geeta Colony, Kala Gram Kendra and Coffee Homes at Janakpuri and Bindapur respectively. This has resulted in overstatement of profits and overstatement of Capital Work-in Progress by Rs. 29.22 lakh.

Pragati Power Corporation Limited (2008-09)

- Pragati Power Project II (Nagla Machi project) has been abandoned by the Company due to non-receipt of NOC from Delhi Pollution Control Committee. Expenses of Rs. 1.88 crore incurred on this project has not been charged to Profit and Loss account resulting in overstatement of profit as well as Capital Work-in progress to the same extent.

**Delhi State Industrial & Infrastructure Development Corporation Limited
(2007-08)**

- Non-adjustment of deposit works which have been completed and amount received has resulted in over statement of Current liabilities and Provisions and Current assets, Loans and advances by Rs. 29.21 crore. The consequential impact if any on the profit of the corporation remained unascertained.

**Delhi State Industrial & Infrastructure Development Corporation Limited
(2006-07)**

- The Company has shown a sum of Rs. 10.99 crores as Fixed Deposit Receipt/Cash Deposit Receipt in hand, received as security deposit from contractors, under the cash and bank balances. However, these FDRs do not represent the cash and bank balances of the Company and should be shown separately as Security Deposits from contractors under the head current assets.
- Liabilities of Rs. 1.22 crore towards revision of rent were not provided in the accounts, which resulted in overstatement of profit by Rs. 1.22 crore.
- The ground rent and maintenance charges of Rs. 1.24 crore received by the Company are a part of income but have not been shown under the Profit and Loss account. As a result profit of the Company is understated by Rs. 1.24 crore.

Similarly, two working statutory corporations forwarded their two accounts to AG during the year 2008-09. Of these, one account of one statutory corporation pertained to sole audit by CAG which was in progress as of September 2009. The remaining one account was selected for supplementary audit. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.49	1	1.40	1	1.68
2.	Increase in loss	1	1.87	1	7.16	-	-
3.	Non-disclosure of material facts	2	6.97	1	1.36	-	-
4.	Errors of classification	1	4.89	1	0.73	-	-

During the year, out of two accounts of two corporations, one account received qualified certificate from statutory auditors and CAG whereas the

sole audit by CAG was in progress in respect of other corporation* as of September 2009.

Some of the important comments in respect of accounts of Statutory corporations are stated below.

Delhi Financial Corporation (2008-09)

- The interest of Rs. 7.39 lakh (2007-08) and Rs. 2.76 lakh (2008-09) on margin money financed by Delhi SC/ST/OBC Minorities, Handicapped Financial & Development Corporation Limited was treated as income of the Corporation resulting in overstatement of profit and understatement of liabilities by Rs. 7.39 lakh in 2007-08 and Rs. 2.76 lakh in 2008-09. The cumulative impact upto 2007-08 was overstatement of Reserves and Surplus and understatement of liabilities by Rs. 68.24 lakh.

Delhi Financial Corporation (2007-08)

- Provision for non performing assets was understated by Rs. 1.32 crore due to non provisioning of Non Performing Assets (NPA) relating to Transport Division as per SIDBI norms resulting in understatement of Provision, overstatement of Loans & Advances and consequent overstatement of Profit by the same amount.

Delhi Transport Corporation (2007-08)

- The Corporation had not made provision for gratuity and leave encashment on actuarial basis as required under AS-15. The adequacy of provisions made on these accounts cannot be assessed in audit.
- The Corporation has not provided any liability on account of interest amounting to Rs. 2.31 crore payable for non- remittance of dues of gratuity on time resulting in understatement of both Current liabilities and accumulated losses by Rs. 2.31 crore. Current assets, Loans and advances include surplus and obsolete stores valuing Rs. 1.37 crore which should have been valued at net realisable value of Rs. 0.36 crore as per AS-2 resulting in overstatement of stores and material in stock and in transit and understatement of losses for the year by Rs. 1.01 crore.
- Interest Recoverable from advertisers includes Rs. 2.71 crore being the amount of interest recoverable from advertising firm on account of failure to remit the license fee in respect of the advertisement zones allotted to them. As the license fee payable by the firm is sub-judice, the recognition of interest of Rs. 2.71 crore on non remittance of license fee upto 31 March 2008 is in contravention with the generally accepted accounting principle. This has resulted in overstatement of debtors to the

* Delhi Transport Corporation

tune of Rs. 2.71 crore and understatement of accumulated losses by the same amount.

- The corporation provided depreciation on 159 low floor buses acquired during 2007-08 at the rate of 8.33 *per cent* whereas the rate of depreciation approved by the Government was 12 *per cent*. This has resulted in a shortfall in the provision for depreciation by Rs. 37.36 lakh which led to understatement of operating loss and overstatement of fixed assets by Rs. 37.36 lakh.
- The corporation had been contributing at the rate of 12 *per cent* towards Provident Fund whereas the applicable rate was 10 *per cent*. This resulted in overstatement of accumulated loss by Rs. 13.69 crore since 2001-02 including loss for the year by Rs. 1.40 crore.

Delhi Transport Corporation (2006-07)

- The pay and allowances amounting to Rs. 4.89 crore of Ministerial and Civil Engineering Division staff were shown as paid on 31 March 2007 though the same were actually paid in April 2007. This had resulted in understatement of current liabilities and bank balance by Rs. 4.89 crore each.

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of seven companies[£] for the year 2007-08 and six companies[¶] for the year 2008-09 are given below:

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 5.2
1.	Non-fixation of minimum/ maximum limits of store and spares	2	A-6,7
2.	Absence of internal audit system commensurate with the nature and size of business of the company	6	A- 1,2,5,7,9,10
3.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	5	A- 1,2,7,8,9

[£] Sr. No. 1,2,5,6,7,8 and 9 in Appendix – 5.2.

[¶] Sr. No. 1,6,7,8,9 and 10 in Appendix – 5.2.

5.1.9 Status of placement of Separate Audit Reports

The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Delhi Financial Corporation	2007-08	2008-09	3.11.09	
2.	Delhi Transport Corporation	2006-07	2007-08	28.1.09	
			2008-09	Under finalisation	

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

5.1.10 Disinvestment, Privatisation and Restructuring of PSUs

Delhi Transco Limited was incorporated in July 2001. Delhi Transco Limited was a subsidiary of Delhi Power Company Limited with a paid up capital of Rs. 180 crore as of 2002-03. However on 26 March 2008, 345.20 crore shares @ Rs. 10 each were issued to State Government (Rs. 3452.00 crore) and thereafter Delhi Transco Limited ceased to be a subsidiary of Delhi Power Company Limited. One other company Delhi State Mineral Development Corporation was merged with Delhi State Industrial and Infrastructure Development Corporation Limited w.e.f 27 June 2007.

5.1.11 Reforms in Power Sector

The State has Delhi Electricity Regulatory Commission (DERC) formed in March 1999 under the Electricity Regulatory Commission Act 1998 (since replaced by Electricity Act 2003) with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, DERC issued 81 orders (4 on Annual Revenue Requirements and 77 on other matters).

5.1.12 Discussion of Audit Reports by COPU

The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2003-04	1	11	-	3
2004-05	2	10	-	-
2005-06	1	10	-	3
2006-07	1	3	-	-
2007-08	-	8	-	-
Total	5	42	-	6

The matter relating to clearance of backlog of reviews/ paragraphs was also discussed with COPU in July 2009.

5.2 Performance Audit Report on the functioning of Delhi Transport Corporation

Introduction

In Delhi, the public road transport is primarily provided by the Delhi Transport Corporation (Corporation), which is mandated to provide an efficient, adequate, economical and properly coordinated road transport service to the public in Delhi. The State also allows private operators to provide public transport. The fare structure is controlled by the Government of NCT of Delhi (GNCTD) which approves it. This structure is same for both the Corporation as well as private operators.

The Corporation was incorporated on 2 November 1971 by the Government of India under Section 3 of the Road Transport Corporations Act, 1950 as a wholly owned Corporation of the Government of India. Control of the Corporation was transferred to the Transport Department, GNCTD with effect from 5 August 1996. The Management of the Corporation is vested with the Board of Directors (BODs) comprising the Chairman, Managing Director and Directors appointed by the GNCTD. The day-to-day operations are managed by the Managing Director, who is the Chief Executive of the Corporation, with the assistance of Financial Advisor cum Chief Accounts Officer, Chief General Managers, Deputy Chief General Managers, Senior Managers and Managers. The Corporation has six regional offices, 35 depots, two central workshops and two central Stores.

The Corporation had a fleet strength of 3804 buses as on 31 March 2009 and carried an average of 22.61 lakh passengers *per* day during 2008-09. Its turnover was Rs. 473.94 crore in 2008-09, which was equal to 0.33 *per cent* of the State Gross Domestic product. It employed 28551 employees as at 31 March 2009.

A review on the working of the Corporation was included in the Report of the Comptroller and Auditor General of India, GNCTD for the year ending 31 March 2006. The report has not been discussed by the Committee on Government Undertakings (COGU) (November 2009).

Scope and Methodology of Audit

The present review conducted during February 2009 to June 2009 covers the performance of the Corporation during the years 2004-05 to 2008-09. The review mainly deals with the matters of operational efficiency, financial

management, fare policy, fulfillment of social obligations and monitoring by top management of the Corporation. The audit examination involved scrutiny of records of the head office, one out of two central workshops, one out of two central stores and four* out of the 35 depots.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining the audit objectives to the top management, scrutiny of records at the 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 for comments.

Audit Objectives

The objectives of the performance audit were to assess:

Operational Performance

- The extent to which the Corporation was able to keep pace with the growing demand for public transport;
- the extent to which the Corporation was running its operations efficiently;
- whether adequate maintenance was undertaken to keep the vehicles roadworthy; and
- the extent to which economy was ensured in cost of operations.

Financial Management

- whether, the Corporation was able to meet its commitments and recover its dues efficiently; and
- the possibility of realigning the business model of the Corporation to tap non-conventional sources of revenue and adopting innovative methods of accessing such funds.

Fare Policy and Fulfillment of Social Obligations

- the existence and adequacy of fare policy; and
- whether the Corporation operated adequately on uneconomical routes

Monitoring by Top Management

- whether the monitoring by Corporation's top management was effective.

* Seema puri, Hari Nagar-III, Sarojini Nagar, Nangloi – contributing 13 per cent of the revenue generation.

Audit Criteria

The audit criteria adopted for assessing the achievement of the audit objectives were:

- all India averages for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/ norms fixed by the Management;
- manufacturers' specifications, norms for life of a bus, preventive maintenance schedules, fuel efficiency norms, etc.;
- instructions of the Government of India (GoI) and GNCTD and other relevant rules and regulations;
- procedures laid down by the Corporation.

