Chapter II

2. Performance reviews relating to Government companies

Haryana Agro Industries Corporation Limited

2.1 Working of Haryana Agro Industries Corporation Limited

Executive Summary

Haryana Agro Industries Corporation Limited (Company) was established in 1967 as a joint venture of State Government and Government of India with the objective to promote agro based industries, provide farmers with agricultural implements and assist them in farm mechanisation. Besides, the Company was assigned procurement of wheat, paddy and bajra for the central pool. As on 31 March 2010, the Company had 17 Farmers Service Centres (FSCs), three manufacturing plants, six petrol pumps and four storage godowns to carry out its activities.

Finances and performance

All three manufacturing plants incurred losses during the five years from 2004-05 to 2008-09. The FSCs which were carrying out trading activities related with farmers, suffered losses of ₹11.08 crore during 2004-09. Though the Company overall, had been earning profits, but the same were mainly contributed from procurement activities for central pool, turnover of which was 84 to 89 per cent of total turnover during 2004-09.

Appraisal of activities

The Company had not taken any step to assist and promote agro based industries such as poultry, dairy, land development, seeds and other agro based industries in terms of its main objectives. It did not finance any agro based industry during the period under review. The Company did not make efforts to produce and deliver the agricultural implements at competitive rates to the farmers and provide pesticides and insecticides to farmers directly at reasonable rates. The Company's manufacturing plants with outdated infrastructure were grossly underutilised and were engaged in supply of their products to Government organisations only. Though the Company had analysed the reasons for low capacity utilisation, it had not taken any steps to address the issue and increase the production.

Procurement activity

The procurement activity in wheat and paddy was found satisfactory. While the procurement of wheat ranged between 8.86 to 10.67 per cent of total state procurement against the target of nine per cent, the procurement targets for paddy were achieved fully during the last five years up to 2009-10. However, the procurement of bajra was inconsistent which ranged between nil and 29 per cent in 2005-06 to 2009-10. The Company did not enforce terms of agreements executed with the millers for milling of paddy and as a result suffered loss of ₹1.67 crore in two cases.

The activities of the Company were mainly procurement concentric and it was not paying due attention to the activities necessary for accomplishment of its laid down objectives. The manpower in A, B and C categories was inadequate resulting in junior staff undertaking higher responsibilities involving huge funds without any supervision thereby exposed to risks of committing errors and misappropriation. The Company did not prepare budgets on realistic basis and was not prompt in claiming from FCI the reimbursement of guarantee fees paid to Government. There are remote chances of recovery of dues shown recoverable from employees.

Conclusion and Recommendations

The deficiencies in the Company's functioning are controllable and there is scope to improve the performance through better management of its operations. This review contains six recommendations to improve the Company's performance. Preparation of budget on realistic basis, upgradation of old manufacturing plants, strengthening of marketing network and exploring possibilities of new ventures are some of these recommendations.

Haryana Power Generation Corporation Limited

2.2 Power Generation Activities

Executive Summary

Power is an essential requirement for all facets of life and has been recognised as a basic human need. In view of phenomenal growth in the demand of power since 2005-06, capacity addition was not adequate to meet the requirement leaving a deficit of 2,423.6 MW at the end of 2009-10. In the background of chronic power shortage in the State, it was considered desirable to conduct performance audit of Haryana Power Generation Corporation Limited to assess the status of power generation vis-a-vis requirement for power during the period 2005-06 to 2009-10. The audit findings are discussed below.

Planning and Project Management

The total installed capacity of the State increased from 4,033.60 MW as on 1 April 2005 to 4,636.75 MW as on 31 March 2010. During 2005-10, actual capacity addition was 970.71 MW only against 3,720.71 MW planned by the State, leaving shortfall of 2750 MW. Besides, there was decrease in capacity by 367.56 MW during 2005-10. The shortfall in capacity addition was due to delayed commercial operation of two Units of 300 MW each at Deenbandhu Chottu Ram Thermal Power Plant (DCRTPP), Yamunanagar; non commissioning of Unit– 1 and 2 (600 MW each) of Rajiv Gandhi Thermal Power Plant (RGTPP), Hisar due to prolonged trial operations; and non taking up of Gas based Power Plant of 1,050 MW (increased to 1500 MW) at Faridabad and 3rd Unit of 300 MW (now increased to 660 MW September 2009) at DCRTPP, Yamunanagar. There was cost overrun of ₹ 305.18 crore in the construction of RGTPP, Hisar. There were other deficiencies in the execution of RGTPP, Hisar such as non-implementation of zero discharge scheme, delay in synchronisation and prolonged trial run leading to delay in commercial operation of the Units.

Due to inadequate installed capacity, the State had to resort to purchase of power through short term Power Purchase Agreements (PPAs) and unscheduled interchange ranging between 2,606 MUs and 6,027MUs which was costly as compared to own generation cost and cost from other long term PPAs. However, over the review period load shedding was reduced from 2,270.42 MUs (2007-08) to 68.71 MUs (2009-10).

Operational performance

Performance of the existing generation stations depends on efficient use of material, manpower and capacity of the plants so as to generate maximum energy possible without effecting the long term operation of the plants. Audit of operation of the power stations revealed that the Plant Load Factor (PLF) of Panipat Thermal Power Station-I (PTPS-I), was lower than Haryana Electricity Regulatory Commission (HERC) norm (except 2005-06) as well as national average and that of PTPS-II was largely above the HERC norm as well as the national average. The forced outages in respect of PTPS-I remained more than the Central Electricity Authority (CEA) norm of 10 per cent and in respect of PTPS-II, it was more than the norms only during 2005-06. Compliance of the CEA norms would have entailed availability of additional 8,954 hours with consequential generation of 1,008.84 MUs valued at ₹90.20 crore. With better preventive maintenance, forced outages could have been reduced considerably. Due to frequent breakdown of Units and delay in timely rectification of defects, auxiliary consumption was higher as compared to the norm. There was excess consumption of coal as compared to HERC norms valued at ₹251.75 crore during review period.

Conclusion and Recommendations

Timely commissioning of RGTPP, Hisar could have enabled the Company to generate additional power to the extent of 3,790 MUs. Excessive outages than the norms of CEA and delay in taking up preventive maintenance work resulted in generation loss of 3,206 MUs during 2005-10. Inadequate capacity additions have increased the dependence of the State on high cost power purchases. The review contains six recommendations which inter-alia include increasing the PLF, adherence to schedule maintenance of plants and adherence to environmental safeguards.

Introduction

2.2.1 Power is an essential requirement for all facets of life and has been recognised as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act, 2003 provides a framework conducive to development of the Power Sector, promote transparency and competition and protect the interest of the consumers. In compliance with Section 3 of the *ibid* Act, the Government of India (GOI) prepared the National Electricity Policy in February 2005 in consultation with the State Governments and CEA for development of the Power Sector based on optimal utilisation of resources like coal, gas, nuclear material, hydro and renewable sources of energy. The Policy, *inter alia,* aims at, laying guidelines for accelerated development of the Power Sector and requires CEA to frame National Electricity Plan (NEP) once in five years. The Plan would be short term framework of five years and give a 15 years' perspective.

For 2005-06, electricity requirement in Haryana was assessed as 23,791 Million Units (MUs) of which only 23,243.77 MUs were available leaving a shortfall of 547.23 MUs, (2.30 *per cent*). The total installed power generation capacity in the State was 4,033.60 Mega Watt (MW) and effective available capacity* was 3,226.88 MW against the peak demand of 4,333 MW leaving deficit of 1,106.12 MW (25.53 *per cent*). As on 31 March 2010, the comparative figures of requirement and availability of power were 33,520 MUs and 33,451.29 MUs with deficit of 68.71 MUs (0.20 *per cent*), whereas the installed capacity was 4,636.75♦ MW and effective available capacity* was 3,709.40 MW against the peak demand of 6,133 MW laving a deficit of 2,423.6 MW (39.52 *per cent*). Thus, there was a growth in peak demand of 1800 MW during 2005-10, whereas the net capacity addition was 603.15 MW#.

In Haryana, generation of power is carried out by Haryana Power Generation Corporation Limited (Company), which was incorporated on 17 March 1997 under the Companies Act, 1956 as a wholly owned Government Company in accordance with the Haryana Electricity Reforms Act, 1997. The Company is under the administrative control of the Power Department of the State Government. The management of the Company is vested with a Board of Directors comprising, as on 31 March 2010, a Chairman, a Managing Director (MD), three Whole Time Directors and six part time Directors appointed by the State Government. For carrying out day-to-day operations, the MD (Chief Executive) is assisted by the whole time Directors and Chief Engineers. The Company has three thermal generating stations and two hydro generating stations with installed capacity (March 2010) of 2,022.8 MW and 62.7 MW respectively. The turnover of the Company was ₹ 3,792.82 crore in 2008-09, which was equal to 20.59 *per cent* and 2.10 *per cent* of the turnover of State PSUs

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* 80 *per cent* of installed capacity as per CEA norm for PLF.

♦ Own Generation 2085.5 MW; Shared 875 MW; long term PPA with Central Public Sector Undertakings (CPSU) 1617.25 MW Non conventional source 34 MW and IPP 25 MW.

Actual capacity addition 970.71 MW minus decrease in capacity 367.56 MW. (detail in paragraph 2.2.13).

(₹ 18,424.04 crore) and State Gross Domestic Product (₹ 1,80,494 crore), respectively. It employed 3,451 employees as on 31 March 2010.

A review on the Construction and Operation of Unit I and II of DCRTPP Yamunanagar of the Company, was included in the Report of the Comptroller and Auditor General of India for the year 2008-09 (Commercial), Government of Haryana. The Report was yet to be discussed by the Committee on Public Undertakings.

Scope and Methodology of Audit

2.2.2 The present review conducted during January 2010 to May 2010 covers the performance of the Company during the period from 2005-06 to 2009-10. The review mainly deals with Planning, Project Management, Financial Management, Operational Performance, Environmental Issues and Monitoring by Top Management. The audit examination involved scrutiny of records at the Head Office and one (PTPS with 65 *per cent* of the total installed capacity) out of five* generating stations, and one thermal power plant under construction at Hisar.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to Top Management, scrutiny of records at Head Office and selected unit, 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

2.2.3 The objectives of the performance audit were:

Planning and Project Management

- To assess whether capacity addition programme taken up/ to be taken up to meet the shortage of power in the State is in line with the National Policy of Power for All by 2012;
- To assess whether a plan of action is in place for optimization of generation from the existing capacity;
- To ascertain whether the contracts were awarded with due regard to economy and in transparent manner; and
- To ascertain whether the execution of projects were managed economically, effectively and efficiently.

* Three thermal stations at Panipat, Yamunanagar and Faridabad, one Hydel at Bhud Kalan and one micro hydel at Kakroi.

Financial Management

- To ascertain whether the projections for funding the new projects and up gradation of existing generating units were realistic including the identification and optimal utilisation for intended purpose;

- To assess whether all claims including energy bills were properly raised and recovered in an efficient manner; and

- To assess the soundness of financial health of the generating undertaking.

Operational Performance

- To assess whether the power plants were operated efficiently and preventive maintenance as prescribed was carried out minimising the forced outages;

- To assess whether requirement of fuel was worked out realistically, procured economically and utilised efficiently;

- To assess whether the manpower requirement was realistic and its utilisation optimal;

- To assess whether the Life Extension (LE), Renovation and Modernisation (R&M) programme were ascertained and carried out in an economic, effective and efficient manner; and

- To assess the impact of R&M/LE activity on the operational performance of the Unit.

Environmental Issues

- To assess whether the various types of pollutants (air, water, noise, hazardous waste) in power stations were within the prescribed norms and complied with the required statutory requirements; and

- To assess the adequacy of waste management system and its implementation.

Monitoring and Evaluation

- To ascertain whether adequate Management Information System (MIS) existed in the entity to monitor and assess the impact and utilise the feedback for preparation of future schemes.

Audit Criteria

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

- NEP, norms/guidelines of CEA regarding planning and implementation of

the projects;

- standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- targets fixed for generation of power ;
- parameters fixed for plant availability, PLF etc;
- performance of best performers in the regions/all India averages;
- prescribed norms for planned outages; and
- Acts relating to Environmental laws.

Financial Position and Working Results

2.2.5 The financial position of the Company for the four years ending 2008-09* is given below.

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09
A. Liabilities				
Paid up Capital	831.95	1,292.09	1,853.17	2,403.97
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	-	-	-	-
Borrowings (Loan Funds)				
Secured	2,872.42	3,936.60	5,221.67	4,465.45
Unsecured	1,045.06	1,173.07	470.18	436.66
Current Liabilities & Provisions	991.86	1,913.00	1,891.39	1,913.34
Deferred Tax liabilities	-	84.22	87.97	118.45
Total	**5,741.29**	**8,398.98**	**9,524.38**	**9,337.87**
B. Assets				
Gross Fixed Assets	3,662.83	3,715.21	3,767.64	6,133.91
Less: Depreciation	729.37	1,026.60	1,304.07	1,724.52
Net Fixed Assets	2,933.46	2,688.61	2,463.57	4,409.39
Capital works-in-progress	205.94	1,697.54	2,958.54	2,722.54
Investments	-	-	229.28	229.33
Current Assets, Loans and Advances	2,503.13	3,841.82	3,704.02	1,835.96
Deferred Revenue Expenditure	11.02	0.8	0.71	0.62
Accumulated losses	87.74	170.21	168.26	140.03
Total	**5,741.29**	**8,398.98**	**9,524.38**	**9,337.87**

Debt Equity ratio of 70:30 is generally considered adequate against which the Company's debt equity ratio ranged from 75:25 to 64:36 during 2005-09. The accumulated losses of the Company steeply increased from ₹ 87.74 crore in 2005-06 to ₹ 170.21 crore in 2006-07. It decreased to ₹ 168.26 crore in 2007-08

* Annual Accounts for the year 2009-10 have not been prepared so far.

and ₹ 140.03 crore in 2008-09.