Financial Position and Working Results

The financial position of the Corporation for the five years upto 2008-09 is given below:

(Rupees in crore)					
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
A. Liabilities					
Paid up Capital	117.00	117.00	117.00	494.30	744.30
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	78.71	84.63	90.65	157.85	280.34
Borrowings (Loan Funds)	3212.92	4063.78	4916.39	6008.47	7566.26
Current Liabilities & Provisions	188.65	156.80	192.19	310.25	349.04
Total	3597.28	4422.21	5316.23	6970.87	8939.94
B. Assets					
Gross Block	606.48	624.85	623.87	693.81	875.68
Less: Depreciation	243.14	311.04	379.05	436.12	488.28
Net Fixed Assets	363.34	313.81	244.82	257.69	387.40
Capital works-in-progress (including cost of chassis)	6.48	1.23	1.37	0.81	32.47
Investments	1.39	1.47	1.55	1.69	1.86
Current Assets, Loans and Advances	96.99	97.24	105.21	524.42	634.26
Accumulated losses	3129.08	4008.46	4963.28	6186.26	7883.95
Total	3597.28	4422.21	5316.23	6970.87	8939.94

The details of working results like operating revenue and expenditure, total revenue and expenditure, net surplus/loss and earnings and cost *per kilometre*

of operation are given below:

(Rupees in crore)

Sl. No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Revenue	423.31	466.74	419.21	421.33	473.94
2.	Operating Revenue ^φ	386.53	428.12	374.86	362.89	375.97
3.	Total Expenditure	1131.69	1284.54	1405.75	1637.13	2182.49
4.	Operating Expenditure ^ψ	778.90	801.51	772.84	794.17	1069.89
5.	Operating Profit/ (Loss)	(392.37)	(373.39)	(397.98)	(431.28)	(693.92)
6.	Profit/(Loss) for the year	(708.38)	(817.80)	(986.54)	(1215.80)	(1708.55)
7.	Fixed Costs					
	Personnel Costs	449.68	458.20	468.27	493.49	743.32
	Depreciation	66.51	68.29	66.81	63.86	78.99
	Interest	354.79	489.74	633.40	827.73	1065.35
	Other Fixed Costs	43.59	27.82	25.32	43.02	78.97
	Total Fixed Costs	914.57	1044.05	1193.80	1428.10	1966.63
8.	Variable Costs					
	Fuel & Lubricants	155.34	166.46	147.25	136.02	137.55
	Tyres & Tubes	15.80	15.08	16.07	16.88	15.60
	Other Items/ spares	16.62	26.47	23.15	33.59	38.02
	Taxes (MV Tax, Passenger Tax, etc.)	29.36	32.48	25.48	22.54	24.69
	Total Variable Costs	217.12	240.49	211.95	209.03	215.86
9.	Effective KMs operated (in crore)	25.22	25.90	20.43	18.34	18.30
10.	Earnings <i>per</i> KM (Rs.) (1/9)	16.78	18.02	20.52	22.97	25.90
11.	Fixed Cost <i>per</i> KM (Rs.) (7/9)	36.26	40.31	58.43	77.87	107.47
12.	Variable Cost <i>per</i> KM (Rs.) (8/9)	8.61	9.29	10.37	11.40	11.80
13.	Cost <i>per</i> KM (Rs.) (11+12)	44.87	49.60	68.80	89.27	119.27
14.	Net Earnings <i>per</i> KM (Rs.) (10-13)	(28.09)	(31.58)	(48.28)	(66.30)	(93.37)
15.	Traffic Revenue [§] (Rs. in crore)	335.54	376.54	313.71	309.76	326.62
16.	Traffic Revenue <i>per</i> KM (Rs.) (15/9)	13.30	14.54	15.36	16.89	17.85
17.	Contribution <i>per</i> KM (Rs.) (16-12)	4.69	5.25	4.99	5.49	6.05
18.	Operating Profit/(Loss) <i>per</i> KM (Rs.) (5/9)	(15.56)	(14.42)	(19.48)	(23.52)	(37.92)

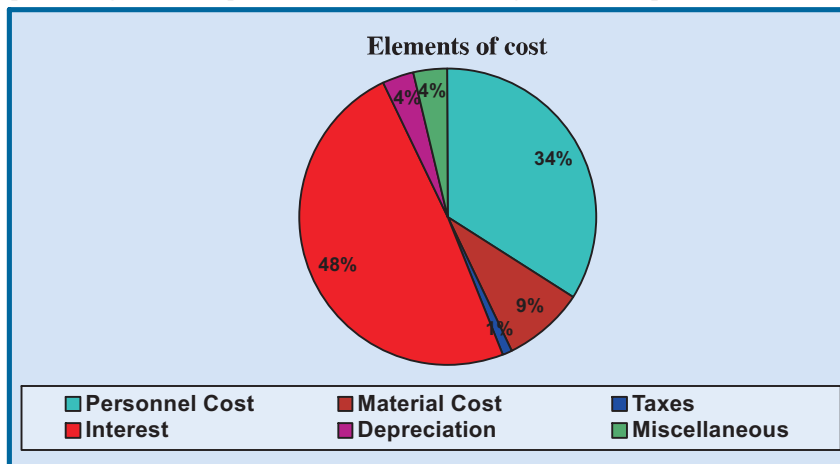
^φ Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under KM Scheme, etc.

^ψ Operating expenditure includes expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.

[§] Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.

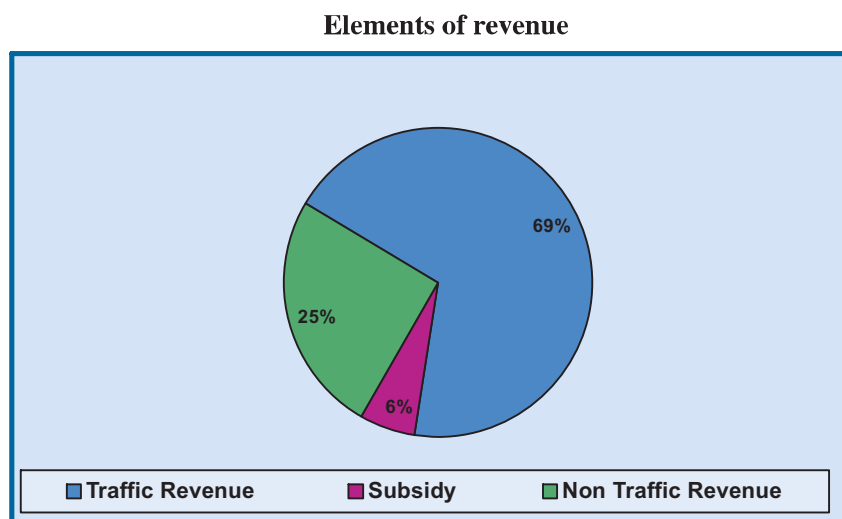
Elements of Cost

Personnel cost and interest cost constitute the major elements of cost. The percentage break-up of costs for 2008-09 is given in the pie-chart below.



Elements of revenue

Traffic revenue, subsidy and non-traffic revenue constitute the major elements of revenue. The percentage break-up of revenue for 2008-09 is given below in the pie-chart.



Audit Findings

The audit objectives were explained to the Corporation during an ‘entry conference’ held on 11 February 2009. Subsequently, audit findings were reported to the Corporation and the Government in August 2009 and discussed in an ‘exit conference’ held on 05 November 2009, which was attended by the Managing Director, Financial Adviser cum CAO, and Chief General Managers of the Corporation and Senior Deputy Commissioner, Transport Department, GNCTD. The views/replies of the Corporation (October 2009) have been considered while finalising this review. The audit findings are discussed below:

5.2.1 Operational Performance

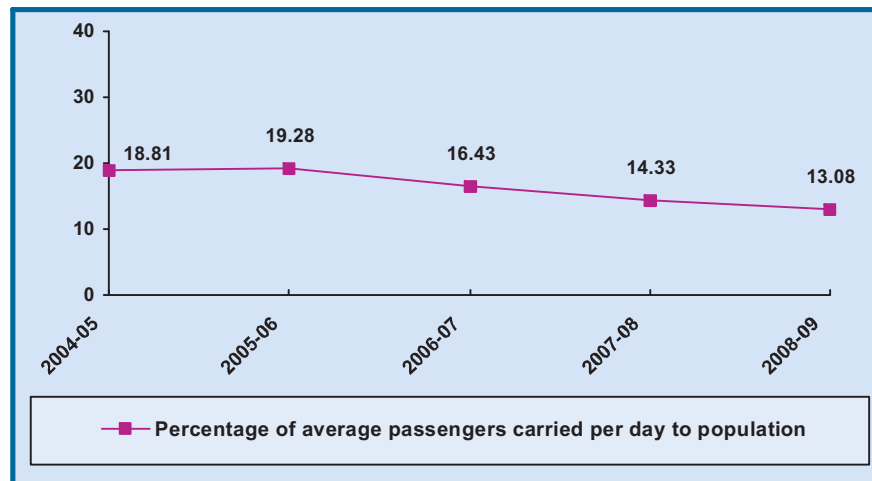
The operational performance of the Corporation for the five years ending 2008-09 is given in the **Appendix-5.7**. The evaluation was based on various operational parameters described below. It was also seen whether the Corporation was able to maintain pace with the growing demand for public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there is scope for improvement in performance.

5.2.2 Share of Corporation in public transport

The percentage of average passenger carried to total population decreased from 18.81 to 13.08 from 2004-05 to 2008-09

The Transport Policy of the State Government seeks to achieve a balanced modal mix of public transport and to discourage personalized transport. The focus will be on increasing mass transport options by providing adequate, accessible and affordable modes like buses, mini-buses, electric trolley buses complemented by a network of rail based mass rapid transit systems like metro and commuter rail. The policy recognises that even after a fully developed rail based Mass Rapid Transit System comes into existence, the bus system will continue to play the role of the main mass transport system provider.

The line-graph below depicts the percentage of average passengers carried per day by the Corporation to the population of Delhi during five years ending 2008-09:



It can be seen that the Corporation has not been able to keep pace with the growing demand for public transport. The percentage of average passengers carried by the Corporation to the total population in Delhi has decreased significantly from 18.81 *per cent* in 2004-05 to 13.08 *per cent* in 2008-09. The Corporation stated (October 2009) that average passengers carried have reduced due to increase of metro lines and personal vehicles. The reply is not acceptable as inspite of increase in population and metro fares being higher than those of the Corporation, the average passenger carried per day by Corporation had decreased due to operational inefficiencies which were not addressed by the Corporation.

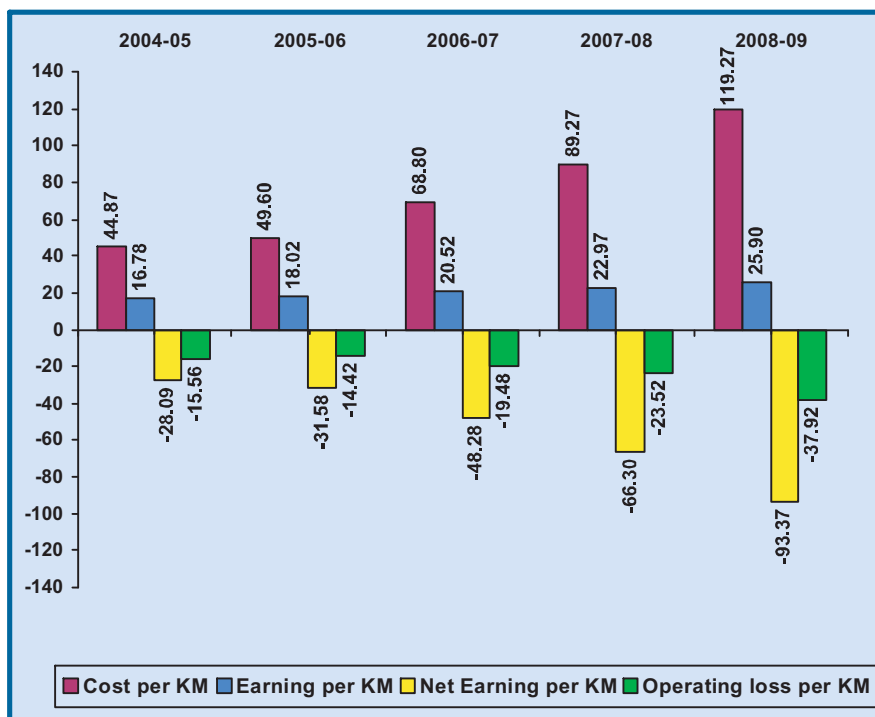
Further, the Corporation was unable to replace its condemned and over-aged buses. At the same time the existing fleet was also under-utilised (paras 5.2.5 to 5.2.6). Therefore, the effective *per capita* KM operated *per year* also declined drastically as given below:

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective KM operated (Crore)	25.22	25.90	20.43	18.34	18.30
Estimated Population (Crore)	1.54	1.58	1.63	1.68	1.73
<i>Per Capita</i> KM <i>per year</i>	16.38	16.39	12.53	10.92	10.58

Public transport has definite benefits over personalised transport in terms of costs, congestion on roads and environmental impact. The public transport services have to be adequate to derive those benefits. In the instant case, the Corporation's inability to maintain *per capita* KM *per year* was mainly due to operational inefficiencies as described later.

5.2.3 Recovery of cost of operations

The Corporation was not able to recover its cost of operations. During the last five years ending 2008-09, the net revenue showed a negative trend as shown in the graph below:



The above graph indicates the deteriorating performance of the Corporation over the period. The cost per KM has increased from Rs. 44.87 in 2004-05 to Rs. 119.27 per KM in 2008-09 as against the marginal increase in revenue from Rs. 16.78 in 2004-05 to Rs. 25.90 in 2008-09. Resultantly, the net earning loss per KM increased from Rs. 28.09 per KM to Rs. 93.37 per KM during the period. The operating loss per KM also had increased. The Corporation was not able to achieve the All India Averages for cost (Rs. 19.94) and revenue (Rs. 18.22) per KM in 2006-07. This deteriorating performance has been impacting the ability of the Corporation to replace its fleet in time to provide adequate public transport services.

Efficiency and Economy in operations

5.2.4 Fleet strength and utilisation

Fleet Strength and its Age Profile

The Association of State Road Transport Undertakings (ASRTU) had prescribed (September 1997) the desirable age of a bus as eight years or five lakh kilometres, whichever is earlier. The table below shows the age-profile of the buses held by the Corporation for the period of five years ending 2008-09.

Sl. No.	Particulars [¶]	2004-05	2005-06	2006-07	2007-08	2008-09
1	Total No. of buses at the beginning of the year	3656	3470	3469	3444	3537
2	Additions during the year	24	5	1	159	491
3	Buses scrapped during the year	210	6	26	66	224
4	Buses held at the end of the year (1+2-3)	3470	3469	3444	3537	3804
5	Of (4), No. of buses more than 8 years old	28	36	347	299	260
6	Percentage of overage buses to total buses	0.81	1.04	10.08	8.45	6.83

The above table shows that the Corporation was not able to maintain the prescribed age-profile of buses and the number of overage buses increased from 28 in 2004-05 to 260 in 2008-09. During the period under review the Corporation inducted 680 buses out of which 656 were AC/ non AC low floor. The Corporation further placed an order for another 2500 AC/ non-AC low floor buses. As the buses operated by Corporation in the Delhi region have to cover a large area comprising rural and sub-urban areas in the NCT region as well, making a homogeneous bus fleet consisting of low-floor buses would not only increase the cost of operations but it might also be unsuitable to ply the buses on uneven and harsher terrains because of the low floors. Audit scrutiny revealed that funds at the disposal of the Corporation were not optimally utilised besides purchase of buses at inordinately high prices and with non-essential features as discussed in the succeeding paragraphs.

5.2.5 Utilisation of Plan Funds

The Corporation had received a plan loan of Rs. 7.50 crore for procurement of CNG engines and Rs. 2.69 crore for purchase of CNG test equipment in 2004-

[¶] Number of buses held will not match with the figures of Appendix 5.7 as that are average number of buses held during the respective years.

05 of which sums of Rs. 3.03 crore and Rs. 68.00 lakh were utilised upto 2008-09 and the unspent balances were not refunded to the GNCTD despite specific direction of BODs in October 2006 itself. This resulted in avoidable payment of interest of Rs. 59 lakh (after considering the interest earned) for the period from April 2007 to March 2009. Further, under the second stimulus package, under Jawahar Lal Nehru Urban Renewal Mission (JnNURM), announced by the Government of India, GNCTD was sanctioned 1500 buses at a total cost of Rs. 765 crore with the Central share of 35 *per cent* i.e. Rs. 267.75 crore as grant. Out of this Rs. 133.87 crore was released to Delhi State in February 2009. However, no progress towards placing of orders for procurement of 1500 buses under the scheme was made (May 2009) by the Corporation as a result of which funds were not released to the Corporation.

The Corporation stated (October 2009) that efforts were being made to utilise the unspent plan loan.

5.2.6 Procurement of low floor buses

Procurement of 650 low floor buses

GNCTD decided (October 2007) that the Corporation would procure 4500 buses at an estimated cost of Rs. 1796 crore and GNCTD would provide funds to the Corporation in the form of equity. GNCTD, however, released Rs. 627.30 crore upto March 2009. The cabinet also decided that the Ministry of Finance of the Central Government should be approached for exemption of Central Excise in the course of purchasing these buses.

In procurement of 650 low floor buses, additional expenditure of Rs.68.44 crore was incurred

- In procurement of 650 low floor buses, an additional expenditure of Rs. 68.44 crore was incurred. The Corporation procured 625 non AC and 25 AC low floor buses from November 2007 to December 2008 at a total cost of Rs. 275.29 crore. While negotiating the price bid with TATA, the Corporation worked out justified price as Rs. 51.30 lakh per bus (excluding sales tax). However, the bidder had agreed to the rate of Rs. 60.05 lakh per bus. The negotiated price being inordinately high, the matter was referred to the GNCTD which reduced the number of buses from 125 to 25 instead of deciding either to reduce the offered price or go in for re-tendering. Thus, the Corporation incurred an additional expenditure of Rs. 2.19 crore over and above the justified price in purchase of 25 AC buses.
- The terms of Contract provided that 80 *per cent* of the total price of the buses will be paid within 45 days of the receipt of buses while the balance 20 *per cent* was to be paid within 45 days against 'Final Acceptance Certificate' to be issued by the Corporation, subject to recoveries on account of non-rectification of defects/deficiencies not

attended by the contractor. Audit observed that the Corporation released 15 *per cent* payment amounting to Rs. 40.16 crore out of the balance 20 *per cent* withheld by the Corporation for rectification of defects, in contravention of the agreement. Further, the Corporation did not take up the matter vigorously for exemption of Central Excise with the Union Government and paid Rs. 27.66 crore.

- These buses were fitted with automatic transmission system instead of manual transmission system and additional features of retarder[^] and anti skid lock braking system without recorded justification. While, an earlier experiment on automatic transmission system had not been found satisfactory (December 2002), retarder and anti skid lock braking system were found of no use as these features were discontinued in a subsequent purchase order. Moreover, Central Institute of Road Transport (CIRT), Pune had initially recommended (May 2005) manual transmission system as standard fitment instead of automatic transmission system. The amount incurred on these systems worked out to Rs. 38.59 crore. The Corporation has further placed an order (September 2008) for procurement of 1500 non AC and 1000 AC buses fitted with automatic transmission which will further entail an additional expenditure of Rs. 130.35 crore.

The Corporation stated (October 2009) that justified price of 25 AC buses was based on limited information and may not be considered as an accurate estimate. As regards release of 15 *per cent* payment it stated that the Corporation had taken adequate security to take care of future recoveries. With regard to additional features, the Corporation stated that the specifications were finalised after due diligence as per the directions of GNCTD. The above replies are not based on facts as justified price of AC buses was worked out on the basis of procurement cost of low floor AC buses by Haryana Roadways from the same manufacturer. The balance payments were made in violation of the contractual provisions and amounted to undue favour to the manufacturer. Before including additional features especially automatic transmission system opinion of CIRT, Pune and previous experience of the Corporation were not given due consideration.

Procurement of 2500 low floor buses

The Corporation invited (January 2008) global tender for procurement of 1500 non AC low floor buses and 1000 AC low floor buses. The offer of TATA motors was lowest with a bid price of Rs. 55.20 lakh for a non AC bus and Rs. 64.19 lakh for an AC bus and Annual Maintenance Contract (AMC) of

[^] Retarder is a device used to slow down a vehicle plying at high speed. The “anti skid anti locking brake system” is used in the vehicles plying at high speed on wet roads or in the hilly areas to avoid skidding of vehicles due to application of brakes.

Rs. 11.42 per KM for non AC and Rs. 12.17 per KM for AC bus over a period of twelve years. The technical committee of the Corporation had however worked out (August 2008) justified price as Rs. 42.97 lakh for non AC bus; Rs. 50.56 lakh for AC bus and average AMC charges as Rs. 6.36 per KM for non AC buses and Rs. 6.59 per KM for AC buses. After negotiations GNCTD directed (September 2008) the Corporation to procure the non AC Bus and AC bus at Rs. 51.89 lakh and Rs. 61.62 lakh respectively and the average AMC charges of AC and non-AC buses after reduction came to Rs. 10.67 per KM and Rs. 11.32 per KM respectively. Audit observed that the Government while taking decision on the procurement of low floor buses had not done any cost-benefit analysis. The acceptance of high AMC charges would entail high recurring expenditure. Further, the suggestion of the Principal Secretary (Finance), GNCTD to include a clause in the agreement for a proportionate reduction in prices in case of steep fall in steel price was not accepted by the GNCTD. Audit observed that international steel price had reduced by almost 48 per cent during pre-delivery schedule. The decision to procure buses over and above the justified rates would burden the exchequer by Rs. 244.30 crore and there would be an additional outgo of Rs. 833.30 crore on account of AMC charges over the period of twelve years.

The Corporation stated (October 2009) that cancellation of tender and re-tendering would have resulted in delay in procurement process and breach of commitment given to the High Court of Delhi to augment fleet size from 3000 to 6000 buses by the end of 2008-09. It further stated that even after re-tendering, there was no certainty of reduction in rates due to limited bidders. The fact remains that the Corporation could not increase its fleet as per commitment as the number of buses at the end of 2008-09 was 3804 only.

5.2.7 Fleet Utilisation

Fleet utilisation represents the ratio of buses on road to those held by the Corporation. Optimum fleet utilisation is necessary for enhancing the operational performance of a transport undertaking. As against the All India Average[∞] fleet utilisation of 92 per cent, the fleet utilisation of the Corporation which achieved the peak of 90.5 per cent in 2005-06 decreased

Ψ BMTC and BEST registered fleet utilization at 94.39 per cent and 90.62 per cent respectively during 2006-07. (source : STUs' profile and performance 2006-07 by CIRT, Pune)

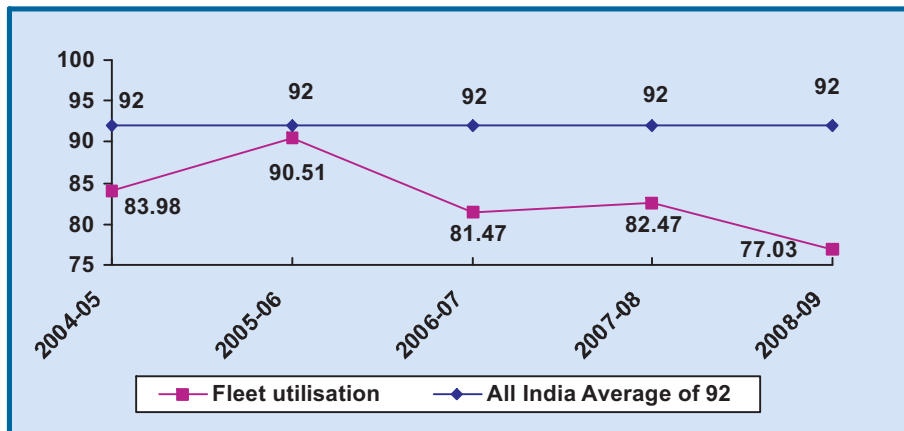
[∞] All India Average is for the year 2006-07 which has been used for comparison for the period under review.