The Management stated (July 2010) that compliance of Accounting Standard (AS) for provision of deferred tax resulted in additional accumulated loss, which actually was not the expenditure.

Working results

2.2.6 The working results of generation activity of the Company for the four years ending 2008-09 are given below:

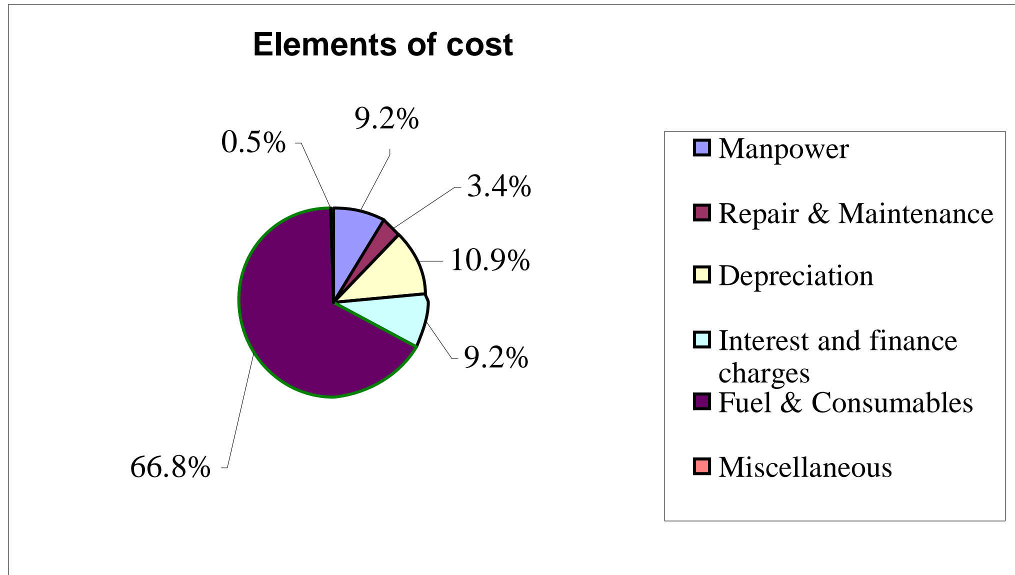
(₹ in crore)

Sl. No.	Description	2005-06	2006-07	2007-08	2008-09
1	**Income**				
	Generation Revenue	2,334.06	2,779.09	2,790.03	3,792.82
	Other income including interest/subsidy	3.17	6.38	8.56	28.92
	Total Income	**2,337.23**	**2,785.47**	**2,798.59**	**3,821.74**
2	**Generation**				
	Total generation (In MUs)	9,181.52	10,780.33	10,959.63	13,519.16
	Less: Auxiliary consumption (In MUs)	911.84	1040.16	1078.36	1294.13
	Total generation available for Transmission and Distribution (In MUs)	**8,269.68**	**9,740.17**	**9,881.27**	**12,225.03**
3	**Expenditure**				
(a)	**Fixed cost**				
(i)	Employees cost	146.91	164.65	207.86	355.30
(ii)	Administrative and General expenses	12.26	16.08	13.05	20.48
(iii)	Depreciation	255.26	274.26	277.47	420.18
(iv)	Interest and finance charges	221.01	182.24	166.82	355.90
	Total fixed cost	**635.44**	**637.23**	**665.20**	**1,151.86**
(b)	**Variable cost**				
(i)	Fuel consumption				
	(a) Coal	1,500.85	1,774.60	1,850.73	2,392.23
	(b) Oil	55.89	44.50	87.30	144.76
	(e) Other fuel related cost including shortages/ surplus/ consumed during trial stage charged to capital works	74.38	63.94	49.01	28.56
(ii)	Cost of water (hydel/ thermal/gas/others)	7.99	9.38	13.08	23.80
(iii)	Lubricants and consumables	1.16	0.46	0.49	0.44
(iv)	repair and maintenance	65.38	85.67	71.35	106.38
	Total variable cost	**1,705.65**	**1,978.55**	**2,071.96**	**2,696.17**
C.	**Total cost 3(a) + (b)**	**2,341.09**	**2,615.78**	**2,737.16**	**3,878.03**
4	Realisation (per unit)	2.82	2.86	2.83	3.13
5	Fixed cost (per unit)	0.77	0.66	0.67	0.94
6	Variable cost (per unit)	2.06	2.03	2.10	2.21
7	Total cost per unit (5+6)	2.83	2.69	2.77	3.15
8	Contribution (4-6) (per unit)	0.76	0.83	0.73	0.92
9	**Profit (+)/Loss(-) (4-7)**	**-0.01**	**0.17**	**0.06**	**-0.02**

It would be seen from the table that during 2005-09 despite increase in realisation per unit of ₹ 0.31 from ₹ 2.82 during 2005-06 to ₹ 3.13 during 2008-09, there was loss of ₹ 0.02 per unit due to higher operation cost as discussed in paragraph 2.2.9. However, during 2006-07 and 2007-08, the Company earned profit of ₹ 0.17 and ₹ 0.06 per unit respectively.

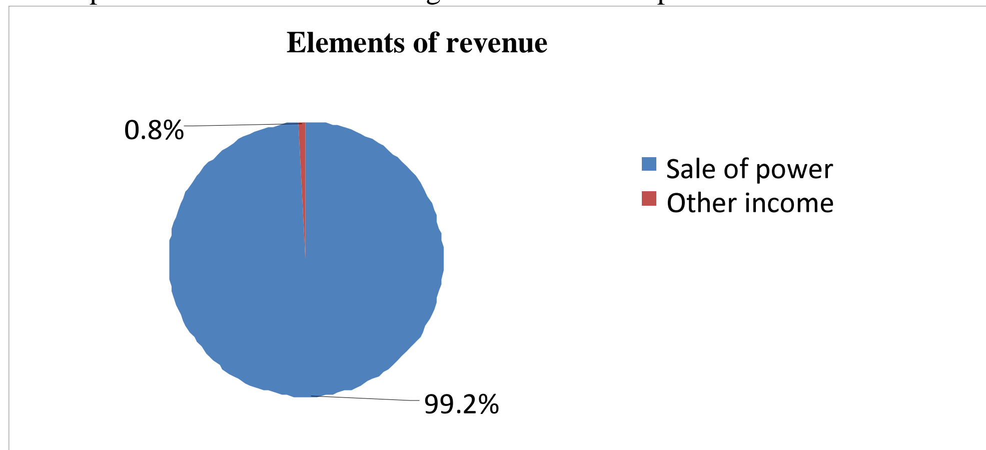
Elements of cost:

2.2.7 Fuel, Consumables and Depreciation constitute the major elements of costs. The percentage break-up of costs for 2008-09 is given below in the pie-chart:



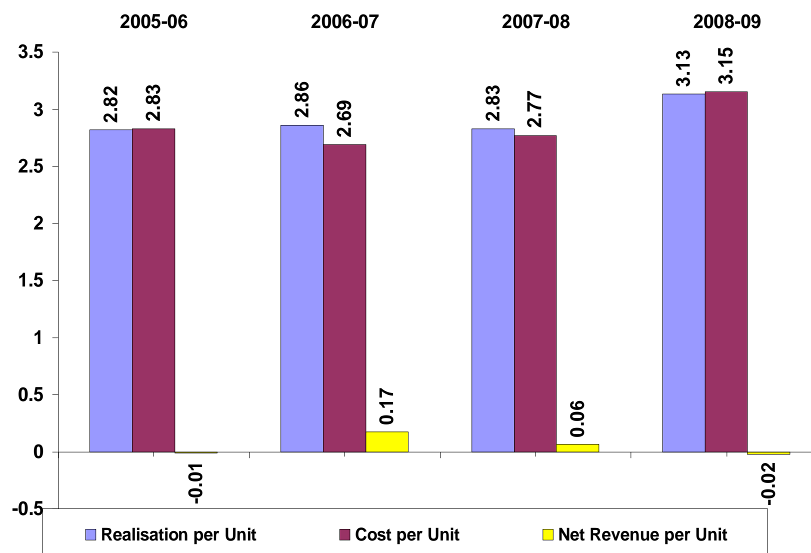
Elements of Revenue:

2.2.8 Sale of Power constitutes the major elements of revenue. The percentage break-up of revenue for 2008-09 is given below in the pie-chart:



Recovery of cost of operations

2.2.9 The Company was not able to recover its cost of operations during the years 2005-06 and 2008-09 as given in the graph below:



Had the total revenue earned by the Company been sufficient to cover the cost during these two years, an additional amount of ₹ 32.72 crore* could have been available to meet the working capital requirement of the Company. Increase in employees cost and interest and finance charges contributed to high cost of generation.

Audit Findings

2.2.10 During the 'Entry Conference' held on 01 April 2010 the audit objectives, criteria, coverage were explained. The audit findings were reported to the State Government/Management in July 2010 and discussed in the Exit Conference held on 30 July 2010, which was attended by the Managing Director of the Company. Views of the Management have been considered while finalising the review. The audit findings are discussed below.

Operational Performance

2.2.11 The operational performance of the Company for the five years ending 2009-10 is given in ***Annexure 10***. The operational performance of the Company was evaluated on various operational parameters. It was also seen whether the Company was able to maintain pace in terms of capacity addition with the growing demand for power in the State. Audit findings in this regard are

* 8269.68 MUs x ₹ 0.01 + 12225.03 MUs x ₹ 0.02 = ₹ 32.72 crore

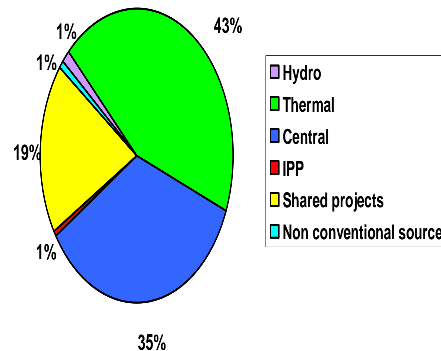
discussed in the subsequent paragraphs.

Planning

2.2.12 National Electricity Policy aims to provide availability of over 1,000 Units of per capita electricity by 2012, for which it was estimated that need based capacity addition of more than 1,00,000 MW would be required during 2002-2012 in the country. This section deals with capacity additions and optimal utilisation of existing facilities. Environmental aspects have been discussed in subsequent paragraphs.

Capacity Additions

2.2.13 The total installed capacity of the State increased from 4,033.60 MW as on 1 April 2005 to 4,636.75 MW as on 31 March 2010. The break up of generating capacity as on 31 March 2010 under Thermal, Hydro, Shared Projects, Central PSUs, IPPs and Non conventional source is as indicated below in the pie chart



To meet the estimated peak demand of 5883 MW in the State during 2009-10, as per 17th Electric Power Survey Report, a capacity addition of about 2,139.39 MW was planned during 2005-06 to 2009-10 as per NEP. Against NEP, the State Government planned capacity addition of 3,720.71 MW during the review period. Two projects of 1,350 MW capacity viz. extension of DCRTPP, Yamunanagar and gas based power plant at Faridabad, though approved by the State Government, were not included in NEP in the absence of environmental clearance from MOE&F and non availability of gas respectively. Further, 189.52 MW capacity was planned through PPA in respect of CPSUs; 34 MW through Non conventional Energy sources and 7.8 MW by uprating of Unit-I of PTPS-I. However, the actual capacity addition was 970.71 MW. After considering the decrease in capacity (367.56 MW) during review period, net capacity was only 603.15 MW which was far below the targets and inadequate to meet the demand.

The particulars of capacity additions envisaged, actual additions and peak

demand vis-à-vis energy supplied during 2005-10 are given below.

Sl. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Capacity at the beginning of the year (MW)	4033.60	4033.60	4051.58	4068.31	4695.25
2.	Additions Planned for the year as per National Electricity Plan (MW)	-	-	739.39	9	1391
3.	Additions planned by the State (MW)	-	497.32	367.19	81.2	2775
4.	Actual Additions (MW)	-	175.28	16.73	719.7	59*
5.	Decrease in capacity	-	157.30	0	92.76	117.5
6.	Capacity at the end of the year (MW) (1 + 4-5)	4033.60	4051.58	4068.31	4695.25	4636.75
7.	**Shortfall in capacity addition (MW) (3 – 4)**	**Nil**	**322.04**	**350.46**	**Nil**	**2716**
8.	Peak demand (MW)#	4333	4837	4956	5511	6133
9.	Peak demand Met (MW)#	3931	4201	4821	4791	5678
10.	**Surplus/Shortfall in demand (MW)**	**-402**	**-636**	**-135**	**-720**	**-455**

The particulars of the projects existing as on 1 April 2005, additions/deletions during the review period and projects existing as on 31 March 2010 are given in the ***Annexure 11.***

Against the planned capacity additions of 3,720.71 MW by the state, actual capacity addition during 2005-10 was 970.71MW only

During 2005-10, actual capacity addition was only 970.71 MW against 3,720.71 MW planned by the State leaving shortfall of 2,750 MW. The State was not in a position to meet the demand as the peak demand met (power generated plus the power purchased) fell short by 135 MW to 720 MW during 2005-10. Net deficit in terms of MUs increased from 547.23 MUs in 2005-06 to 2270.42 MUs in 2007-08 which subsequently decreased to 68.71 MUs in 2009-10. Audit scrutiny revealed that following factors contributed to inadequate capacity addition:

- Two Units of 300 MW each at DCRTPP, Yamunanagar were put to commercial operation on 14 April and 24 June 2008 against the schedule of March and June 2007 respectively due to change of collaborator, and resultant shifting of zero date besides repeated failure in trial runs respectively.

- The Unit – 1 and 2 (600 MW each) of RGTPP, Hisar, scheduled to be commissioned by 28 December 2009 and 28 March 2010 respectively were yet to be commissioned (July 2010) as discussed in paragraph 2.2.19;

- The proposal for setting up of 1050 MW (now increased to 1,500 MW April 2009) Gas based Power Plant at Faridabad approved by the State Government in August 2005 for implementation during 2009-11 could not fructify due to uncertainty regarding availability of gas and its pricing; and

- The proposal approved by the State Government in August 2007 for setting up of 3rd Unit of 300 MW (now increased to 660 MW-September 2009) at DCRTPP, Yamunanagar by 2009-10, , could not be implemented due to non relaxation of no-construction zone by Ministry of Environment and Forest (MOE&F), Government of India.

The Management while admitting the above facts stated (July 2010) that

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* Includes Non conventional source of energy of 34 MW (Shahbad Co-operative Sugar Mill 16 MW, The Haryana Co-operative Sugar Mill 12 MW and Western Yamuna Canal, Dadupur 6 MW).

\# As per report published (April 2010) by CEA, Integrated Resource Planning Division.

applicable liquidated damages amounting to ₹ 204.46 crore had been recovered from the Engineering Procurement and Construction (EPC) contractor in respect of DCRTPP Yamunanagar for delay in completion of the project.

Short term power purchase

In order to meet the deficit of power, short term power purchases and unscheduled inter change increased from 2,606 MUs to 6,027 MUs during 2005-10

2.2.14 Due to inadequate installed capacity, the State had to resort to purchase of power through short term PPAs and unscheduled interchange (UI) which increased from 2,606.10 MUs in 2005-06 to 6,026.51 MUs in 2009-10. The cost of power purchased from other sources during 2005-10 is tabulated below:

Sl. No.	Source		2005-06	2006-07	2007-08	2008-09	2009-10
1.	CPSUs and Other/long term PPAs	Units (MUs)	8832.63	9414.89	9992.68	9799.43	10978.23
		₹ in crore	1677.78	1867	2108.71	2173.62	2484.10
		₹./unit	1.90	1.98	2.11	2.22	2.26
2.	Short term PPAs	Units (MUs)	1228.86	1428.70	1089.87	1460.47	3809.87
		₹ in crore	398.65	627.36	678.58	925.25	2362.54
		₹./unit	3.24	4.39	6.23	6.34	6.20
3.	Unschedule Interchange	Units (MUs)	1377.24	1492.43	2810.32	1435.63	2216.64
		₹. in crore	541.65	515.38	1018.40	749.55	946.19
		₹./unit	3.93	3.45	3.62	5.22	4.26

It would be seen from the above table that the weighted average cost of purchase of power through short term PPAs ranged between ₹ 3.24 per unit (2005-06) and ₹ 6.34 per unit (2008-09) and that of UI between ₹ 3.45 per unit (2006-07) and ₹ 5.22 per unit (2008-09). Thus, short term purchases were costlier than UI during review period except during 2005-06.

The Management stated (July 2010) that the short term power purchases and UI drawals could not be avoided even if the installed capacity matched with the requirement of the State as power requirement was not uniform throughout. The reply is not convincing because if the capacity addition had been achieved as planned, the increase in short term power purchase and UI drawals during 2005-10 would have been controlled considerably.

Optimum Utilisation of existing facilities

2.2.15 In order to cope with the rising demand for power, not only the additional capacity needs to be created, the plan needs to be in place for optimal utilisation of existing facilities. The details of the power generating Units, which fell due for R&M/LE programmes (as per CEA norms) during the five years ending 2009-2010 vis-à-vis actually taken up are indicated in the table below:

Sl. No.	Name of the Plant	Unit No.	Installed Capacity	Due Date (as per CEA norms)	Date when actually taken up/ completed
1.	PTPS - I	Unit I	110 MW	April 2004	August 2005/ April 2009.
		Unit III	110 MW	April 2004	Not yet taken up
		Unit IV	110 MW	April 2004	Not yet taken up

Against the three Units due for R&M/LE programmes in April 2004, only one Unit was actually taken up in August 2005 and completed in April 2009. The remaining two Units had not been taken up till date (July 2010) due to belated decision (July 2007) for execution of the R&M/LE through International Competitive Bidding (ICB) route for availing World Bank Loan.

The Management stated (July 2010) that they have finalised R&M work through

World Bank Funds and the work would be completed during the year 2013-14.

Project Management

2.2.16 Project management includes timely acquisition of land, effective actions to resolve bottlenecks, obtain necessary clearances from Ministry of Forest and Environment and other authorities, rehabilitation of displaced families, proper scheduling of various activities, adequate budget provisions, etc.

The following table indicates the scheduled and actual dates of synchronisation, date of start of transmission, date of commissioning and the time overrun of RGTPP Hisar, as on July 2010.

Time overrun

Sl. No.	Phase-wise name of the Unit	Details	As per agreed Mile stone	Actual time taken	Time overrun (days)
1.	RGTPP, Hisar Unit-I	Date of synchronisation	28.11.09	10.02.2010	73
		Date of commercial operation	28.12.09	Yet to be commissioned	207
		Generation loss			2384.64 MUs
2.	RGTPP, Hisar Unit-II	Date of synchronisation	28.02.10	17.07.2010	138
		Date of commercial operation	28.03.10	Yet to be commissioned	122
		Generation loss			1405.44 MUs

Delay in commercial operations of the units resulted in generation loss of 3,790.08 MUs

It would be seen from above that, none of the Units was completed in time and led loss of expected generation 3,790.08 MUs* up to July 2010. Reasons for delay are discussed in paragraph 2.2.19. The particulars of estimated cost, actual expenditure, pending works and cost overrun of various items of work in respect of RGTTP Hisar, Unit I and II are tabulated below:

Cost overrun

(₹ in crore)

Sl. No.	Particulars	Estimated cost as per DPR	Awarded/ Estimated Cost	Actual expenditure as on 30 June 2010	Pending works	Cost over run (4)+(5)-(3)
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Main Plant Package	3721.35**	3775.43	3156.73	678.11	59.41
2.	Land	37.00	39.50	90.33	-	50.83
3.	Raw Water Intake system	0.00	66.05	64.12	5.51	3.58
4.	Colony	32.15	70.49	90	3.12	22.63
5	Consultancy	9.76	14.46	6.43	8.53	0.50
6.	Startup Fuel cost	10.00	10.00	178.23	-	168.23
	TOTAL	**3810.26**	**3975.93**	**3585.84**	**695.27**	**305.18**

The table above shows that the cost overrun of ₹ 305.18 crore was due to increase in cost of land (₹ 50.83 crore) as land from Haryana Vidyut Prasaran Nigam Limited (HVPNL) was transferred at collector rate instead of book value of HVPNL, construction of colony (₹ 22.63 crore), raw water intake system (₹ 3.58 crore) on account of construction of standby arrangement, start up fuel

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* Worked out on the basis of 80 *per cent* of installed capacity.

** Including raw water Intake System.

cost (₹ 168.23 crore) as a result of prolonged trial runs and foreign exchange fluctuation (₹ 59.41 crore) in the Main plant package. We observed that cost overrun on account of abnormal start up fuel cost was avoidable and could have been minimised as discussed in detail under para 2.2.19.

The Management stated (July 2010) that for contractual delay LD of ₹ 377.50 crore was imposed which should be weighed against the cost overrun.

Contract Management

2.2.17 Contract management is the process of efficiently managing contract (including inviting bids and award of work) and execution of work in an effective and economic manner.

The Company awarded (January 2007) EPC contract for construction of two units of 600 MW each at Hisar to Reliance Energy Limited (REL) at a cost of ₹ 3,775.43 crore. The completion schedule was 35 months and 38 months for Unit-I & II, respectively from the date of issue of LOI as against the CEA norms of 44 months for the first Unit and 50 months for the second Unit. The per MW cost of ₹ 3.15 crore for EPC contract was assessed to be the lowest compared with cost of contemporary projects.

Major audit findings are discussed below:

Non award of zero discharge scheme along with EPC contract.

2.2.18 The Company while inviting (July 2006) bids on ICB basis for setting up these units, stipulated that Zero Discharge Scheme should be offered as an option to meet the Ministry of Environment and Forests (MOE&F) stipulations for effluent discharge. The price of the same was to be given as optional in the price bid. REL in its supplementary price bid dated 3 January 2007 had quoted the optional price of ₹ 23 crore for Zero Discharge Scheme. LOI was, however, issued (29 January 2007) without reference to Zero Discharge Scheme. The Company approved (February 2008) implementation of the scheme and requested (March 2008) REL for the same. REL, in turn, stated (June 2008) that as per NIT, the validity of their complete offer had expired on 15 May 2007. As there was no positive response, the Company issued one month notice on 1 October 2009 for implementation of the scheme failing which the same would be completed at their risk and cost. REL refused (22 January 2010) to take cognizance of the notice. We observed that the Company should have included the zero discharge scheme within the EPC scope of work.

The Management stated (July 2010) that the scheme would be implemented at the risk and cost of REL.

Delay in synchronisation and commercial operation of Units

2.2.19 The contract with REL provided for synchronisation of Unit I and II by 28 November 2009 and 28 February 2010 respectively and thereafter starting commercial operation within 30 days after satisfactory trial operation. Unit I and II were synchronized on 10 February 2010 and 17 July 2010 after a delay of 73

Prolonged trial runs resulted in excess consumption of fuel valued at ₹ 168.23 crore

and 138 days respectively. However, Unit I could not be put to commercial operation till date, (July 2010) due to repeated failure/tripping in trial operations mainly attributable to tube leakages. The Company during discussion with REL attributed (July 2010) frequent tripping to long length of economiser tubes resulting in vibration and loosening of joints at weak points. The REL assured to take up the matter with the equipment supplier, Shanghai Electric Corporation, China. Thus, due to faulty design the trial operations were prolonged. Due to abnormal time taken for trial runs, the excess fuel consumption was of the order of ₹ 168.23 crore (up to 30 June 2010), against which the revenue earned on the power sold during trial run was only ₹ 59.16 crore* thereby resulting in loss of ₹ 109.07 crore. In the absence of any clause in the contract guaranteeing standard consumption during trial runs, loss of ₹ 109.07 crore could not be recovered from REL.

The Management stated (July 2010) that no norms for consumption of fuel for the period prior to commercial operation date had been provided in the contract or by Central Electricity Regulatory Commission (CERC). The fact remains that as per terms of contract the Unit was to be put to commercial operation within 30 days after its synchronisation which has not been achieved, thereby resulting in prolonged trial runs and excessive consumption of fuel.

Operational Performance

2.2.20 Operations of generation Company are dependent on input efficiency consisting of material and manpower and output efficiency in connection with PLF, plant availability, capacity utilisation, outages and auxiliary consumption. These aspects relating to the Company with emphasis on PTPS-I (Unit I to IV) and PTPS-II (Unit V to VIII) have been discussed below.

Input Efficiency

Procedure for procurement of coal

2.2.21 The CEA fixes power generation targets for Thermal Power Stations (TPS) considering capacity of plant, average PLF and past performance. The Company works out coal requirement on the basis of targets so fixed and past coal consumption trends. The coal requirement so assessed was conveyed to the Standing Linkage Committee (SLC) of the Ministry of Energy (MOE), Government of India, which decided the source and quantity of coal supply to TPSs on quarterly basis. On the basis of linkage source approved by SLC, the Company was to enter into Coal Supply Agreements (CSA) with collieries. However, the Company did not enter into CSA during 2003-09 due to lack of consensus among coal companies, CEA and power generation utilities. Since April 2009, these utilities have been permitted to enter into dedicated CSA with coal companies for their

* worked out at unscheduled inter change rate up to March 2010 and HERC approved provisional tariff towards variable cost for April – June 2010

coal requirements.

The position of coal linkages fixed, coal received, generation targets prescribed and actual generation achieved by the Company during the period from 2005-06 to 2009-10 was as under:

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Coal Linkage fixed (Lakh MT)	82.80	90.90	95.00	118.80	102.40	489.90
Quantity of coal received (Lakh MT)	65.87	72.55	75.14	89.58	98.59	401.73
Generation targets (MU)*	9815	9463	10836	14342	14272	58728
Actual generation achieved (MU)	8923	10524	10575	13237	14867	58126
Excess / Shortfall (-) in generation targets (MU)	-892	1061	-261	-1105	595	-602

It would be seen from the above table that despite short receipt of coal of 22.16 lakh MT during 2006-07 and 2009-10, there was excess generation than the targets. The shortfall in generation in the remaining years was attributed to non-availability of coal in proper form in coal bunkers (PTPS I and II), low PLF (PTPS I) and forced outages.

Fuel supply arrangement

2.2.22 Coal is classified into different grades. The price of the coal depends on the grade of coal. The Company had CSA with Bharat Cocking Coal Limited (BCCL) and Central Coalfields Limited (CCL) up to March 2003 which provided for full compensation to the Company for idle freight to the Railways for under loading of wagons below the carrying capacity and fifty *per cent* compensation for penal freight for overloading of wagons. Besides, compensation on stones in supply and slippage in grade of coal (quality) was to be given. Western Coalfields Limited (WCL) had agreed (May 2002) for compensating the Company only for slippage in grade of coal. There was no CSA during the period 2003-2009 due to lack of consensus between CEA, Coal companies and power utilities. The new CSA with the coal companies, applicable with effect from April 2009, provided for claims on account of stone, quality and under loading of wagon. A review of claim lodged and settled by various coal companies in respect of PTPS revealed the following:

- BCCL, CCL and WCL had been settling the claim on account of grade slippage even in the absence of CSA and settled claims of ₹ 69.27 crore during the period 2005-09. Claim of ₹ 30.66 crore for the period 2009-10 had been lodged with the coal companies out of which an amount of ₹ 12.95 crore and ₹ 1.48 crore was received from BCCL and WCL respectively and balance of ₹ 16.23 crore was yet to be received from these companies. Claim towards poor quality of coal from Dugdha Washery amounting to ₹ 4.52 crore had been rejected by BCCL due to lack of enabling clause in the agreement.