Ψ BMTC – Bangalore Metropolitan Transport Corporation.

BEST – Brihanmumbai Electric Supply and Transport Undertaking

MTC – Metropolitan Transport Corporation (Chennai) Ltd.

to 77.03 per cent in 2008-09 as indicated in the graph below.



The fleet utilisation of the Corporation was much less than BMTC (94.39 per cent) and BEST (90.62 per cent) signifying that there is ample scope for improvement. The main reasons which contributed to low fleet utilisation include delay in getting Motor Vehicle Inspection certificates (38137 bus days), buses held up for want of major assemblies (166510 bus days), breakdowns (0.70 crore KM) and shortage of drivers (15.07 crore KM).

Audit observed that fleet utilisation was being computed by the Corporation on the basis of buses being outshedded in the morning shift only without taking into account the buses outshedded in the evening shift. It was also observed that during the year 2008-09, the average fleet utilisation in the evening shift was less by 33 per cent as compared to the morning shift which if included in the computation would bring down the fleet utilisation figures even further. The Corporation's inability to achieve optimum fleet utilization, would impact their operational performance adversely.

The Corporation in its reply (October 2009) attributed fall in fleet utilisation to non-availability of buses and high absenteeism, which are controllable factors.

5.2.8 Vehicle productivity

Vehicle productivity refers to the average Kilometres run by each bus per day in a year. The vehicle productivity of the Corporation vis-à-vis the over-aged

fleet for the five years ending 2008-09 is shown in the table below.

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity (KMs run <i>per day per bus</i>)	193	205	162	146	132
2.	Overage fleet (percentage)	0.81	1.04	10.08	8.45	6.83

The Corporation has not fixed the depot wise target in respect of vehicle productivity. Vehicle productivity of the Corporation decreased from 193 K.M to 132 K.M during the period 2004-05 to 2008-09. One of the reasons for decrease in vehicle productivity was increase in the percentage of over-aged fleet from 0.81 in 2004-05 to 6.83 in 2008-

MTC, Chennai; BMTC, Bangalore and BEST, Mumbai registered vehicle productivity at 213 KM, 212 KM and 179 KMs per day respectively during 2007-08. (Source : STUs profile and performance 2007-08 by CIRT, Pune)

Vehicle productivity decreased from 193 KM to 132 KM from 2004-05 to 2008-09.

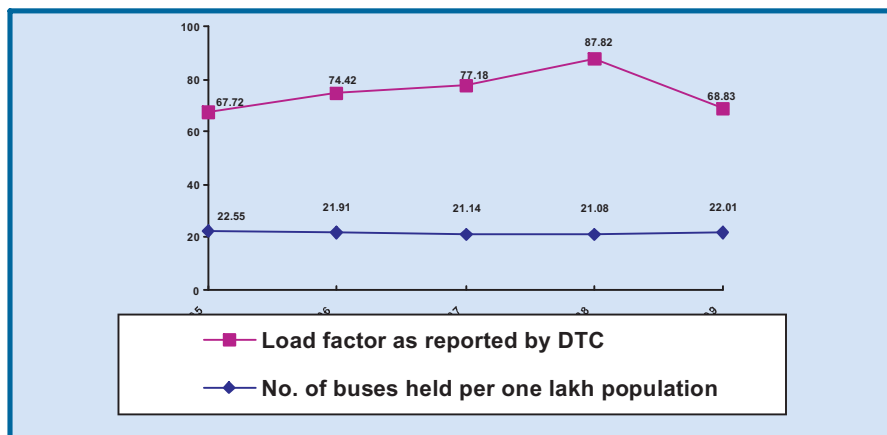
09. Although percentage of overage fleet was a factor for decline in the vehicle productivity, there is sufficient scope for improvement as during the year 2007-08 the vehicle productivity of MTC Chennai (213 KM) was much higher than the vehicle productivity of the Corporation (146 KM) in spite of the fact that the percentage of overage fleet of MTC Chennai was 21.27 *per cent* as against 8.45 *per cent* of the Corporation. No concrete measures were however taken by the Corporation to improve vehicle productivity.

The Corporation in its reply (October 2009) intimated higher figures of vehicle productivity considering the vehicles on road. The figures worked out above, in audit, are based on the average number of buses held as per industry practice and the CIRT formula.

5.2.9 Capacity Utilisation

Load Factor

Capacity utilisation of a transport undertaking is measured in terms of load factor, which represents the percentage of passengers carried to seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the load factor. The Corporation had reported load factor in the range of 67.72 *per cent* to 87.82 *per cent* during 2004-05 to 2008-09. The details of load factor from 2004-05 to 2008-09 and number of buses held per one lakh population are given below in the line graph:



Audit scrutiny revealed that load factor calculated by the Corporation was not consistent with the formula of load factor suggested by CIRT, Pune. The figures of the load factor as worked out in audit were 54.66, 58.44, 61.72, 68.65 and 67.11 for the years 2004-05 to 2008-09 respectively. Thus, due to adoption of wrong methodology for working out load factor, the same was reported higher than actual. However, the methodology was corrected during 2008-09. As such, the Corporation could never reach the level of load factor achieved by CSTC Kolkata and MTC Chennai which was 86.70 per cent and 81.17 per cent respectively during 2007-08 indicating that there was a lot of scope for improvement. Since the cost elements would vary marginally, any improvement in load factor would have further resulted in reduction of operating losses.

The Corporation stated (October 2009) that its performance cannot be compared with other metropolitan cities due to high percentage of vehicles in Delhi. The fact remains that the load factor does not depend only on number of vehicles on road but also on incidences of breakdowns, cancellation of scheduled Kilometers and other reliability parameters which are controllable.

The table below provides the details for break-even load factor (BELF) for traffic revenue as well as total revenue. Audit worked out this BELF at the given level of vehicle productivity and total cost *per* KM.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost <i>per</i> KM (Rs.)	44.87	49.60	68.80	89.27	119.27
2.	Traffic revenue <i>per</i> KM at 100 <i>per cent</i> load factor (Rs.)	19.64	19.54	19.90	19.23	25.93
3.	Break Even Load Factor (<i>per cent</i>) (1/2)	228	254	346	464	460

The break-even load factor is very high and is not likely to be achieved given the present load factor and the fact that the Corporation is also required to operate uneconomical routes. Thus, while the scope to improve upon the load

factor remains limited, there is tremendous scope to cut down costs of operations as explained later.

Route Planning

As stipulated in Sec 22 of the Road Transport Corporation Act, 1950, the Corporation while carrying on its operations shall act on business principles. Operational performance can be improved by periodic review of uneconomical routes with a view to assess their continuance, to rationalise them and to optimise operation of buses on higher revenue earning routes.

As on 31 March 2009, there were 842 routes in Delhi; of which the Corporation operated 607 routes only. The remaining routes were operated by private operators. Audit scrutiny revealed that none of the routes operated by the Corporation were profitable and many city routes were not even recovering their variable cost resulting in cash losses in their operation. These routes were in the range of 3.1 *per cent* to 7.8 *per cent* during the period 2004-09 resulting in cash losses of Rs. 1.63 crore on their operations during the review period.

Given the scenario of losses incurred by all routes operated by the Corporation and obligation to serve uneconomical routes, the Corporation should decide an optimum quantum of services on different routes so as to optimise their revenue while serving the cause. However, no such exercise was carried out by the Corporation.

The Corporation stated (October 2009) that audit, while working out the routes not meeting variable cost, has relied upon ticketed earning only and not taken into consideration the earning from passes. Audit contended that earning from passes is not route-specific and is in the nature of a fixed revenue. Therefore it should not be considered for route planning purpose.

Cancellation of Scheduled Kilometres

A review of the operations indicated that the scheduled kilometres were not fully operated mainly due to non-availability of adequate number of buses, shortage of crew and other factors like breakdowns, accidents, late arrivals, etc.

The details of scheduled kilometres, effective kilometres, cancelled kilometres calculated as difference between the scheduled kilometres and effective

kilometres are given in the table below:

(In lakh KM)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Scheduled kilometres	3129.50	3040.48	2781.30	2688.07	2538.82
2.	Effective kilometres	2522.16	2589.64	2043.34	1833.84	1830.01
3.	Kilometres cancelled (1-2)	607.34	450.84	737.96	854.23	708.81
4.	Percentage of cancellation	19.41	14.83	26.53	31.78	27.92
Cause-wise analysis						
5.	Want of buses	235.74	122.12	298.67	231.20	169.20
6.	Want of crew (drivers)	157.68	161.30	301.90	472.92	413.44
7.	Others	213.92	167.42	137.39	150.11	126.17
8.	Contribution [#] per KM (in Rs.)	4.69	5.25	4.99	5.49	6.05
9.	Avoidable cancellation (want of buses and crew) (5 + 6)	393.42	283.42	600.57	704.12	582.64
10.	Loss of Contribution (8X9) (Rs. in crore)	18.45	14.88	29.97	38.66	35.25

[#] Contribution per KM is the traffic revenue minus total variable cost divided by effective KMs

Cancellation of scheduled KMs for want of buses and crew resulted in loss of Rs.137.21 crore

BMTC, Bangalore; BEST, Mumbai and MTC Chennai registered cancellation of scheduled KMs at 4.52, 6.20 and 16.48 per cent respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune)



It can be seen from the above table that the percentage of cancellation of scheduled kilometres has increased from 19.4 per cent in 2004-05 to 31.8 per cent in 2007-08 and subsequently decreased marginally to 27.9 per cent in 2008-09. The percentage of cancellation of scheduled kilometres was on a higher side as compared to the best performers. Audit analysis revealed that the main reasons for cancellation

of schedule kilometres were shortage of drivers, buses held up for want of spares/major assemblies/tyres, etc., all of which were controllable had timely corrective action been taken by the Management. The Corporation was thus deprived of a contribution of Rs. 137.21 crore during 2004-05 to 2008-09 due to cancellation of scheduled kilometres for want of buses and crew.

The Management while accepting (October 2009) the contention of the audit informed that more drivers have been recruited and major spares have been provided for making the buses road-worthy.

5.2.10 Maintenance of vehicles

Preventive Maintenance

Preventive maintenance is essential to keep buses in good running condition and to reduce breakdowns and other mechanical failures. The Corporation had Tata and Leyland make buses, for which the following schedule of maintenance has been prescribed by the Original Equipment Manufacturers (OEMs).

- Engine oil change on completion of 9000 KM and 10000 KMs for TATA and Leyland buses respectively.
- Brake inspections to be carried out on completion of 18000 KM and 24000 KM for TATA and Leyland buses respectively.