- The Company had unsettled claim of ₹ 71.09 crore (on account of penal freight for overloading, stones, shortage, under loading charges etc.) up to

* Based on HERC approved PLF for PTPS-I & II, DCRTPP and FTPS.

March 2009 with BCCL. As per negotiations held with BCCL, the Company accepted ₹ 29.31 crore towards full and final settlement of all claims against the total claims of ₹ 65.31 crore. The remaining portion of the claims of ₹ 36 crore were withdrawn by the Company. The decision for the balance claims of ₹ 5.78 crore were deferred.

- Claims amounting to ₹ 14.83 crore on account of stone for the period 2009-10 had been lodged as per new CSA with the coal companies (CCL, BCCL, NCL and WCL) which were pending for adjustment.

During Exit Conference the Management stated (July 2010) that in the absence of CSA the Company was not able to settle the claim up to March 2009 in full. Further, the new CSA applicable from April 2009 provides for recovery at monthly intervals and the claims not settled by coal companies so far shall be adjusted against their coal bills. The fact, however, remained that reconciliation of claims had not yet been done (July 2010) with coal companies (except BCCL) as a result of which the claims were pending.

Loss of generation due to improper fuel stock

2.2.23 Test check of records relating to outages of plants revealed that the different Units of PTPS- I and II were subject to forced shutdown during the years 2005-06 and 2009-10 due to non availability of coal in proper form in coal bunkers, resulting in loss of generation aggregating to 130.51 MUs valued at ₹ 13.58 crore (net of fuel cost).

The Management stated (July 2010) that the coal related problems occur mainly in rainy season as wet and slurried coal is received leading to non feeding of coal in coal bunkers due to choking of various systems of coal handling plants.

Consumption of fuel

Excess consumption of coal

2.2.24 The consumption of coal depends upon its calorific value. The norms are fixed in the project report for various power generating stations for production of one unit of power. Year–wise details indicating value of excess consumption of coal in PTPS are given below.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Unit generated (MUs)	8135.70	9908.12	9861.26	9588.42	10206.84
2.	Coal required as per norms (MT)	4391072.04	5363733.38	5339697.32	5191213.71	5588013.38
3.	Coal consumed (MT)	5809813.00	6926690.00	6944207.00	6783918.00	7311782.21
4.	Excess consumption (MT) (3 – 2)	1418740.96	1562956.62	1604509.68	1592704.29	1723768.83
5.	Rate per MT (₹)	2359.72	2396.96	2342.79	2588.84	3008.96
6.	Coal consumed per Unit (Kg.) [(3 / 1 x 1000)]	0.714	0.699	0.704	0.708	0.716
7.	Value of excess coal (₹ in crore)(4 x 5)	334.78	374.63	375.90	412.33	518.68

Audit analysis revealed that consumption above the norms was due to low calorific value of coal and delay in R&M of Unit III and IV resulting in excess consumption of coal of (79.03 lakh MT) valued at ₹ 2,016.32 crore during the

review period as detailed in ***Annexure 12.*** However, as per HERC norm excess consumption of coal on account of excess heat rate valued ₹ 251.75 crore during review period.

Excess heat rate led to excess consumption of coal valued of ₹ 251.75 crore as compared to HERC norm

The Management stated (July 2010) that the Company has no control over quality of coal. However, it has been putting its best efforts for improvement in quality of coal received and had appointed coal agent in 2006-08 for ensuring delivery of good quality coal from specified collieries.

Manpower Management

2.2.25 As per NEP released by the CEA in April 2007, the man power norm in 10th Five year plan was 1.76 and 1.79 persons per MW of the installed capacity in respect of thermal and hydro power projects respectively. The details of actual men in position vis-a-vis norms of CEA during 2005-10 of the Company are given below:

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09
1	Manpower as per the CEA norms	2796	2796	2796	3769
2	Actual manpower	4479	4299	4234	4579
3.	Excess manpower	1683	1503	1438	810
4	Expenditure on salaries (₹ in crore)	147.92	165.83	209.84	355.30
5	Extra expenditure with reference to CEA norms (₹ in crore)	55.58	57.98	71.27	62.85

The manpower in excess of norms of CEA during the period 2005-10 resulted in extra expenditure of ₹ 247.68 crore. We observed that despite excess manpower at PTPS, temporary/contractual staff was deployed regularly for cleaning of coal handling plant/condenser etc. and incurred ₹ 19.59 crore during review period which could have been avoided. In view of excess manpower, the Company may consider rationalisation of its staff to reduce its establishment cost.

The Management stated (July 2010) that as compared to the sanctioned strength based on restructuring (July 2004) of manpower by Haryana Bureau of Public Enterprises, 683 number of positions were lying vacant in PTPS, Panipat on 30 June 2010. The reply is not convincing as staff was in excess of CEA norm.

Output Efficiency

Shortfall in generation

2.2.26 The targets for generation of power for each year are fixed by the Company and approved by the CEA. The particulars of CEA norms actual generation and excess / shortfall with reference to CEA norm for thermal and

hydro power plants of the Company are given in the following table.

(figures in MUs)

Year	Target as per CEA norm		Actual		Excess /(-) Shortfall as compared to HERC norm	
	Thermal	Hydro	Thermal	Hydro	Thermal	Hydro
2005-06	9802	310	8923	258	-879	-52
2006-07	9951	310	10524	256	573	-54
2007-08	10356	275	10575	270	219	-5
2008-09	14776	275	13237	282	-1539	7
2009-10	15438	275	14867	235	-571	-40
Total	**60323**	**1445**	**58126**	**1301**	**-2197**	**-144**

Shortfall in generation was 1434 MUs in respect of PTPS-I during 2005-10

It would be seen from the above that the shortfall in generation, i.e. 879 MUs in 2005-06 from thermal plants was converted into excess of 573 MUs in 2006-07 and 219 MUs in 2007-08. Again in 2008-09, the shortfall, shot upto 1539 MUs in 2008-09 and slightly decreased to 571 MUs in 2009-10. The generation data of PTPS-I and II was analysed in detail. Particulars of generation with reference to CEA/HERC norm in respect of PTPS-I and II are given below in the table for the review period.

PTPS-I **(figures in MUs)**

Year	Target as per CEA norm	Target as per HERC norm	Actual	Excess /(-) Shortfall as compared to HERC norm
2005-06	2504	2505	2227	-278
2006-07	2310	2120	2567	447
2007-08	2515	2706	2296	-410
2008-09	2832	2968	2232	-736
2009-10	2830	3138	2681	-457
Total	**12991**	**13437**	**12003**	**-1434**

PTPS-II

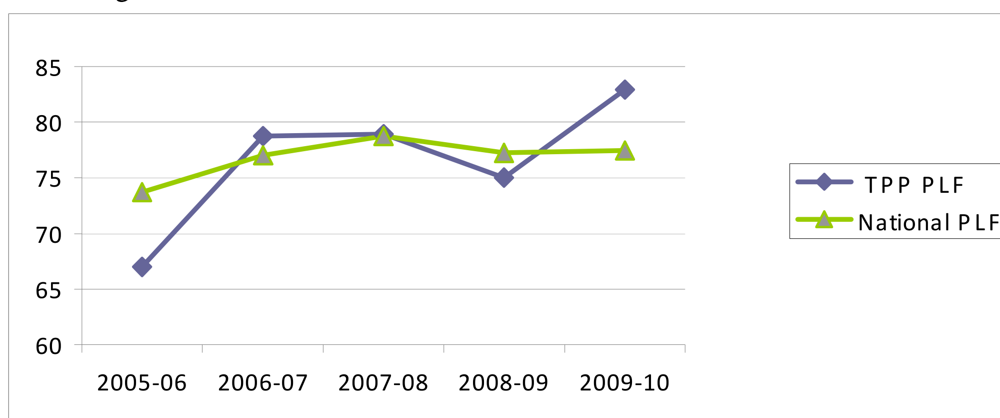
Year	Target as per CEA norm	Target as per HERC norm	Actual	Excess /(-) Shortfall as compared to HERC norm
2005-06	6448	6414	5909	-505
2006-07	6780	6447	7342	895
2007-08	7091	6465	7565	1100
2008-09	7015	6447	7357	910
2009-10	6819	6447	7525	1078
Total	**34153**	**32220**	**35698**	**3478**

It is evident from above that while PTPS-II was able to generate in excess of HERC targets, the same could not be achieved by PTPS- I, which indicates that the resources and capacity of PTPS-I were not being utilised to the optimum level due to frequent breakdowns, excess time taken in R&M of Unit I and delay in rectification of defects as discussed subsequently. The year-wise details of energy to be generated as per HERC norms of PLF and actual generation in respect of PTPS, up to March 2010 are given in ***Annexure 13***.

Plant Load Factor (PLF)

2.2.27 PLF refers to the ratio between the actual generation and the maximum possible generation at installed capacity. According to norms fixed by CERC, the PLF for thermal power generating stations should be 80 *per cent*, against which the national average was 73.71 *per cent*, 77.03 *per cent*, 78.75 *per cent*, 77.22 *per cent* and 77.48 *per cent* during 2005 - 06 to 2009-10 respectively. The PLF of thermal power plants of the Company as a whole was 67 *per cent*, 78.78 *per cent*, 78.94 *per cent*, 75.01 *per cent* and 82.93 *per cent* during 2005-06 to 2009-10 respectively. We observed that average realisation per unit would have increased by 9.93 *per cent* in 2005-06 and by 2.88 *per cent* in 2008-09. During 2006-07, 2007-08 and 2009-10 the PLF of the Company was higher than national PLF. Line graph depicting actual PLF vis-à-vis national average during the period under review is given below:

Unit No. VI of Kota TPS of RVUNL achieved PLF of 101.01 *per cent* which was highest among all the state sector units. (Source: Performance Review of Thermal Power Stations 2008-09 by CEA)



PLF of Unit VII, PTPS-II, was above 98 *per cent* during 2007-08 and 2009-10

Further analysis revealed that the PLF of PTPS-I, was lower than HERC norms (except 2005-06) as well as the national average and that of Unit V to VIII of PTPS-II was largely above the HERC norms as well as the national average. Significantly Unit VII of PTPS-II performed very well and achieved 98.91 and 98.40 *per cent* PLF during 2007-08 and 2009-10 respectively. The details of average realisation vis-a-vis average cost per unit, PLF achieved, average realisation at national PLF, PLF at which average cost would be recovered and the difference of PLF in *per cent* are given below in respect of PTPS-I in the following table:

Panipat Thermal Power Station-I

Sl. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1	Average Realisation (paise per unit)	288.84	285.08	279.00	273.00	315.00
2	Average cost (paise per unit)	286.69	237.92	322.75	367.79	407.29
3	Actual PLF (*per cent*)	57.77	66.59	59.41	57.89	68.36
4	Average Realisation at National PLF (paise per unit)	368.54	329.77	369.82	364.14	357.02
5	PLF at which average cost stands recovered (*per cent*) (2/1x3)	57.34	55.57	68.73	77.99	88.39
6	Difference (*per cent*) (4-1)/1	27.59	15.68	32.55	33.38	13.34

The Estimated shortfall in generation in respect of PTPS -I works out to 2528.35 MUs (at the national average PLF ranging between 73.71 *per cent* to 78.75 *per cent*) during 2005-06 to 2009-10 resulting in loss of contribution amounting to ₹ 82.67 crore. During the year 2008-09 and 2009-10, the Company was not able to recover even the variable cost of ₹ 10.91 crore due to excess heat consumption and excessive outages in respect of PTPS-I.

The main reasons for the low PLF, as observed in audit, were:

- low plant availability;
- low capacity utilisation; and
- major shut downs and delay in repairs and maintenance

These are discussed in the following paragraphs.

Plant availability

2.2.28 Plant availability means the ratio of actual hours operated to maximum possible hours available during certain period. As against the CERC norm of 80 *per cent* plant availability during 2004 – 2009 and 85 *per cent* during 2010 –2014, the average plant availability of PTPS-I and II ranged between 69.3 to 82.14 and 76.96 to 91.79 *per cent* respectively during the five years up to 2009-10.