Year	Engine Oil (On completion of 9000/10000 KM)				Brake inspections (On completion of 18000/24000 KM)			
	Total maintenance done	Done on time	Delayed maintenance	Percent age of delayed maintenance	Total maintenance done	Done on time	Delayed maintenance	Percent age of delayed maintenance
2004-05	14002	4533	9469	67.63	7316	2397	4919	67.24
2005-06	16528	6443	10085	61.02	8808	3618	5190	58.92
2006-07	13932	5846	8086	58.04	7585	3168	4417	58.23
2007-08	12637	5618	7019	55.54	6670	2961	3709	55.61
2008-09	8039	3701	4338	53.96	4535	1929	2606	57.46

It is observed from the table that the position with regard to preventive maintenance has improved during the review period. However, there is still scope for further improvement since as on 31 March 2009 over 50 *per cent* maintenance was behind schedule. The main reasons for non-adherence of preventive maintenance schedule were lack of oil and spare parts and late availability of buses for maintenance. This resulted in substantial increase (66 *per cent*) in number of breakdowns from 14955 in 2004-05 to 24814 in 2008-09.

Repairs & Maintenance

A summarised position of fleet holding, over-aged buses, repairs and maintenance (R&M) expenditure for the last five years up to 2008-09 is given below.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total number of buses at the end of year	3470	3469	3444	3537	3804
2.	Over-age buses (more than 8 years old)	28	36	347	299	260
3.	Percentage of over age buses	0.81	1.04	10.08	8.45	6.83
4	Cost of Material & Spares (Rs in crore)	36.89	48.53	47.63	58.69	63.65
5	Manpower Cost	90.60	92.70	97.42	104.26	149.02
6	Total R&M Expenses (Rs. in crore)	127.49	141.23	145.05	162.95	212.67
7	R&M Expenses per bus (Rs. in lakh.) (6/1)	3.67	4.07	4.21	4.61	5.59
8	Percentage of manpower cost in R&M expenses	71.06	65.64	67.16	63.98	70.07



It would be seen from the above table that increase in number of overage buses resulted in substantial increase in expenditure on account of repairs and maintenance. However it was observed that average Repair and Maintenance expenses of Rajasthan State Road Transport Corporation was only Rs. 2.08 lakh per bus during 2008-09 against Rs. 5.59 lakh per bus of the Corporation. Moreover, large number of buses was held up in depots for want of major assemblies leading to loss of 166510 bus days involving a contribution loss of Rs. 14.10 crore.

Audit scrutiny further revealed instances of premature failures of reconditioned engines and gear boxes to the extent of 27 *per cent* and 40 *per cent* on an average during the review period highlighting the poor quality of workshop jobs done in the Corporation.

The Corporation accepted (October 2009) that the reasons for premature failure were non-adherence of preventive maintenance schedule at depot level, driving habits and overheating problems in the engines, which were evidently controllable.

Docking of vehicles for fitness certificates

Buses numbering 6874 were held up for periods ranging from 2 to 311 days for want of Motor Vehicle Inspection Report/ Certificate resulting in loss of 38137 bus days involving a contribution loss of Rs. 3.31 crore for the five year period ending 2008-09 due to reasons like mismatch of engine and chassis number with that in the registration certificate, non-installation of speed governors, delay in repair of buses and poor condition of the buses, which are *prima facie* controllable by the Management.

A test check of the records in 17 depots of the Corporation during the year 2008-09 revealed that 1189 out 1798 buses (66.13 *per cent*) had been issued MVI certificates with the condition “Not valid to ply on local routes”. It was, however, observed that the Corporation was plying these buses on local routes in contravention of the certificate issued by the STA, making them a hazard to public safety. The Management noted (October 2009) the audit observations for future compliance.

5.2.11 Manpower Cost

The cost structure of the organisation shows that manpower and fuel constitute 40.56 *per cent* of total cost. Thus, any major cost saving can come from manpower and fuel. Manpower is an important element of cost which

MTC Chennai, CSTC Kolkata and BMTC Bangalore registered performance at Rs. 14.04, Rs.21.57 and Rs.6.37 cost *per* effective KM respectively during 2006-07.

(Source: STUs profile and performance 2006-07 by CIRT, Pune).

constituted 34.23 *per cent* of total expenditure of the Corporation in 2008-09. Therefore, it is imperative that this cost is kept under control and the manpower is utilised optimally to achieve high productivity. The table below

Administrative laxity in obtaining fitness certificates resulted in loss of contribution of Rs.3.31 crore

provides the details of manpower, its cost and productivity.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Manpower (Nos.)	29200	28460	27574	28450	28551
2.	Manpower Cost (Rs. in crore)	449.68	458.20	468.27	493.49	743.32
3.	Effective KMs (in lakh)	2522.16	2589.64	2043.34	1833.84	1830.01
4.	Manpower cost per effective KM (Rs.)	17.83	17.69	22.92	26.91	40.62
5.	Productivity <i>per day per person</i> (KMs)	23.66	24.93	20.30	17.66	17.56
6.	Total number of Buses at the end of year	3470	3469	3444	3537	3804
7.	Manpower <i>per bus</i> (1/6) ^Ψ	8.41	8.20	8.01	8.04	7.51

From the table it follows that:

- The manpower cost per effective KM operated has increased from Rs. 17.83 per KM to Rs. 40.62 per KM during 2004-05 to 2008-09. The steep increase in manpower cost during 2008-09 was on account of implementation of Sixth Pay Commission recommendations.
- The manpower productivity decreased from 23.66 KM in 2004-05 to 17.56 KM in 2008-09. The average manpower productivity for the MTC, Chennai and BMTC, Bangalore was 32.23 and 47.10 respectively in 2006-07 against which the productivity of the Corporation was very low. Thus low manpower productivity had resulted in excess staff cost of Rs. 912.56 crore during 2004-05 to 2008-09.

Low manpower productivity resulted in excess staff cost of Rs.912.56 crore

The Corporation had fixed the norm of eight staff per bus. However, in respect of new low floor CNG buses purchased during 2008-09, the Corporation has fixed the norm of 6.75 staff per bus due to outsourcing of repair and maintenance activity. It is observed in audit that the manpower per bus remained on

Excess manpower resulted in idle wages of Rs.17.98 crore during 2004-09

CSTC Kolkata, MTC Chennai and BMTC Bangalore registered staff bus ratio of 6.28, 6.25 and 4.90 respectively during 2006-07.
(Source : STUs profile and performance 2006-07 by CIRT, Pune)

^Ψ The figures are not comparable with the figures indicated in the Appendix-5.7 as in this table, figures have been worked out on the basis of number of buses held at the end of respective years

higher side as compared to the norms fixed by the Corporation. The Corporation had excess staff in the cadre of conductors, repair and maintenance and administrative staff and shortage in the cadre of drivers. The excess manpower ranged from 3.9 *per cent* to 26.2 *per cent* in these categories resulting in payment of Rs. 17.98 crore to the surplus staff during 2004-05 to 2008-09.

Audit scrutiny revealed that the Corporation had failed to recruit drivers in spite of huge cancelled KMs due to shortage of drivers as discussed below.

Loss of Rs. 81.88 crore due to non availability of drivers.

The Corporation has been facing shortage of drivers for a long time. It decided in May 2003 to engage drivers from outsource agencies. The Corporation however, was unable to get the required numbers of drivers even from these agencies and continued to cancel the scheduled KMs. The Board of Directors decided (July 2006) to fill up the vacancies of drivers by regular recruitment basis. The Corporation took almost six months for revision of recruitment rules of drivers and finally sent the requisition for recruitment of 2,485 drivers in January 2007 and 10,000 drivers in November 2007 to Delhi Subordinate Services Selection Board (DSSSB). The Corporation has appointed 2,911 drivers so far (March 2009).

Thus the Corporation took more than four years to resolve an issue so critical to their operations. The Minister of Transport, GNCTD (May 2006) had recorded his disappointment at the absence of any concrete action plan for recruitment so that the public do not suffer on account of manpower shortage. The cancelled KMs due to non-availability of drivers increased from 157.68 lakh KM in 2004-05 to 413.44 lakh K.M in 2008-09. The Corporation suffered a loss of contribution of Rs. 81.88 crore due to non availability of drivers and also could not fulfill their commitment to the general public.

The Corporation while accepting (October 2009) the delay in recruitment of drivers pointed out that there was no shortage of drivers in the Corporation at present.

5.2.12 Fuel Cost

Fuel is a major cost element which constituted 6.33 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on their productivity. The Corporation has fixed CNG consumption targets of 3.00 and 3.20 Kilometer per kilogram (KMPKG) in respect of Ashok Leyland and Tata make buses respectively. The table below gives the actual consumption, mileage obtained per Kilogram and extra

expenditure on CNG consumption.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Gross Kilometres (in lakh)	2188.68	2328.69	1907.20	1677.19	1472.11
2.	Actual Consumption of CNG(in lakh Kg)	760.90	777.94	652.70	583.39	505.47
3.	Average Kilometre obtained per Kg (KMPKG)	2.88	2.99	2.92	2.87	2.91
4.	Consumption as per norm (in Kg) (1/2)	708.94	753.57	617.48	542.81	476.16
5.	Excess Consumption (in lakh Kg) (2-4)	51.96	24.37	35.22	40.58	29.31
6.	Average cost per Kg (in Rs.)	16.03	16.71	17.98	18.31	18.31
7.	Extra expenditure (Rs. in crore) (5x6)	8.33	4.07	6.33	7.43	5.37

Excess consumption of fuel resulted in extra expenditure of Rs.31.53 crore

It is evident from the above table that the mileage obtained per Kg was less than the norms fixed by the Corporation in all the years. The Corporation consumed 181.44 lakh Kg of fuel in excess as compared to its own norms during 2004-05 to 2008-09 resulting in extra expenditure of Rs. 31.53 crore.

A test-check of Petrol Oil and Lubricants (POL) statements for the year 2008-09 of four depots revealed that in three depots 174 buses out of 299 were consistently consuming excess fuel than the prescribed targets. No action was taken to investigate the reasons for such consistently high consumption for taking remedial action. The Corporation attributed (October 2009) the high consumption of CNG to high temperature of CNG buses, new technology, extra weight of CNG buses and increasing average age of CNG fleet. The reply is not convincing since CNG buses are in operation since 2000 and the Corporation is supposed to consider all stated factors while fixing the targets/norm.

5.2.13 Financial Management

Raising of funds for capital expenditure, i.e., for replacement/ addition of buses happens to be the major challenge in financial management of Corporation's affairs. This issue has been covered in Paragraphs 5.2.5. The

section below deals with the Corporation's efficiency in raising claims and their recovery. This section also analyses whether an opportunity exists to realign the business model to generate more resources without compromising on service delivery.

5.2.14 Claims and Dues

The Corporation provides free/ concessional passes to various categories of public like students, senior citizens, etc. The State Government reimburses the expenditure at the rate of Rs. 50 and Rs. 112.50 for each destination and all route monthly pass respectively issued to the students and Rs. 280 for senior citizen passes issued by the Corporation. The number of passes issued under each category during 2004-05 to 2008-09, amount recoverable and the amount actually recovered are shown in the table below:

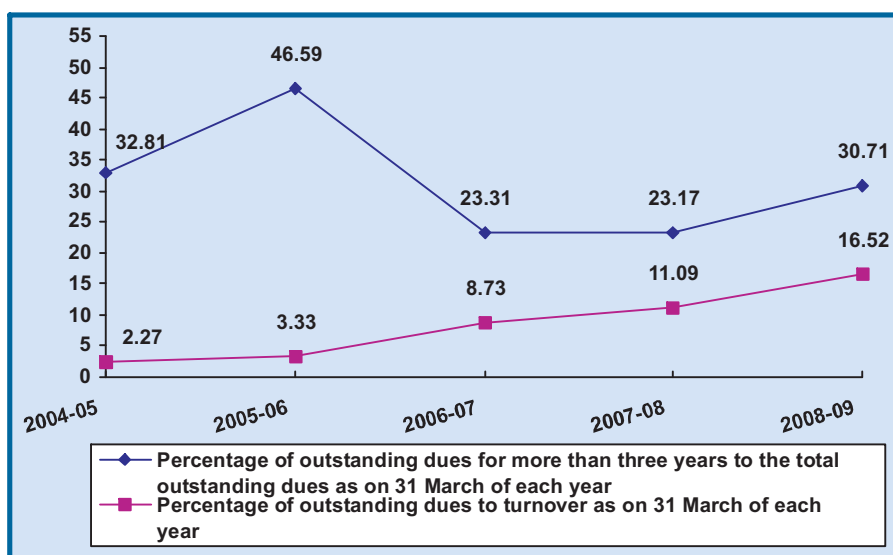
Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	No. of student passes issued	420594	409718	357779	307659	291018
2.	No. of Senior Citizen passes issued	212680	184832	245290	255903	268202
3.	Amount recoverable for student passes (Rs. in crore)	51.90	48.67	41.42	36.05	39.98
4.	Amount recoverable for senior citizen passes (Rs. in crore)	5.96	5.18	6.87	7.17	7.51
5.	Total amount recoverable from Government (Rs. in crore)	57.86	53.85	48.29	43.22	47.49
6.	Amount actually received (Rs. in crore)	22.55	20.91	21.80	21.39	5.93
7.	Unrealised claims (Rs. in crore)	35.31	32.94	26.49	21.83	41.56
8.	Percentage of unrealised claim to total claims	61.03	61.17	54.86	50.51	87.51

It can be seen that against Rs. 250.71 crore due from the Government during the five years ending 2008-09, the Corporation could realise only Rs. 92.58 crore and Rs. 158.13 crore was still pending. The percentage of unrealised claims to total amount recoverable from Government has increased from 61.03 *per cent* in 2004-05 to 87.51 *per cent* in 2008-09.

The GNCTD had been reimbursing 25 *per cent* of the rate fixed for general all route passes. The Corporation requested (December 2007) the GNCTD to release the subsidy based on 100 *per cent* difference between the rate of student pass and general all route pass which was not accepted by the GNCTD. The Corporation suffered a loss of Rs. 130.91 crore in issuing student concessional passes from April 2004 to March 2008.

The Corporation stated (October 2009) that the matter has time and again been taken up with the GNCTD to reimburse 100 *per cent* cost of concession as the utilisation of passes by the student category is 100 *per cent*. The Government is still examining the matter.

The Corporation has been continually running into losses. It receives the interest bearing loan from GNCTD for its operating activities. Therefore, it becomes even more imperative that the Corporation should be able to recover its dues in time. An analysis in Audit of the outstanding dues as a percentage of turn over and the percentage of outstanding dues for more than three years to the total outstanding dues for the five years ending 31 March 2009 are depicted in the graph below:



It can be seen that the outstanding dues as a percentage of turnover increased continuously since 2004-05 from 2.27 *per cent* to 16.52 *per cent* in 2008-09.

5.2.15 Realignment of business model

The Corporation is mandated to provide an efficient, adequate and economical road transport to public. It has to cater to uneconomical routes to fulfil its mandate. It also has to keep the fares affordable. In such a situation, it is imperative for the Corporation to tap non-traffic revenue sources to cross-subsidize its operations. However, the share of non-traffic revenues (other than interest on investments) was nominal at 12.53 *per cent* of total revenue during 2004-09. This revenue of Rs. 276.18 crore during 2004-09 mainly came from advertisements. Audit observed that the Corporation has non-traffic revenue sources which it has not tapped substantially.

Over a period of time, the Corporation has come to acquire sites at prime locations for construction of depots, terminals and workshops in Delhi. The Corporation generally uses the ground floor/ land for its operations, leaving ample scope to construct and utilise spaces above. Audit observed that the Corporation has land (mostly owned/ leased by Government) at 72 important locations in Delhi admeasuring 1417216.81 square meters.

It is, thus, possible for the Corporation to undertake projects on public private partnership (PPP) basis for construction of shopping complexes, malls, hotels, office spaces, etc. above (from first or second floor onwards) at the existing sites so as to bring in a steady stream of revenues without any investment by it. Such projects can be executed without curtailing the existing area of operations of the Corporation. Such projects can yield substantial revenue for the Corporation which can only increase year after year.

Audit observed that the Corporation has not taken any action to achieve the likely benefits from commercial use of its assets and took injudicious decisions in award of advertisement contracts as discussed below:

Non-exploitation of Commercial Sites

The Corporation has properties at various strategic locations in Delhi. The market value of such properties was Rs. 1907.16 crore as on 31 March 2008. Ministry of Tourism (MoT) proposed November 2006 that the Corporation could utilize a part of the land available in its bus depots and bus terminals for construction of hotels/commercial use for Commonwealth Games-2010 and emphasis was laid on all the agencies to play a more active role in identifying more hotel sites and to focus on “Budget Category Hotels” by giving land on long lease. The Associated Chamber of Commerce and Industry of India (ASSOCHAM), proposed December 2006 to the Corporation that they could earn additional revenue of Rs. 300 crore approx. per annum by way of commercial utilization of their real estate assets. Delhi Tourism and Transportation Development Corporation Limited (DTTDC) proposed (January 2007) that the area above the ground level can be effectively exploited for creating public facilities like hotels. Accordingly proposal for permission to construct hotels initially at the bus depots located at Sarojini Nagar, Nehru Place and Vasant Vihar was submitted to DDA.

The cabinet (March 2007) observed that “prima facie” Corporation depots/terminals were unsuitable for hotels, however, the Cabinet desired that the availability of surplus land at Corporation depots/terminals should be worked out after making provision for its requirements for garaging the augmented fleets. It was also desired that the Corporation expedite construction of hotels in Public Private Participation (PPP) mode on Corporation bus depots. Feasibility of creating over 5000 number of hotel

rooms on the Corporation sites was assessed which was reduced to 500 rooms in the budget hotel category.

The Ginger Group of Hotels expressed (November 2007) their plan for establishing budget hotels on the land of the Corporation if the land was allotted within a month. However, the Corporation did not respond to the proposal.

The Commissioner (Transport) emphasised (August 2008) the need to commercially exploit the existing and proposed DTC depots/terminals which would ensure steady revenue stream for the Corporation. DIMTS (the consultant) indicated that it was possible to carve out atleast 27500 sq. meters area in respect of Vasant Vihar Depot that could be commercially exploited and the requirement of bus parking could be accommodated in the basement (upper & lower basements). The revenue projected was to be around Rs. 285 crore per annum. However, no progress was made for commercial development of depots/terminals.

Advertisements inside buses

Non-award of contract for advertisement inside the buses resulted in loss of revenue of Rs.50.47 crore

The Corporation was awarding the contract to eligible firms for display of advertisement on DTC buses (both inside and outside). The Board of Directors (BOD) of the Corporation discontinued (November 2002) the existing contract in view of Supreme Court order to remove all hoardings from the road side. The BOD, however, directed that the Corporation may continue awarding the contract for display of advertisement inside buses. As per draft tender, the Corporation proposed a reserve price of Rs. 2000 per bus/per month. Audit observed that Notice Inviting Tender (NIT) and terms and conditions was yet to be finalised (March 2009). Therefore, due to inaction on the part of the Management, the Corporation had lost the opportunity to earn revenue of Rs. 50.47 crore from advertisement inside of the buses (April 2004 to March 2009).

The Corporation stated (October 2009) that the terms and conditions of NIT had been finalised and tender document was likely to be floated shortly. The fact remains that even after a lapse of seven years tender document could not be floated indicating lackadaisical approach in implementation of a revenue generating activity by the Corporation.

Advertisements on Bus Queue Shelters/Ticket Keeping Booths

The Corporation awarded (November 2004) the contract of advertisements on Bus Queue Shelters (BQS) and Ticket Keeping Booths (TKBs) of Rohini-II zone to M/s Shivai Industries at a license fees of Rs. 1.45 crore per annum. The contract was for a period of three years. However, the party gave three months notices for surrender of the zone on 20 May 2005. The zone was re-

tendered in June 2005. The highest bidder quoted the rates of Rs. 1.33 crore per annum. The Corporation decided to re-tender the zone as the rate quoted by the H1 party was below the existing contract price. In the same tender West-I zone was also tendered in which H1 quoted the price of Rs. 0.87 crore against the earlier rate of Rs. 0.95 crore for this zone. However, this zone was allotted to H1 in spite of lower rates on the plea of prevailing market condition. This shows the inconsistency in approach for allotment of zones. Consequently, Rohini-II zone remained vacant for around four years (March 2009) resulting into loss of revenue of Rs. 2.49 crore^Ψ (excluding fifty per cent share of MCD) to the Corporation.

The Corporation accepted (October 2009) the audit findings.

Non-honouring of agreement

The Corporation awarded (November 2005) Civil line-I Zone consisting of 99 BQS/ TKBs to M/s Satish Chand Rajesh Kumar (P) Ltd. at an annual license fee of Rs. 0.90



crore for a period of three years. As per clause 10b of the tender document, the repair & maintenance of BQS/TKBs was to be done by the Corporation for which it had to charge Rs. 300 per

month per BQS/TKBs extra. The firm reported (December 2005) non-availability of support frame for display of advertisement on 25 BQS. The Depot Manager of BBM-I (December 2005) asked Civil Engineering Division (CED) to fix the support frames on urgent basis. However no action was taken to install the support frames. Subsequently, the firm surrendered the zone in July 2006 and it remained vacant during the balance period of the contract. Thus inaction on the part of Corporation resulted in pre-mature surrender of the zone by the contractor which led to loss of revenue of Rs. 1.17 crore.

^ΨLicense fee (Rs.132.60 lakh/24*45 months)

5.2.16 Fare policy and fulfillment of social obligations

Existence and fairness of fare policy

Section 19(n) of the Road Transport Corporations Act, 1950 read with Section 22 envisages that the Corporation may determine the fare structure for carriage of passengers with prior approval of the Government keeping in view the business principles.

The Corporation has no fare policy defining any periodicity for fare revision. The GNCTD had constituted a committee (August 2006) for making recommendations for fare revision of public service vehicles including buses. The committee in view of the increase in consumer price index recommended (May 2007) increase of the fare by Re.1 in each of the existing slabs. The committee also recommended for allowing Re.1 extra for each slab for low floor buses and increasing the special hire charges and rates of various passes. The GNCTD, however, decided (May 2007) to increase the minimum fare of Rs. 2 to Rs. 3 only and no other increases were allowed. There was no justification for not increasing other fares in spite of the fact that the last fare revision was carried out in April 2002. Consequently, the Corporation could have earned the extra revenue of Rs. 77.08 crore had the recommendations of the Committee been accepted by the GNCTD. The latter had revised the fares in November 2009 from Rs. 3 to Rs. 5 minimum fare and Rs. 10 to Rs. 15 maximum fare.