The details of total hours available, total hours operated, planned outages, forced outages and overall plant availability in respect of the PTPS-I & II, are given below

PTPS-I

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Total Hours available	35040	35040	35136	35040	35040
Operated Hours	24553	28630	27002	24283	28782
Planned Outages (in hours)	3853	632	5574	8463	954
Forced Outages (in hours)	5912	5469	2490	2114	5300
Reserve Shut down (in hours)	722	309	70	180	4
Plant availability (*per cent*)	70.07	81.71	76.85	69.30	82.14

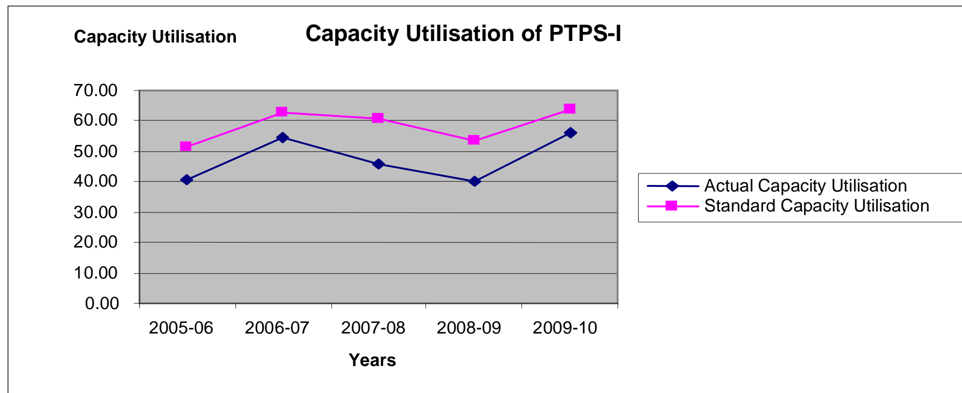
PTPS-II

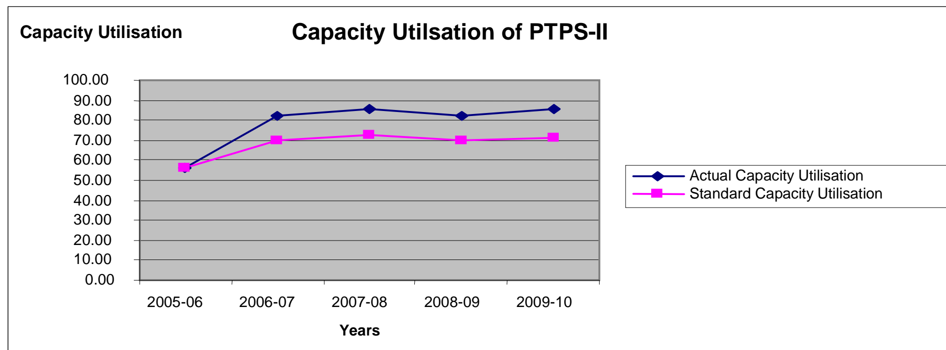
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Total Hours available	34872	35040	35136	35040	35040
Operated Hours	26836	31660	32252	31560	32142
Planned Outages (in hours)	1158	1970	1431	2298	1342
Forced Outages (in hours)	6288	1055	1453	1082	1372
Reserve Shut down (in hours)	590	355	0	100	184
Plant availability (*per cent*)	76.96	90.35	91.79	90.07	91.73

The low availability of PTPS-I during 2005-06, 2007-08 and 2008-09 was due to longer duration of outages caused by inordinate delay in repair and maintenance and refurbishment of Unit – I. Low availability of PTPS-II during 2005-06 was due to excessive forced outages.

Low Capacity Utilisation

2.2.29 Capacity utilisation means the ratio of actual generation to possible generation during actual hours of operation. Based on national average PLF and plant availability, the standard capacity utilisation factor ranged between 51.65 *per cent* and 63.66 *per cent* for PTPS-I and 55.99 *per cent* and 72.28 *per cent* for PTPS-II. The actual capacity utilisation factor based on actual PLF and plant availability ranged from 40.48 *per cent* to 56.17 *per cent* for PTPS-I and 55.98 *per cent* to 85.92 *per cent* for PTPS-II. The audit analysis revealed that during the period 7.47 *per cent* to 14.86 *per cent* of the installed capacity remained unutilised in case of PTPS-I, while in case of PTPS-II the capacity utilisation was higher than the standard capacity utilisation. Line graph depicting the capacity utilisation of PTPS-I and II during the review period is given below:





The main reason for the low utilisation of available capacity of PTPS-I during 2005-10 as analysed in audit were:

- running of Units with partial load on account of tube leakage, flame failure and inadequate furnace pressure.

- lower efficiency of machinery as the Units were old which needed R&M.

Outages

2.2.30 Outages refer to the period for which the plant remained closed for attending planned/forced maintenance. We observed following deficiencies in

planned and forced outages in respect of PTPS:

- The total number of hours lost due to planned outages in respect of PTPS-I increased from 3,853 hours in 2005-06 to 8,463 hours in 2008-09 i.e. from 11 *per cent* to 24.15 *per cent* of the total available hours in the respective years. However, during the year 2009-10 the planned outages decreased to 954 hours i.e. 2.72 *per cent* of the total available hours. In respect of PTPS-II there was marginal increase from 1,158 hours in 2005-06 to 1,342 hours in 2009-10 i.e. 3.32 to 3.83 *per cent* of the total available hours in respective years.

Excessive forced outages than the norms of CEA resulted in generation loss of 1008.84 MUs valuing ₹ 90.20 crore

- The forced outages in respect of PTPS-I decreased from 5,912 hours in 2005-06 to 5,300 hours in 2009- 10 i.e. from 16.87 to 15.13 *per cent* of the total available hours in the respective years. In respect of PTPS-II, the forced outages decreased from 6,288 hours in 2005-06 to 1,372 hours in 2009-10 i.e. from 18.03 to 3.92 *per cent*. The forced outages in respect of PTPS-I remained more than the norm of 10 *per cent* fixed by CEA during the years 2005-06, 2006-07 and 2009-10 and in respect of PTPS-II it was more than the norm only during 2005-06. Compliance of the CEA norms would have entailed availability of additional 8,954 operational hours with consequent generation of 1,008.84 MUs valued at ₹ 90.20 crore (net of fuel cost) during the period covered under review. With better preventive maintenance, forced outages could have been reduced considerably.

Auxiliary consumption of power

2.2.31 Energy consumed by power stations themselves for running their equipments and common services is called Auxiliary Consumption. CEA norm for auxiliary consumption for Unit size up to 200 MW and above 200 MW is 12 and 7.5 *per cent* respectively. On the other hand, HERC, also fixes norm for auxiliary consumption at the time of tariff fixation. The HERC norm varied from 8.50 *per cent* to 12.50 *per cent* during review period depending upon the generating capacity of the plants. While the norm for PTPS-I remained at 11 *per cent*, the same varied from 9 to 9.25 *per cent* for PTPS-II during review period. Similarly, norm for Faridabad Thermal Power Station was fixed at 12.50 *per cent* during review period and DCRTPP, Yamunanagar ranged between 9.50 and 8.50 *per cent* during 2007-08 to 2009-10. The auxiliary consumption of thermal power plants of the Company as a whole was 10.08, 9.80, 9.93, 9.66 and 9.77 *per cent* during 2005-06 to 2009-10 respectively. We observed that percentage of Auxiliary consumption of PTPS-I was higher than the norms prescribed by HERC during 2005-10, and was attributable to excessive forced shutdowns as auxiliaries continue to run and consume power even though the Unit is shutdown. Auxiliary consumption in Unit V & VI of PTPS-II was also more than the HERC norms during all the five years (except during 2006-07 in respect of Unit-V). In the case of Unit VII & VIII (PTPS-II) the auxiliary consumption was within the norms (except during 2005-06 in respect of Unit-VII). Auxiliary consumption in excess of HERC norms resulted in shortfall in supply of 155.68 MUs valued at ₹ 42.91 crore to the grid.

The Management, during Exit conference, stated (July 2010) that PTPS-I Panipat had almost completed their normal life leading to shortfall in generation. Unit III

and IV of PTPS-I needed R&M pending which low PLF and excessive outages were causing short fall in generation and excess auxiliary consumption.

Repair and Maintenance

2.2.32 To ensure long term sustainable levels of performance, it is important to adhere to periodic maintenance schedules. Non adherence to schedules carry a risk of the equipment consuming more coal, fuel oil and a higher risk of forced outages which necessitate undertaking R&M works. In this connection, we observed that, annual maintenance of majority of Units at PTPS, was done after a delay ranging from 107 to 328 days in respect of eight units on 10 occasions during review period. The delayed maintenance caused continuous deterioration in the condition of machines causing forced outages. Besides, due to delayed preventive maintenance, the Company took excess days in carrying out R&M activity ranging from 91 to 253 on four occasion, during review period as compared to plan. The excess time taken in preventive maintenance resulted in generation loss of 2,196.97 MUs. For instance, Unit-I scheduled for R&M and up-rating from November 2006 could only be taken up from September 2007 after a delay of 328 days due to delay in supply of material by BHEL. The work rescheduled to be completed by 24 February 2008 was actually completed on 4 November 2008 after taking 253 extra days. This resulted in generation loss of 434.15 MUs.

The Management stated (July 2010) that the Company had to shut down its Units for planned maintenance based on power availability situation. As far as actual time taken being more than normative time in planned maintenance is concerned, the same depends on the conditions of the machine. Regarding delay in R&M of Unit I, the Company had levied applicable LD amounting to ₹ 6 crore on BHEL for the delay. The facts, however, remains that the preventive maintenance and R&M of the Units is a technical necessity rather than a function of demand and supply of power.

Renovation and Modernisation

2.2.33 R&M activities are aimed at overcoming problems in operating units caused due to generic defects, design deficiency and ageing by re-equipping, modifying, augmenting them with latest technology/systems.

The R&M and up-rating of Unit – I from 110 MW to 117.8 MW was awarded to BHEL in August 2005 at a cost of ₹ 120 crore. The Unit was synchronised in November 2008 and was declared for commercial operation in April 2009. As per terms of contract for R&M and up-rating, norms for post R&M period and input/output efficiencies are detailed below.

Name of Unit	Norms for					
	Auxiliary consumption (in *Per cent*)	Heat (in Kcl/Kwh)	Oil (Ml/Kwh)	Coal (Kg/Kwh)	PLF (in Percent)	Generation Cost (₹/Kwh)
Unit – I	11.05	2371	3.00	0.566	80	1.67

We observed that none of the parameters (except auxiliary consumption) was

achieved after R&M and refurbishment of the Unit. It is indicative of the fact that R&M/refurbishment works were not carried out effectively and the expenditure incurred on R&M activity amounting to ₹ 150.71 crore remained largely unfruitful. It is suggested to carry out cost benefit study with reference to cost incurred on the refurbishment and the benefits achieved in financial terms

On 1 March 2010 Unit – I tripped as lubricating oil pressure remained very low and damaged turbine bearings. In order to repair the turbine, the Company placed (March 2010) a work order on BHEL valuing ₹ 1.20 crore. In addition, three purchase orders valuing ₹ 2.50 crore were also placed (March 2010) for supply of required stores and spares. The work was to be completed within 44 days from the date of start of work. The work had not been completed yet (July 2010). The tripping of the Unit with such a major fault within a period of one year of R&M corroborated the fact that the R&M/refurbishment works were not carried out efficiently. The shutdown of the Unit had resulted in generation loss of 326.55 MUs up to July 2010.

The Management admitted (July 2010) that guaranteed parameter were never achieved practically. As regards the shut down of Unit I the Management stated (July 2010) that the committee constituted to investigate the matter observed that it was a rare equipment failure. The work was likely to be completed by 15 August 2010.

Financial Management

2.2.34 Efficient fund management is the need of the hour in any organisation. This also serves as a tool for decision making, optimum utilisation of available resources and borrowings at favourable terms at appropriate time.

The main sources of funds were realisations from sale of power, loans from State Government/Banks/Financial Institutions (FI), etc. These funds were mainly utilised to meet payment of power purchase bills, debt servicing, employee and administrative cost and system improvement works of capital and revenue nature.

Details of sources and utilisation of resources of the Company for the years 2005-06 to 2008-09 are given below:

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09
Sources					
1	Net Profit/(loss)	(0.80)	1.75	5.70	66.22
2	Add: (a) adjustments: internal sources	587.04	634.95	658.10	768.42
3	Funds from operations (1+2)	586.24	636.70	663.80	834.64
4	Cash deficit (9-3)	464.03	1177.62	686.87	-
5	**Total (3+4)**	**1050.27**	**1814.32**	**1350.67**	**834.64**
Utilisation					
6	Capital expenditure	184.90	1543.90	1542.39	2129.63
7	Increase (decrease) in working capital	865.37	270.42	(191.72)	(1491.39)
8	Cash surplus (3-(6+7))	-	-	-	196.40
9	**Total**	**1050.27**	**1814.32**	**1350.67**	**834.64**

The cash deficit was overcome mainly by increased borrowings in the form of cash credit/loans from commercial banks/Financial institutions. Main reasons for cash deficit identified by audit were poor/delay in recovery of power supply bills, heavy interest commitment on loans and locking up of funds in inventory not required immediately. Further, dependence on borrowed funds increased during review period as borrowings increased from ₹ 3,917.48 crore in 2005-06 to ₹ 4,902.11 crore as at the end of 2008-09. This entailed interest burden of ₹ 1,387.26 crore during 2005-09 ultimately increasing the operating cost of the Company. Therefore, there is an urgent need to optimise internal resource generation by enhancing the PLF of PTPS-I to national level and vigorous pursuance of outstanding dues relating to recovery of energy bills. The instances of improper cash and inventory management are given below:

- The Company invested (September 2007 and April 2008) funds of ₹ 395 crore in Banks through FDRs for a period ranging from 6 to 17 days at the interest rate ranging from 3.81 to 5.76 *per cent* per annum and earned interest of ₹ 67.44 lakh. During the same period the Company had availed cash credit/overdraft facility at the interest rate ranging from 10 to 10.50 *per cent*. Thus, instead of reducing the burden of overdraft/cash credit entailing higher rate of interest, as compared to the interest earned on FDRs, the Company suffered differential interest loss of ₹ 74.48 lakh.

  The Management stated (July 2010) that the Company had not incurred any loss by investing surplus funds as simultaneously no cash credit limit was availed. The reply is not based on facts as cash credits were availed up to 15 April 2008.

- As per the guidelines of CERC, the Thermal Power Stations (TPS) have to maintain spares of ₹ four lakh for each MW of installed capacity. As worked out in Audit, the value of spares to be maintained by the TPS on the basis of CERC guidelines comes to ₹ 85.62 crore whereas the TPSs held a stock of spares valued at ₹ 593.62 crore as on 31 March 2009 resulting in holding of spares in excess of norm by ₹ 508 crore. This resulted in locking up of funds and corresponding loss of interest (at the rate of 11 *per cent* as allowed by HERC) of ₹ 55.88 crore for one year alone. We observed that at PTPS, Panipat as on 31 March 2010, inventory valuing ₹ 15.88 crore had not been moved from the stores for more than 10 years. Besides, inventory valuing ₹ 3.40 crore had to be declared obsolete due to its non use.

  The Management in Exit Conference stated (July 2010) that power generation plants needed various items under standby arrangement for different sizes of plant to minimise shut down and loss of generation. The reply is not convincing as the Company had neither conducted ABC analysis nor followed the principle of Economic Order Quantity.

Claims and Dues

2.2.35 The Company sells energy to DISCOMs i.e. Uttar Haryana Bijli Vitran

Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited at the rates specified by HERC from time to time. HERC fixes the tariff rates after considering various economic and other factors. The tariff for generation fixed by HERC is subject to Fuel Price adjustment due to change in the price and the gross calorific value of fuel. The table below gives the details of energy bills on DISCOMS and recoveries thereagainst and coal bills received vis-a-vis payments made during 2005-10.

(₹ in crore)

Sl. No.	Details	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1.	Energy bills on Discoms	5116.37	5803.03	6849.59	3792.82	4054.54	25616.35
2.	Amounts received	3426.26	5076.84	6706.73	5488.07	3925.29	24623.19
3.	Difference (1 –2)	1690.11	726.19	142.86	(1695.25)	129.25	993.16
4.	Coal bills received	794.52	842.66	926.40	1140.07	1270.40	4974.05
5.	Payments made	743.75	833.50	914.35	1137.92	1197.75	4827.27
6.	Difference (4 –5)	50.77	9.16	12.05	2.15	72.65	146.78

The Company had to purchase the power from different sources for onward sale to DISCOMS. While the Company had to make timely payments for purchase of power, the recovery of energy bills for sale of power to DISCOMS was slow. During the year 2008-09, there was recovery of excess amount than the bills raised as the power trading business was transferred from the Company to DISCOMS. The cumulative outstanding as at the end of 2008-09, as per audited figures was ₹ 1026.36 crore against DISCOMS/TRANSCO of which ₹ 52.25 crore remained pending for over five years against Haryana Vidyut Prasaran Nigam Limited. It was observed that there was always default in payments of energy bills by the DISCOMS which led to shortage of funds. To meet the gap between energy bills raised and amount received, the Company had to resort to cash credit limit and raise loan for working capital as per details given below:

(₹ in crore)

Particulars	2005 -06	2006 -07	2007 -08	2008 -09	2009-10
Cash credit	-	0.01	712.50	54.54	6.51
Loan for working capital	1461.24	1900.26	1753.02	172.87	1237.15
Total	1461.24	1900.27	2465.52	227.41	1243.66
Interest on borrowings for working capital	105.65	144.23	210.18	48.98	Not available

It could be seen that the cash credit/loan for meeting the requirement of working capital decreased from ₹ 1,461.24 crore in 2005-06 to ₹ 227.41 crore during 2008-09 due to transfer of power trading business to DISCOMS. However, during the year 2009-10, the cash credit/loan for working capital again increased to ₹ 1,243.66 crore as the Company depended on this source being available at lower rate ranging from 6.50 to 6.80 *per cent* as compared to the interest rate on long term loans.

The Management while admitting the fact of slow pace of recovery of energy bills from DISCOMS, stated (July 2010) in the Exit Conference that rural electrification subsidy due to DISCOMS from the Government was now being received by the Company from the State Government directly against its dues. Besides, the period of levy of surcharge due to delay in payment had also been reduced from 90 days to 60 days w.e.f 1 April 2008.

Tariff Fixation

2.2.36 At the time of tariff fixation, the Commission sets performance targets for each year of the Control Period for the items or parameters that are deemed to be "controllable" and which include:

(a) Station Heat Rate (b) Plant availability; (c) Auxiliary Energy Consumption; (d) Secondary Fuel Oil Consumption; (e) Operation and Maintenance Expenses; (f) Plant Load Factor; (g) Financing Cost which includes cost of debt (interest), cost of equity (return); and (h) Depreciation.

Any financial loss on account of underperformance on targets for parameters specified in Clause (a) to (f) is not recoverable through tariffs. In view of this, the commission did not allow expenditure of ₹ 294.66 crore on excess consumption of coal (₹ 251.75 crore) and auxiliary energy consumption (₹ 42.91 crore) during 2005-10 which increased the loss of the Company. However, this expenditure was controllable and could be avoided.

Environmental Issues

The Company failed to adhere to the environmental safeguards

2.2.37 In order to minimise the adverse impact on the environment, the GOI had enacted various Acts and Statutes. At the State level, Haryana Pollution Control Board (HPCB) is the regulating agency to ensure compliance with the provisions of these Acts and Statutes. MOE&F, GOI and Central Pollution Control Board (CPCB) are also vested with powers under various Statutes.

Audit scrutiny of records at PTPS relating to compliance with the provisions of various Acts in this regard revealed the following:

Air Pollution

2.2.38 Coal ash, being a fine particulate matter, is a pollutant under certain conditions when it is airborne and its concentration in a given volume of atmosphere is high. Control of dust levels (Suspended Particulate Matters – SPM) in flue gas is an important responsibility of thermal power stations. Electrostatic Precipitator (ESP) is used to reduce dust concentration in flue gases. Control of dust level is dependant on effective and efficient functioning of ESPs.

Non-achievement of specified SPM levels

2.2.39 The concentration of SPM in the ambient air as prescribed (April 1996) by MOE&F was maximum of 500 microgram per cubic meter. Audit noticed that during 2005-09, the SPM level in Coal Handling Mill (CHM) area was checked on 321 days out of which on 141 days the SPM level ranged between 510 (December 2006) and 1,494 (January 2007) microgram per cubic meter. There was no recording of SPM level during April 2009 – January 2010. During measurement (February/March 2010), the SPM level was found as high as 1,829 microgram per cubic meter. Effective measures were not taken to bring the concentration of SPM in the ambient air within the prescribed limits by regular

tuning of electrostatic precipitators or its up-gradation in addition to proper stacking of crushed coal and making sprinklers functional in the coal handling areas.

The Management stated (July 2010) that despite undertaking requisite actions from time to time, SPM level remained above normative levels at a number of time. Further, suitable measures were underway to contain SPM levels.

Installation of on-line monitoring equipment

2.2.40 As per the provisions of the Environment (Protection) Act, 1986, TPSs should provide on-line monitoring systems to record SPM levels. The Company incurred an expenditure of ₹ 0.70 crore on procurement and installation of on-line monitoring and other equipments in Unit I & II and V & VI. In Unit VII & VIII, the system had been installed but not commissioned as yet. No system had been installed in Unit-III & IV. The SPM data was, however, being recorded manually only once a month. This defeated the very purpose of installation of these equipments.

MOE&F prescribed (May 1993) Particulate Matter (PM) level of 150 mg/NM^3 of stack emission for thermal plants having generation capacity of 62.5 MW and above. The SPM level of stack emission of Units I to IV was higher than the prescribed limit during June 2006 to March 2009 (except Unit I & II during August 2006 and March – July 2008 which ranged between 157 (October 2008) and 1,276 mg/NM^3 (January 2007). There was no recording during April 2009 to January 2010 as test laboratories were not engaged for the purpose. During the month of February and March 2010, the stack emission ranged from 322 to 3,247 mg/NM^3 which was higher than the norms in all the eight Units installed at PTPS.

The Management stated (July 2010) that the on-line monitoring system in Unit I, II, V & VI are in operation and results shall be included in daily generation report. In Unit III and IV the system is proposed to be installed at the time of their R&M which is scheduled for completion during 2013-14. In regard to Unit VII and VIII the matter was vigorously being taken up with BHEL for early commissioning of system.

Use of high ash content coal

2.2.41 As per MOE&F notification (July 2003) coal based power stations located 1,000 KM away from the coal mine or located in urban, sensitive and critically polluted areas were required to use coal having less than 34 *per cent* ash on an annual weighted average basis. Audit observed that PTPS used coal obtained from coal companies located more than 1,000 KM away in Jharkhand, Chattisgarh and Madhya Pradesh. During 2005-10, PTPS received 327.76 lakh MT of coal, in which the weighted average of ash ranged between 36.33 and 38.25 *per cent*. The ash content could have been brought down by washing the coal through washeries and beneficiation to meet the laid down norms. No action was, however, taken in this regard.

The Management stated (July 2010) that for keeping the ash content within limit prescribed by MOE&F, the Company has been using imported coal. Further, for washing of coal, bids had been invited and the same would be finalised soon.

Ash disposal

2.2.42 Annual generation of fly ash from PTPS, ranged between 18.76 lakh MT (2005-06) and 22.75 lakh MT (2007-08). MOE&F issued a notification (September 1999) which provided that every thermal plant should supply fly ash to building material manufacturing units free of cost at least for 10 years. Audit scrutiny of generation and disposal of fly ash during 2005-10 revealed that against the total fly ash of 107.74 lakh MT generated in PTPS, only 19.63 lakh MT (18.2 *per cent*) could be supplied. The remaining 88.11 lakh MT of fly ash had to be evacuated in the wet mode thereby leading to early filling of ash pond. Resultantly, the Company had to place three work orders valuing ₹ 32.48 crore during May 2007 to January 2009 to increase the height of Ash Dyke Pond.

The Management stated (July 2010) that raising of ash dyke is a regular feature as basic aim before the project is to generate power even by flushing ash through wet ash disposal system.

Noise Pollution

2.2.43 Noise Pollution (Regulation and Control) Rules, 2000 aim to regulate and control noise producing and generating sources with the objective of maintaining ambient air quality. The Company had not installed specific silencing equipments in the PTPS.

We observed that PTPS did not record noise levels till September 2009 at all. During October 2009 to March 2010 out of 190 times on which noise level recording was done in the plant area, the noise level on 155 times ranged from 76 to 97.6 decibels against the prescribed level of 75 decibels.

The Management stated (July 2010) that the Company had finalised R&M of Unit III and IV with World Bank Funds and environmental compliances including keeping of noise level within limits for the PTPS as a whole is covered under the R&M scope, being World Bank requirement.

Water Pollution

2.2.44 The waste water of the power plant is the source of water pollution. As per the provisions of the Water (Prevention & Control of pollution) Act, 1974, the TPS is required to obtain the consent of State Pollution Control Board which, *inter alia,*, contains the conditions and stipulations for water pollution to be complied with by the TPS.

Non-compliance of the statutory provisions relating to water pollution

2.2.45 The Water (Prevention and Control of Pollution) Cess Act, 1977*, inter alia,* provides for payment and collection of cess at the prescribed rates on water consumed by power generation utilities. Section 7 of the ibid Act provides for rebate of 25 *per cent* of the Cess payable if treatment plants had been installed.

The Company had installed one Effluent Treatment Plant (ETP) for Unit VII and

VIII in PTPS, yet it failed to avail rebate of ₹ 24.89 lakh* as the Company did not maintain data to quantify the quantum of water discharged after treatment. For Units I to VI, the ETP had not been installed resulting in discharge of water without treatment.

The Management stated (July 2010) that no provision had been made for construction of ETP in Unit I to VI, as per the requirement at the time of construction of these Units. The reply is not convincing because to protect the environment, ETPs should have been installed subsequently to meet the statutory requirement.

Clean Development Mechanism

2.2.46 To save the earth from green house gases (GHG) a number of countries including India signed the 'Kyoto Protocol', (December 1997). Article 3 of the Protocol targeted reduction of emission of GHG by five *per cent* in the developed countries. Only those power plants that meet the United Nations Framework Convention on Climate Change norms and take up new technologies will be entitled to sell these credits. If the developed countries were unable to reduce their own carbon emissions, they could book the savings of GHG in developing countries in their account by paying some money to the concerned country. This whole system is named Clean Development Mechanism (CDM). In India, the MOE&F, GOI is nominated as DNA.

We noticed (April 2010) that the Company neither worked out the quantum of carbon credit nor taken any initiative for registration of its Power plants (Unit VII & VIII of PTPS II, Panipat, Unit I and II of DCRTPP, Yamunanagar and Unit I and II o RGTPP, Hissar) installed after January 2000 for sale of CER.

The Management stated (August 2010) that they would endeavour to get carbon credit benefits for all future projects.

Monitoring by top management

MIS data and monitoring of service parameters

2.2.47 Generating Company plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there should be documented management systems of operations, service standards and targets. Further, there has to be a 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 review of the system existing in this regard revealed that the Company fixes the targets for important operational parameters and has developed an MIS to monitor performance against these parameters. The BOD reviews periodically the operational/financial performance of the Company for taking remedial action in case of under performance. Proper disaster

* Consumption of water calculated on the basis of installed capacity of Unit VII and VIII with reference to the total installed capacity of PTPS.

management system is in place.