Audit scrutiny of fare structure of comparable State Road Transport Undertakings in 2006-07 revealed that average ticketed fare of the Corporation was 55 paisa per passenger KM (PPKM) which was more than CSTC, Kolkata (49 PPKM), equivalent to BMTC, Bangalore and less than BEST, Mumbai (69 PPKM). It was observed that BMTC, Bangalore earned a profit of Rs. 230.32 crore in spite of comparable fare structure whereas the Corporation had been incurring losses.

The fare structure of the Corporation has no scientific basis as it does not take into account the normative cost. Thus, there is a risk of commuters paying for the inefficiency of the Corporation. The table below shows how the Corporation could have curtailed cost and increased revenue with better operational efficiency.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost <i>per</i> KM (in Rs.)	44.87	49.60	68.80	89.27	119.27
2.	Traffic Revenue <i>per</i> KM (in. Rs)	13.30	14.54	15.36	16.89	17.85
3.	Loss of contribution due to less vehicle productivity (<i>per</i> KM)	Nil	Nil	0.83	1.62	2.62
4.	Excess cost due to low manpower productivity (<i>per</i> KM)	2.49	1.45	7.53	14.19	21.76
5.	Excess cost due to excess consumption of fuel (<i>per</i> KM)	0.38	0.17	0.33	0.44	0.36
6.	Ideal revenue <i>per</i> KM (2+3)	13.30	14.54	16.19	18.51	20.47
7.	Ideal cost <i>per</i> KM [1-(4+5)]	42.00	47.98	60.94	74.64	97.15
8.	Net Loss <i>per</i> KM (2-1)	(31.57)	(35.06)	(53.44)	(72.38)	(101.42)
9.	Net ideal loss <i>per</i> KM (6-7)	(28.70)	(33.44)	(44.75)	(56.13)	(76.68)
10.	Effective KMs (in crore)	25.22	25.90	20.43	18.34	18.30
11.	Avoidable loss (in Rs. crore) [(8-9) x 10]	(72.38)	(41.96)	(177.54)	(298.03)	(452.74)

The above table does not take into account other inefficiencies such as low fleet utilisation, excess tyre cost, defective route planning, etc. Nonetheless, it shows that the net loss could be lower if the operations are properly planned and efficiently managed, than what they actually are. Thus, the case made by the Corporation for increase in fare, includes its inefficiencies and in a way would make the commuters pay more than what they should be actually paying.

The above facts lead to the conclusion that it is necessary to regulate the fares on the basis of normative cost and it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address the grievances of commuters.

The Corporation while confirming (October 2009) the facts and figures informed that fare revision is the prerogative of the GNCTD and the Corporation has nothing to say in the matter.

5.2.17 Adequacy of services on uneconomical routes

The Corporation had no profit making route as of March 2009 as stated in paragraph 5.2.9. However, the position would change if the Corporation improved its efficiency. Nonetheless, there would still be some routes which would be uneconomical. Though the Corporation is required to cater to these routes, the Corporation has not formulated norms for providing services on uneconomical routes. In the absence of norms, the adequacy of services on uneconomical routes and reimbursement of excess cost of operation on these routes could not be ascertained in audit. The desirability of having an independent regulatory body to specify the quantum of services on uneconomical routes, taking into account the specific needs of commuters, is further underlined.

5.2.18 Monitoring by top management

MIS data and monitoring of service parameters

For an organisation like a Road Transport Corporation to succeed in operating economically, efficiently and effectively, there have to be written norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement of which would make an organisation self-reliant. Audit reviewed the system and observed the following deficiencies:

- Performance targets for depots were not fixed. As such performance of each depot could not be assessed with targets with regard to earnings, fleet utilisation, vehicle productivity, manpower productivity, etc.
- Only one meeting of the Audit Committee was held in February 2007 during the last three years ending March 2009. The Audit Committee was not reconstituted after retirement of the members. Therefore, the very purpose of constitution of Audit Committee was defeated. The Corporation informed (October 2009) that a fresh Audit Committee is being reconstituted.
- Monthly operational statistics were not being discussed at Board level.

The top management of the Corporation is expected to demonstrate managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines. However, such ability was not seen either from records or performance of the Corporation during the period under review.

5.2.19 Conclusion

Operational performance

- The Corporation has been continuously incurring losses mainly on account of controllable factors such as low fleet utilization, poor vehicle productivity and high manpower cost. Lack of control and monitoring resulted in excess consumption of fuel while administrative laxity resulted in delay in obtaining fitness certificates and consequent revenue loss.
- Cancellation of schedule Kilometers due to non-availability of buses and want of crew resulted in loss of revenue.

- The procurement of buses was marred by inaction and administrative delay, purchase of buses at inordinately high prices and with non-essential features.

Financial management

- The Corporation was totally dependent on the Government for purchase of buses. However, plan loans were lying unspent and the Corporation was heavily in debt. The management had failed to tap the non-traffic revenue sources to cross-subsidize its operations which had the potential to totally bail out the Corporation from the present financial crisis.

Fare policy and fulfilment of social obligations

- The Corporation has no fare policy and no periodical revision of fares has been resorted to. No policy yardstick has been laid down for operation on uneconomical routes.

Monitoring by top management

- The management was not in a position to monitor the operational performance closely in the absence of depot-wise operational targets.

On the whole, there is immense scope to improve the performance of the Corporation.

5.2.20 Recommendations

The Corporation may consider

- fixing depot wise targets so as to encourage competition among depots;
- recruiting drivers in sync with procurement of buses so that no bus remained off the road for want of drivers;
- reducing the surplus staff under 'repair and maintenance' category by way of introducing VRS or by deploying them in other streams by imparting suitable training;
- increasing fleet utilization and vehicle productivity by synchronizing repair and maintenance activity;
- exploiting potential in real estate and streamlining advertisement policy; and
- holding regular meetings of BODs for discussion of operational performance of the Corporation and taking remedial measures.

Government may consider creating a regulator body to fix fare structure on the basis of normative cost.

5.3 Transaction Audit Observations

Government Companies

Delhi Power Company Limited

5.3.1 Avoidable Loss

The Company suffered a loss of Rs. 87.01 lakh due to poor cash management.

The Company was in receipt of loan amounting to Rs. 552.62 crore in instalments from Government of National Capital Territory of Delhi (GNCTD) during March 2004 to March 2006 to repay dues on account of electricity and fuel supplied by the Central Power Sector Undertakings (CPSUs) to the erstwhile Delhi Vidyut Board (DVB). The loan was to be repaid by way of yearly instalments along with interest at 11.5 *per cent* per annum. The CPSUs' dues alongwith interest at the rate of 8.5 *per cent* per annum were to be repaid by the Company over a period of 15 years in 20 equal six monthly instalments commencing from 1 October 2006 i.e. after a moratorium of five years from 1 October 2001.

The Company requested (19 April 2006) the Department of Power, GNCTD to convert the loan into grant as it was the payment as per agreement between the Ministry of Power, Government of India and GNCTD. A detailed proposal was also sent to GNCTD on 14 May 2007 for conversion of the loan of Rs. 552.62 crore into grant and to repay all the outstanding CPSUs' dues in the current year itself instead of in nine years, keeping in view the huge interest savings. Under the proposal, the Company was to contribute Rs. 1544 crore from its own resources and an amount of Rs. 1800 crore was to be funded by GNCTD in the form of loan (Rs. 600 crore) and grant (Rs. 1200 crore). The Deptt of Power, GNCTD, vide its letter dated 25 July 2007 to the Company, clarified that Rs. 552 crore of outstanding loan was to be paid by the company as per terms of the loan.

It was observed that the Company, even after receipt of clarification from the GNCTD, instead of making payments towards loan instalments, continued to make investments by way of fixed/flexi deposits with various banks at interest rates ranging from 8.25 *per cent* to 9.80 *per cent* and an amount aggregating Rs. 414.79 crore was invested with banks from 17 October 2007 to 3 March 2008 on 18 occasions. The outstanding loan instalment amounting to

Rs. 75.01 crore (upto July 2007) was paid to the Government on 31 March 2008.

The management stated (February 2009) that due instalment was not paid to the GNCTD, as the Company was expecting approval of the proposal on one time settlement of CPSUs' dues under which a sum of Rs. 1544 crore was to be arranged by the company in order to repay the CPSU dues of Rs. 3344 crore. It was further stated (May 2009) that if the amount of Rs. 414 crore was refunded to the GNCTD towards the repayment of loan, there was an option either to prematurely encash FDR of Rs. 500 crore (which was parked at 11.62 *per cent* and 11.67 *per cent*) or to arrange loan against the FDRs at the rate of 14.39 *per cent* (which was higher by 2.89 *per cent* than GNCTD loan).

The reply is not convincing as it has failed to address the audit contention that as and when the clarification to repay the loan was received from Government the instalment of Rs. 75.01 crore should have been paid from time to time instead of parking the fund in fixed deposits with banks. Thus, failure to do so has resulted in avoidable loss of Rs. 87.01 lakh to the Company on account of poor cash management. The Company should take remedial measures to streamline the monitoring system for cash management.

Statutory Corporations

Delhi Financial Corporation

5.3.2 Non-recovery of dues

Relaxation of norms for sanctioning the loans ignoring the financial interest of the Corporation and lack of timely action for recovery resulted in non-recovery of Rs. 7.64 crore.

The Corporation implemented (May 2000) a scheme of financing of new CNG buses for replacement of old diesel run buses under stage carriage permit in view of the judgement of the Hon'ble Supreme Court (1998) and subsequent directions of the Government of National Capital Territory of Delhi (GNCTD) (April 2000). The GNCTD directions contained conditions regarding interest subsidy, margin money and guarantee norms. The Board of Directors (BoD) of the Corporation, however, relaxed (28 June 2002) the existing security norms of collateral security in the form of immovable property, Fixed Deposit Receipt, National Saving Certificates and Government securities by 50 *per cent* i.e. from 10 *per cent* to 5 *per cent* (with

third party guarantees) for loan above Rs. 5 lakh and from 25 *per cent* to 12.5 *per cent* (without guarantees) for loans up to Rs. 15 lakh to SC/ST Bus operators. By allowing such relaxations in the security norms in contravention of Government directions, the BOD compromised on the financial interest of the Corporation as the process of timely recovery of loans was badly hampered.

The Corporation disbursed a total loan of Rs. 10.44 crore during 2002-03 to 80 SC/ST bus operators for the purchase of CNG buses and the borrowers were sanctioned and disbursed loans of Rs. 13.05 lakh to Rs. 13.35 lakh each depending upon costs of chassis and fabrication of bodies. In addition, each borrower was released margin money of Rs. 1.54 lakh per bus by Delhi SC/ST/OBC Minorities, Handicapped Financial and Development Corporation Limited (DSCFDC). The promoter's contribution was 5 *per cent* of the cost of the vehicle i.e. Rs. 0.77 lakh.

The loan was to be repaid in 56 instalments at an interest rate of 14 *per cent* per annum with 4 *per cent* interest subsidy to be reimbursed by the Transport Department of the GNCTD (January 2006). The repayment was to commence four months from the date of the execution of agreement.

Audit scrutiny revealed that all the loanees were in default from the very beginning and accordingly, the repayment was rescheduled from 56 to 78 instalments in November 2003. There was no improvement in the recovery position and the default persisted even after rescheduling of the loan instalments. As on 30 September 2008, no payment had been received from 31 borrowers against whom a loan of Rs. 4.50 crore and interest of Rs. 2.59 crore was outstanding. In the remaining 49 cases where some payments were received, a loan of Rs. 5.40 crore and interest of Rs. 1.30 crore was outstanding.