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

Conclusion

- **The Company failed to meet the growth in peak demand by 1,800 MW, as the net capacity addition was only 603.15 MW during 2005-10 due to delay in planning and implementation of capacity addition programmes.**
- **In order to meet the deficit of power, the State had to depend on short term purchases and unscheduled interchange sources of energy during 2005-10, which was costlier as compared to own generation cost and long term purchases.**
- **Both the units of RGTPP, Hisar were not completed in time and led to loss of expected generation of 3,790 MUs.**
- **Excess forced outages than CEA norm led to generation loss of 1,008.84 MUs and excess time taken in preventive maintenance resulted in generation loss of 2,196.97 MUs.**
- **The financial management was deficient as funds were kept in FDRs instead of reducing the burden of overdraft/cash credit.**
- **Delayed preventive maintenance of plants led to excess time in repair work and resultant generation loss.**
- **Environmental safeguards were not fully adhered to.**
- **The Company has proper MIS for taking remedial measures.**

Recommendations

The Company may consider:

- **intensifying its capacity addition programmes by close monitoring the programmes for timely execution so as to meet the national objective of power for all by 2012;**
- **taking measures to increase generation by increasing plant load factor of PTPS-I, Panipat;**
- **ensuring adherence to scheduled maintenance of the plants and upkeep of the equipments to avoid forced shutdowns of generating units;**
- **carrying out cost benefit study with reference to cost incurred on the refurbishment of Unit-I and II, PTPS, Panipat and the benefits achieved in financial terms;**
- **enforcing environment safeguards to bring the air, water and noise pollution within prescribed limits; and**
- **undertaking the study to explore the feasibility of measuring the carbon credit benefits.**

Introduction

2.1.1 Haryana Agro Industries Corporation Limited (Company) was incorporated in 1967 under the Companies Act, 1956 as a joint venture of the State Government and Government of India (GOI), with shareholding of 61.35 and 38.65 *per cent* respectively, with the objectives to promote agro based industries in the State, provide farmers with agricultural inputs and assist them in farm mechanisation. For attaining these objectives, the Company was running three manufacturing plants viz. Cattle Feed Plant at Jind, Agro Engineering Workshop at Nilokheri and Fertiliser and Chemical plant at Shahabad. Besides, the Company had a network of 17 Farmers Service Centres (FSCs) scattered through out the State for sale of seeds, fertilizers, pesticides, tractors and other agricultural machineries like diesel engine, electric motors, etc. to the farming community. The Company also owned six petrol pumps (PPs) and four godowns having storage capacity of 54,590 Metric Tonne (MT). The State Government had also assigned to the Company, the work relating to procurement of wheat, paddy and bajra for the central pool.

The Management of the Company was vested in a Board of Directors (Board) consisting of not less than two and not more than twelve directors including a Chairman and a Managing Director (MD), who were nominated/appointed by the State Government and GOI. As on 31 March 2010, there were nine directors (including two non officials nominated by GOI) on the Board including a Chairman appointed by the State Government. The MD was the Chief Executive of the Company and was assisted in day to day work by a Chief Administrative Officer-cum-Secretary, General Manager (Finance)-cum-Company Secretary and Deputy General Manager (Procurement) at Head Office and Deputy General Managers/District Managers in the field offices.

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Government of Haryana. The review was discussed by the Committee on Public Undertakings (COPU) and recommendations of COPU were contained in the 53rd Report presented to the State Legislature on 22 March 2007. The COPU, in the said Report had recommended (March 2007) that tenure of the Chief Executive should be three to five years for achieving results. During April 2004 to March 2010, the State Government appointed four MDs. The tenure of three MDs ranged between two and 23 months. However, the present MD was continuing with effect from January 2007.

Scope of Audit

2.1.2 The present performance review conducted during November 2009 to March 2010 covers the working of the Company, as per the audit objectives, for the last five years ending March 2010. Besides examining the records maintained at the head

office of the Company, we test checked records of seven[*] out of 17 FSCs, three out of four warehouses and two out of six PPs under the control of selected FSCs. The selection was made by adopting simple random sampling without replacement method and covered 56.46 *per cent* of the total turnover.

Audit objectives

2.1.3 The audit objectives of the review were to ascertain whether:

- the activities of the Company resulted in development of agro based industries, providing farmers with agriculture inputs and assisting them in farm mechanisation in consonance with its objectives;
- the manufacturing units operated at their optimum level;
- the Company executed the procurement of foodgrains for the Central pool, in an efficient, effective and economical manner;
- the Company raised bills and differential claims with the Food Corporation of India (FCI) for sale of wheat and rice accurately within stipulated period and received full reimbursement of all cost elements including the statutory levies imposed by the State Government;
- proper financial management (including availing of cash credit limit) existed; and
- the Company had devised effective monitoring and internal control/audit system.

Audit criteria

2.1.4 The following audit criteria were adopted:

- policy of the Company for investments and providing assistance to agro based industries, providing agriculture inputs, covering area under farm mechanisation and targets fixed thereagainst;
- installed capacity of manufacturing units and targets fixed thereagainst;
- targets fixed for procurement and delivery of wheat and paddy and prescribed norms/procedures/time limit for the same;
- Policy and guidelines of GOI/FCI for milling of paddy;

[*] Ambala, Jind, Kaithal, Karnal, Kurukshetra, Fatehabad and Sirsa.

- policy and guidelines of the Company/FCI regarding raising of bills etc.; and
- internal audit and other control procedures adopted by the Management.

Audit methodology

2.1.5 Audit followed the following methodology to assess the audit objectives with reference to the audit criteria:

- review of Company's policies, annual budgets, agenda/minutes of the Board meetings, COPU recommendations on previous review and interaction/discussion with the personnel of the Company;
- examination of records relating to procurement, storage and delivery of food grains to FCI, raising of claims for sale, differential claims and receipt of payments thereagainst;
- review of policy and guidelines of GOI/FCI and terms and conditions of agreements executed with the Millers;
- scrutiny of records relating to cash credit, payment of guarantee fee and other charges to the State Government and their reimbursement from FCI;
- review of investment of funds and debtors; and
- review of Management Information System (MIS) and various control procedures employed by the Company.

Audit findings

2.1.6 The audit findings were reported to the Government/Management in June 2010 and discussed in the Exit Conference held on 13 July 2010, which was attended by the MD and General Manager (Finance) of the Company. Views of the Management have been duly considered while finalising the review.

Audit findings are discussed in succeeding paragraphs.

Financial position and working results

2.1.7 Financial position and working results of the Company during the last five

years ended 31 March 2009* are given in ***Annexure 7***. The summarised position is stated below:

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Capital	4.14	4.14	4.14	4.14	4.14
Reserves & surplus	21.08	23.06	31.03	33.00	33.11
Liabilities	180.50	123.89	173.18	212.15	414.40
Assets	205.72	151.09	208.35	249.29	451.65
Income					
Sales of Wheat and paddy	520.71	503.82	419.08	538.72	563.99
Other sales	96.41	77.57	64.31	68.12	78.43
Total sales	617.12	581.39	483.39	606.84	642.42
Other income	7.24	6.14	3.75	6.81	32.92
Total Income	624.36	587.53	487.14	613.65	675.34
Expenditure	628.05	585.55	478.93	611.68	675.23
Net profit/loss (-)	-3.70	1.98	8.21	1.97	0.11
Percentage of Wheat and Paddy sales to total sales	84.38	86.66	86.70	88.77	87.79

- The Company had not worked out the working results of each activity separately in the manner as required under Accounting Standard 17 - Segment Reporting. In the absence of separate working results, the Company was unable to identify the loss making units/activities for taking corrective measures to improve upon. The Management stated (July 2010) that the segment reporting was being done. The reply was not acceptable as the Company did not prepare separate working results for each activity giving complete details of the expenditure and income activity-wise. However, during exit conference, the Management agreed to prepare activity wise working results.

- The percentage of sale of wheat and paddy to total sales ranged between 84.38 and 88.77 which showed that major portion of sales was contributed through procurement activity.

Net profit dropped from ₹ 8.21 crore (2006-07) to ₹ 0.11 crore (2008-09) due to high incidence of interest charges and delay in receipt of incidentals from FCI

- The net profit dropped to ₹ 11 lakh in 2008-09 as against the profits of ₹ 8.21 crore earned during 2006-07. The main reason for significant reduction in the net profit was high incidence of interest on borrowings which registered increase of ₹ 6.68 crore and ₹ 34.42 crore during 2007-08 and 2008-09 respectively. As the above borrowings mainly include cash credits availed for procurement activities on behalf of FCI, delay in receipt of the incidental dues from FCI had adversely affected the working results of the Company.

* Figures for 2009-10 were under finalisation and not available.

Reserves and surplus of ₹ 33.11 crore as on 31 March 2009 need to be seen in light of the following:

- Non provision for diminution in value of investment of ₹ 6.11 crore made in assisted sector which were overdue for buyback since 1997 to 2001 and the Company did not hold any tangible security against these investments.
- Non provision for sundry debtors amounting to ₹ 12.82 crore outstanding for more than three years and considered to be doubtful.
- Non provision for pay arrears payable to the employees amounting to ₹ 1.60 crore and guarantee fee amounting to ₹ 68 lakh payable to the State Government.

Fund Management

Budgetary control

2.1.8 The Company had been preparing budgets annually for the manufacturing plants and the FSCs. The table below indicates unit wise budgeted vis-à-vis actual profit (+)/ loss (-) during the last five years up to 2008-09.

(₹ in lakh)

Name of unit	2004-05		2005-06		2006-07		2007-08		2008-09♣	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
FSCs	-14.70	-194.09	36.91	-142.71	51.51	-140.74	16.89	-209.21	171.70	138.27
Cattle feed plant	2.60	-14.20	7.25	-14.12	7.25	-14.08	10.00	-30.06	125.00	107.12
Fertilizer and chemical plant	3.80	-50.49	4.40	-42.75	4.40	-46.22	6.00	-46.46	5.00	6.73
Agro Engineering Workshop	2.07	-16.02	0.24	-2.56	0.24	-5.46	2.50	-1.48	10.00	18.87

Though the budgets were got approved from the Board every year, the actual results thereagainst were neither analysed nor reported to the Board. There were wide variations in the budgeted and actual figures of the working results which proved that the budgets were prepared on *adhoc* basis without linking with the actual production and previous trends of demand/sales of its products. In case of FSCs, we observed that budgeted figures for sale of tractors in physical terms was kept at 34 numbers during each of the five years ended 2008-09 ignoring the actual sales, which significantly fell short of the budgets and was ranging between two numbers (2006-07) and 18 numbers (2007-08) during the corresponding five years' period. As the Company did not pay due attention to sale of tractors, it failed in achieving the objective of expanding the area under farm mechanisation. Besides, poor turnover figures had corresponding adverse impacts on the working results of FSCs. In its 53rd Report presented to State Legislature on dated 22 March 2007, the COPU had also recommended (March 2007) to avoid variation in budgeted and actual figures.

♣ Figures for 2008-09 represents gross profit only, as the Company had not prepared budgets for net profit/loss.

However, no action on COPU's recommendations was taken by the Company, as apparent from the above figures.

Guarantee fee

2.1.9 Keeping in view the procurement plan given by the State Government, the Company sends proposals through the State Government for sanction of cash credit limit to the Reserve Bank of India (RBI). After getting approval from RBI, the State Bank of India, being the nodal bank, sanctions/releases the limits as per requirement of the Company. On the cash credit limit so sanctioned, the State Government provides necessary guarantee, on which a guarantee fee at prescribed rates, was payable by the Company.

Wrong assessment of cash credit requirement

Company would have to pay ₹. 59.88 lakh as guarantee fee due to wrong assessment of cash credit requirement

2.1.10 The Company could not use cash credit limit of ₹ 479.05 crore guaranteed by the State Government during the five years up to 2008-09. The Government, however, charged guarantee fee on sanctioned cash credit and raised demand accordingly for the years 2003-04 to 2007-08. Resultantly, the Company would have to pay ₹ 59.88 lakh for the unutilised portion of cash credit. Had the Company made assessment of cash credit on realistic basis, it could have avoided the payment liability of ₹ 59.88 lakh. The Management stated (July 2010) that the matter has been taken up with Director Food and Supplies (DFS)*, Haryana to charge guarantee fee on cash credit limit availed by the Company.

Delay in submission of claims

Delayed claim of guarantee fee resulted in loss of interest of ₹ 60.86 lakh

2.1.11 For raising claims on FCI for reimbursement of guarantee fee, the Company was required to furnish the claims in the prescribed proforma showing the details of deliveries made along with the challans for payment made to the State Government. We observed that though the Company had paid guarantee fee of ₹ 1.84 crore up to May 2003 for the years 1999-2000 to 2003-04, the claims for reimbursement of the fee paid could be raised in July 2006. FCI reimbursed ₹ 1.78 crore thereagainst in August 2006. The delay of more than three years in submission of claims was caused mainly due to delay in deciding as to which branch at head office would prefer the claims after collecting required information from field offices. The delayed claim of guarantee fee had resulted in loss of interest of ₹ 60.86 lakh for the period from June 2003 to June 2006 at the rate of nine *per cent* at which cash credit was availed by the Company. The guarantee fee (₹ 2.02 crore) for 2004-05 to 2009-10 was recently paid (April 2010) to State Government and submission of claims to FCI for reimbursement of said amount was pending.

Non reconciliation of accounts

2.1.12 The Company procures gunny bales from Director General Supplies and Disposal (DGS&D) Kolkata through Director Food and Supplies (DFS), Haryana by

- DFS is the nodal agency to manage procurement activities in the State and to liaison with FCI/GOI on behalf of the procuring agencies.

sending indent along with full payment in advance for each crop year based on provisional rates subject to their subsequent adjustment. Since advance payment was released for each crop year on provisional basis, reconciliation of accounts at the end of each crop year was necessary to adjust the excess payments made, if any, towards advance payment to be made for next crop year.

Advances of ₹ 47.65 crore made to DGS&D for gunny bales remained unadjusted

We noticed that the Company did not reconcile its accounts before releasing advance payments of ₹ 146.06 crore during 2004-05 to 2009-10 to the DGS&D Kolkata. As on 31 March 2010, there was an unadjusted balance of ₹ 47.65 crore shown as advances to the DGS&D against cost of gunny bales which remained unreconciled. Had the Company reconciled the account with DGS&D, it could have avoided loss of interest of ₹ 29.21 lakh as discussed in succeeding paragraphs.