Although, the Corporation issued notices under Section 29 of the State Financial Corporations (SFC) Act, 1951 during the year 2005-06 for 34 cases involving recovery of Rs. 4.61 crore (March 2006), action was initiated only in 12 cases by seizing the buses. In seven out of these 12 cases, the buses were released on token payment of Rs. 8.70 lakh made by the borrowers. In three cases buses were sold out and the amount of Rs. 24.32 lakh realised. In 55 cases with an outstanding loan of Rs. 6.95 crore (March 2006), Fixed Deposit Receipts/National Saving Certificates/Life Insurance Corporation's policy valuing Rs. 70.02 lakh given as collateral security were encashed for Rs. 93.70 lakh.

In view of persistent default, the BOD approved one time settlement (OTS) scheme in January 2005 but no borrower opted for the same. In June 2008, the BOD again approved a new OTS scheme and extended the same upto March

2009 and 70 borrowers applied under the scheme but 60 borrowers deposited the upfront payment of 10 *per cent* of OTS amount of Rs. 64.30 lakh to settle their dues under the OTS Scheme. The BOD also approved (April 2009) the repayment of the balance payment in nine equal monthly instalments i.e. up to December 2009.

The Management stated (October 2008) that the list of loanees was provided by Delhi SC/ST/OBC Minorities, Handicapped Financial and Development Corporation Limited. The financing of this segment was as per directions of the Hon'ble Supreme Court to the GNCTD wherein the financial assistance was to be given to weaker sections on liberal terms. The management further stated (April 2009) that one time settlement (OTS) scheme had been offered to the borrowers and most of the borrowers would prefer to settle their case under OTS Scheme.

The reply is not convincing, as the direction of the government was to finance the cases and not to relax the conditions in such a way that the interest of the Corporation was compromised. Thus, by relaxing the security requirement and not enforcing strict action against defaulting borrowers under various sections of SFCs Act, 1951 to recover the outstanding dues, the Corporation's funds to the extent of Rs. 6.99 crore given as loan were put at stake and became irrecoverable apart from loss on account of interest to extent of Rs. 64.93 lakh (March 2009). The Corporation needs to fix accountability for relaxation of collateral security norms for sanctioning the loans ignoring the financial interest of the Corporation and for lack of timely action to avoid loss on account of non-recovery of loans.

The matter was reported to the Management and Government in March 2009, their reply is awaited (November 2009).

5.3.3 *Inadequate pre-sanction scrutiny*

Failure to realise the prime security of machinery after taking possession of it coupled with lack of adequate pre sanction scrutiny to ensure unencumbered title of collateral security and poor follow-up and monitoring resulted in non-recovery of Rs. 1.13 crore.

The Corporation disbursed a loan of Rs. 37.95 lakh to Pooja Metafab (P) Limited (firm) during June 1997 to March 1998 for purchase of plant and machinery for manufacture of steel wire in Shahdara, Delhi. The loan was secured against the prime security of plant and machinery (Rs. 65.90 lakh) and collateral security of factory (land and building Rs. 19.65 lakh) and Kisan Vikas Patras (Rupees six lakh) maturing in 2002 and personal guarantee of the Directors of the firm. The loan was to be repaid by May 2003. The borrower, however, defaulted in repayment of first instalment itself and interest of

Rs. 3.72 lakh due on 1 February 1998, even when 32 *per cent* (Rs. 12.15 lakh) of loan was still to be disbursed. The Corporation, however, released (March 1998) the remaining loan amount of Rs. 10.19 lakh by adjusting the first instalment of repayment and interest. Thereafter also the borrower was not regular in payment of loan instalments and interest. The Corporation recalled the entire outstanding loan in December 1998. As there was no response from the borrower, the Corporation in January 1999 invoked Section 29 of the State Financial Corporations Act, 1951 which provides that the Corporation had the right to take over the management or possession or both of the industrial concern as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to the Financial Corporation. The borrower was, however, able to get the action under Section 29 deferred by making payment (2 February 1999) of Rupees two lakh.

Scrutiny of the records relating to the appraisal, disbursement and recovery of the loan indicated the following:

- Though the valuer mentioned (February 1997) in their report that the collateral security was carved out of many properties in which the owner was a partner with other people, the Corporation accepted the same as collateral security. Further, the Corporation could not take physical possession of the factory located in the aforementioned property as the tenant of the said property (Sh. Ravinder Sharma, who was the brother of Sh. Rajendra Sharma, Director of Pooja Metafab (P) Ltd.) had obtained stay order in September 2001.
- The realisable value of the prime security i.e. machinery was assessed (April 2001) at Rs. 11.65 lakh by valuer appointed by the Corporation and bid was received (April 2002) for Rs. 3.50 lakh which was turned down by the Corporation in view of bid value being less than the assessed value. Some of the machinery valuing Rupees seven lakh was stolen from the Corporation's godown in April 2004 and later was lying at a police station with realisable value assessed at Rs. 31500. Machinery valuing Rs. 4.65 lakh was sold (September 2006) by the Corporation for Rs. 75,000. Evidently, the valuation of the prime security (Rs. 65.90 lakh) accepted at the time of disbursement (June 1997 to March 1998) of the loan was much in excess than its actual value.
- At the time of approval (December 1996) of loan proposal, the borrower had offered collateral security of property at Laxmi Nagar whose market value was estimated at Rs. 40.00 lakh but after sanction of loan the firm offered another property whose value was estimated at Rs. 12.90 lakh by the Corporation. This was accepted and approved by the Chairman-cum-Managing Director (CMD) of the Corporation subject to additional collateral security of Kisan Vikas Patra of Rupees

six lakh which was encashed by the Corporation in July 2002 for Rs. 11 lakh. Necessary approval for change of collateral security was not obtained/ approved by the Executive Committee. The Corporation could not sell the property when the stay was vacated (May 2005) as the property was falling under a project of Delhi Metro Rail Corporation Ltd. (DMRC) and only a compensation of Rs. 3.72 lakh was expected.

- The Corporation had initiated recovery proceeding under Section 32(G) of State Financial Corporations Act, 1951 against personal guarantors but the collector could not recover outstanding dues from guarantors since August 2002. This shows that the financial worth of the guarantors was not assessed at the time of pre-sanction appraisal.

The Management stated (October 2008) that the change of collateral security was approved by the Chairman-cum-Managing Director of the Corporation who is also the Chairman of Executive Committee and collateral security of immovable property/Kisan Vikas Patras was a far better proposal. The Management further added (March 2009) that the collateral security/ guarantee obtained was as per the norms of the Corporation and balance dues would be recovered from the personal assets of the Directors under Section 32 G of the State Financial Corporations Act.

The reply of the Management is not convincing as the Chairman-cum-Managing Director (CMD) was not authorised to change the collateral security. Further, the valuation report clearly states that the property is not a single ownership property. In addition, the tenant of the property had obtained stay order in 2001 which clearly shows that the property was not free from encumbrance. Accepting encumbered property as collateral security was against the policy of the company. As for recovery of balance dues from the personal assets of the Directors, no such recovery could be made till date (April 2009).

Thus, failure of the management to assess the true value of the prime security of machinery, lack of adequate pre-sanction scrutiny to ensure the unencumbered title of the collateral security, replacement of initial collateral security with property of insufficient value coupled with poor follow-up and monitoring resulted in non recovery of Rs. 1.13 crore (principal of Rs. 31.07 lakh and interest of Rs. 81.64 lakh after adjustment of Rs. 11 lakh recovery through Kisan Vikas Patra) as on 31 March 2008.

The matter was reported to the Government in February 2009; their reply was awaited.

5.3.4 Delayed action against borrower

Inaction of the Corporation to take possession of plant and machinery and property resulted in non-recovery of Rs. 1.02 crore.

The Corporation sanctioned a loan of Rs. 25 lakh (term loan Rs. 19.40 lakh and working capital loan of Rs. 5.60 lakh) to Gaurav Saurav Plast (India) during 1995 to set up a project for manufacturing plastic product items in Narela Industrial Area.

The Corporation disbursed a loan of Rs. 23.22 lakh (term loan Rs. 17.62 lakh and working capital loan Rs. 5.60 lakh) during June 1996 to January 1997. The loan was to be repaid by February 2003. The loan was secured against mortgage of plant and machinery of the unit and land and building measuring 350 sq. meters in Narela Industrial Area. As the borrower defaulted in repayment from the beginning, the Corporation served a show cause notice, recall notice, notice under section 29 of the State Financial Corporations (SFC) Act, 1951 during 1998-2000 for taking possession of the prime security *i.e.* plant and machinery of the unit, and also the mortgaged property at Narela. The borrower obtained a stay order from the High Court in November 2000 which was vacated in June 2005.

The Corporation decided (September 2005) to settle the case with the borrower for Rs. 20.99 lakh under one time settlement (OTS). The borrower did not pay the amount fixed under OTS on the plea that this amount had not been calculated on the formula adopted in another OTS case of a Charitable Trust and approached the National Commission for Scheduled Castes and Scheduled Tribes (NCSCST). The Chairman of NCSCST held a meeting in June 2006 wherein it was decided to settle the matter by adopting the formula used in the case of the Charitable Trust after reducing the rate of interest by four *per cent*. Accordingly, the Board of Directors (BOD) decided to settle the case for Rs. 17.28 lakh in September 2006. However, the borrower still did not deposit the OTS amount of Rs. 17.28 lakh approved by the BOD against the outstanding balance of Rs. 76.68 lakh as on 31 July 2006. The borrower proposed (November 2006) to pay Rs. 13.55 lakh against the OTS amount of Rs. 17.28 lakh; however, the same was not accepted by the Corporation.

The borrower had adopted delaying tactics since the beginning and the Corporation also did not take effective action during 1998 to 2000 *i.e.* for two years. When the Corporation got the stay vacated in June 2005, the Corporation instead of recovering the outstanding dues by selling the mortgaged property resorted to the One Time Settlement Scheme and thereby gave undue favour to the borrower. No effective action for recovery by taking possession of the prime security and mortgaged property at Narela under section 29 of the SFC Act was taken even after vacation of stay in June 2005

and the Corporation could not recover Rs. 1.02 crore (principal Rs. 24.45 lakh including legal expenses and interest Rs. 77.78 lakh) as on 1 February 2008. While admitting that no action was taken under Section 29 of the SFC Act, the Corporation stated (December 2008) that the matter has been referred back to Additional District Judge of Tis Hazari Court, Delhi for further proceedings and that the Corporation has sufficient security to recover its dues. The Management took cognizance of the audit observation and issued (February 2009) a notice for recovery of loan under section 29 of SFC Act, 1951 for taking over possession of the mortgaged assets to realise the dues of the Corporation.

The fact, however, remained that the borrower had been adopting delaying tactics from the beginning and the Corporation had failed in taking effective action to recover the dues by acquiring and selling the prime security and collateral security even after vacation of the stay in June 2005 which was sufficient to make good the outstanding dues. Further, in view of sufficient security valuing Rupees one crore available to recover the dues, there was no justification for offering one time settlement to the defaulting borrower.

The matter was reported to the Government in February 2009; the reply was awaited (November 2009).

New Delhi

(RAJVIR SINGH)

Dated:

Accountant General (Audit), Delhi

Countersigned

New Delhi

(VINOD RAI)

Dated:

Comptroller and Auditor General of India