2.1.13 During Rabi 2009, the Company received 7,280 gunny bales from DGS&D Kolkata against the indent of 14,950 bales. On reconciliation among the procuring agencies, it was found that Haryana Warehousing Corporation (HWC) and Haryana State Co-operative Supply and Marketing Federation Limited (HAFED) had received 5,978 and 1,692 excess gunny bales respectively during Rabi 2009 procurement season. While HWC released payment of 5,978 gunny bales in March 2010 at current prices, payments for 1,387 gunny bales valuing ₹ 1.83 crore (after adjustments of 305 bales borrowed by the Company) from HAFED were pending (June 2010) thereby causing blockage of funds of ₹ 1.83 crore besides incurring the interest loss of ₹ 19.24 lakh from May 2009 to June 2010.

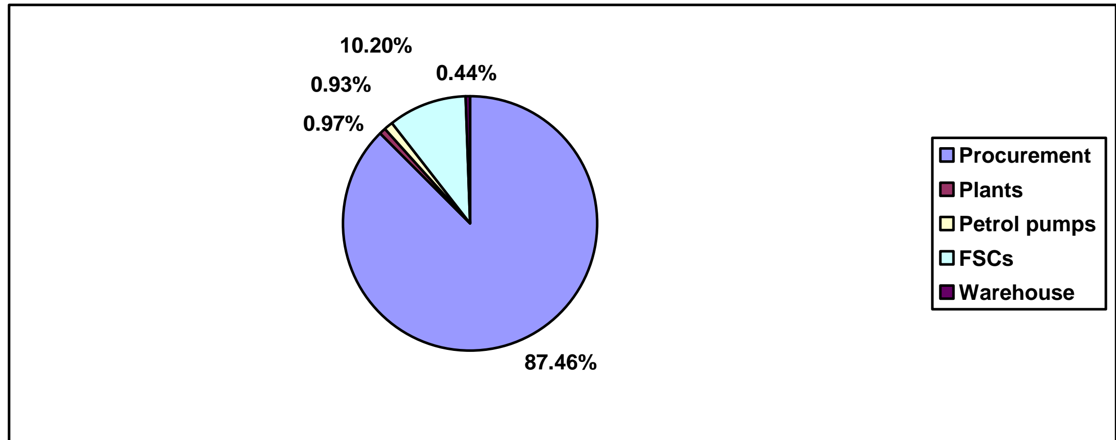
2.1.14 During Rabi 2008, the Company did not receive 403 gunny bales (value ₹ 45.82 lakh) out of indented 19,630 gunny bales for which full payment had been made to DGS&D. This had resulted in blockage of funds of ₹ 45.82 lakh besides loss of interest of ₹ 9.97 lakh for the period from February 2008 to July 2010.

Appraisal of activities

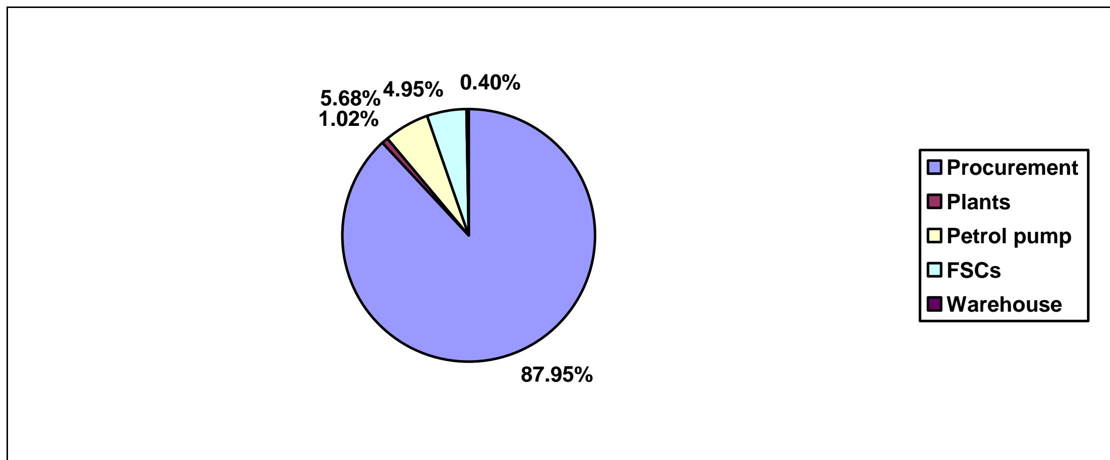
2.1.15 In order to attain the laid down objectives, the Company was running three manufacturing plants and 17 FSCs for manufacturing and sale of cattle feeds, pesticides, and various agricultural implements, besides trading of seeds, fertilizers, tractors etc. The Company was selling petroleum products through the network of six PPs and was also having four godowns. Besides, Company was also engaged in the procurement of foodgrains for central pool on behalf of FCI. Activity-wise turnover of the Company for the years 2004-05 to 2008-09 have been summarized under ***Annexure 7*** and the said figures for 2004-05 and 2008-09 are presented in the form

of pie charts as under:

2004-05



2008-09



The activity-wise analysis of Company's operations was as under:

Promotion and assistance to agro based industries

2.1.16 The Company was incorporated with the main objectives to undertake, assist, aid, finance and promote agro based industries such as poultry, dairy, land development, seed and other agro based industries in the State. However, the Company had not formulated any policy in this regard nor fixed any targets for achievement of these objectives. We observed that the Company made investment of ₹ 6.44 crore in 18 assisted sector units during 1991-97, out of which 17 units defaulted in buy back of investments of the Company as discussed in the paragraph 2.1.36 *infra*. Thereafter, the Company neither planned nor took any steps for providing assistance or promoting agro based industries in terms of fulfillment of its main objectives. Thus, the main objectives of formation of the Company were completely ignored.

Manufacturing Plants

2.1.17 In order to attain the objectives of providing farmers with agricultural inputs and assisting them in farm mechanisation, the Company was running three manufacturing plants viz. Cattle Feed Plant at Jind, Agro Engineering workshop at Nilokheri and Fertilizers and Chemical Plant at Shahbad. The capacity utilisation and working results of the manufacturing plants during the five years up to 2008-09 are shown in ***Annexure 8***.

Performance of individual plants has been discussed below:

Cattle Feed Plant, Jind

2.1.18 Cattle Feed Plant was set up in the year 1974 for manufacture of cattle feed. The total installed capacity of the plant was 30,000 MT per year. The annual capacity utilisation of the plant ranged between 20.29 and 27.70 *per cent* during the last five years up to 2008-09. The plant was constantly running into losses during all the five years. The annual losses ranged between ₹ 14.08 lakh (2006-07) and ₹ 50.43 lakh (2008-09) during the same period (after excluding warehouse income) with total loss of ₹ 1.23 crore during 2004-05 to 2008-09. The Company reviewed (July 2006) performance of the plant and found that low capacity utilisation was due to non obtaining of firm orders from market/milk unions, lack of marketing network to compete with the private manufacturers and high cost of production, etc. Besides, the Company was also facing shortage of technical and marketing staff necessary for smooth and profitable functioning of the plant.

Though the Company had analysed the reasons for low capacity utilisation of the plant, no steps had been taken to increase the same. The Company had no marketing network in the absence of which it was difficult to sustain in the competitive market. Further, the plant of the Company was outdated and had already served its useful life. In the absence of modernisation of plant, the Company would not be able to increase the production despite existing demand in the market.

Fertiliser and Chemical plant, Shahbad

2.1.19 The plant manufactures pesticides and insecticides on receipt of firm orders from Government agencies. The net losses of the plant during 2004-05 to 2008-09 ranged between ₹ 42.75 lakh and ₹ 60.93 lakh. The capacity utilisation of the plant during the same period was very low which ranged between 3.65 and 8.11 *per cent* and 0.01 and 2.69 *per cent* with regard to 'liquid formation' and 'powder manufacturing' respectively. The capacity utilisation of the plant was low due to poor marketing network. With a view to improve the sales, the Company appointed (January 2006) liaisoning agent for obtaining orders from the Government and other agencies. This showed positive results as the turnover of the plant for the year 2006-07 increased about three times in comparison to previous years. Services of the liaisoning agent could not be continued for 2007-08 due to his unwillingness to work on same terms and conditions. A new liaisoning agent was appointed for 2007-08 who did not perform well and the turnover reduced. No liaisoning agent was

appointed thereafter and there was further decrease in sales in 2008-09. The Company also failed to strengthen its own marketing network in the absence of a liaisoning agent. Resultantly, the plant had been incurring losses continuously during all the five years from 2004-05 to 2008-09. The Management stated (July 2010) that liasioning agent had now been appointed in March 2010 to improve the turnover.

Agro Engineering Workshop (AEW) Nilokheri

2.1.20 The Workshop was set up in 1968-69 to undertake jobs for manufacturing water tankers, tractor trollies, truck-bodies and other agricultural implements and its capacity was fixed (1968) to manufacture agricultural implements valuing ₹ 1.50 crore per annum. The workshop was presently manufacturing agricultural implements like harrows, trolley tillers, levelers, truck bodies, cattle crush etc. for the Government agencies only and no sale was being made directly to the farmers. The capacity utilisation of the workshop ranged between 26.97 and 55.11 *per cent* during the last five years up to 2008-09 with reference to monetary targets fixed.

During District Managers (DMs) meeting (July 2007) held in the presence of Chairman of the Company, it was decided that the workshop should explore possibilities to manufacture modern agriculture implements which were in demand by farmers. Scrutiny of records revealed that neither such implements were manufactured for the farmers nor efforts were made for marketing of these implements to benefit the farming community.

We noticed that main reasons for low performance of workshop were low turnover due to insufficient Government orders and negligible direct sales to farmers. Resultantly, the Company failed to achieve its objectives to provide agricultural implements at reasonable rates to farming community. The Management stated (July 2010) that the case was being processed to appoint a technical officer on contract basis to increase the activities at workshop. However, the Company should also explore opportunities to compete in open market for obtaining orders so as to minimise dependency on Government orders.

Thus, main reasons for poor performance of three manufacturing plants were:

Three manufacturing plants showed poor performance due to outdated plants, lack of technical manpower and dependence on Government orders

- outdated/over aged plants leading to high cost of production and low capacity utilisation;
- lack of effective marketing network;
- absence of qualified technical manpower; and
- high dependence on orders from Government agencies.

The COPU in its 53rd Report, had also recommended (March 2007) that the Government/Company may apprise as to how these plants could be made viable. However, no concrete steps had been taken by the Company in this direction.

Farmers Service Centres

2.1.21 As on 31 March 2010, the Company had 17 FSCs at district headquarters of the State for sale of fertilisers, tractors, pesticides, agriculture inputs etc. The Company also started the activities relating to petrol pumps and warehousing at various stations under the control of respective FSCs. We noticed that though the budgets for various activities of FSCs were prepared and approved by the Board annually, actual results thereagainst were not worked out and variations along with the reasons were not analysed and submitted to the Board for necessary corrective action.

The working results of the FSCs selected under review for the last five years up to 2008-09 are given in ***Annexure 9***.

It would be seen from the Annexure that turnover of the FSCs had decreased from ₹ 71.38 crore during 2004-05 to ₹ 70.81 crore during the 2008-09 and the loss increased from ₹ 1.94 crore to ₹ 4.21 crore during the corresponding years. The Company incurred a total loss of ₹ 11.08 crore during 2004-05 to 2008-09 in the operations of the FSCs. To improve the viability/profitability, the FSCs were impressed upon (January 2006) by the MD during a meeting with the DMs to improve turnover by exploring new areas and also strengthen the sales through launching of sales promotion schemes i.e. wide publicity of the products through buses, channels/advertisements, hoardings, display boards etc. The Chairman also stressed (July 2007) in the DMs another meeting that the FSCs should explore the possibilities of entering into new ventures in addition to the activities already being carried out. We observed that the Company did not evolve any system to get the feedback of its activities relating to providing services to the farmers in absence of which Company was not able to improve upon the areas of deficiencies. Therefore, the Company/FSCs could not take any such action/initiative to improve the viability of FSCs as well as safeguarding the interest of farmers of the State in lines with its main objectives.

Procurement of foodgrains for the central pool

2.1.22 The State Government declared (1988) the Company as one of the agencies for procurement of foodgrains, from various mandies allotted by the State Government, for the central pool under the Minimum Support Price (MSP) scheme. The foodgrains so procured were being delivered to FCI and costs incurred by the Company on procurement activities (including MSP and incidentals) were reimbursed by FCI based on the provisional economic costs fixed by GOI for each crop.

Wheat

2.1.23 The table below gives the procurement targets and achievements of wheat

during the last five years up to 2009-10.

(Quantity in lakh MT)

Crop year	Total quantity procured by state agencies (lakh MT)	Procurement by the Company	Percentage of Company's procurement to total procurement	Sale	Closing balance[∇] (Cumulative)
2005-06	45.29	4.29	9.47	4.69	0.42
2006-07	22.30	2.38	10.67	2.76	[#]
2007-08	33.50	3.33	9.94	3.35	[#]
2008-09	52.37	4.64	8.86	3.03	1.63
2009-10[•]	69.24	6.96	10.05	4.00	2.96

The Company achieved the procurement targets during all the years from 2005-06 to 2009-10 as its procurement ranged between 8.86 and 10.67 *per cent* against the allotted procurement targets of 9 *per cent* of the total procurement of the State. However, due to low off take by FCI, huge stocks remained with the Company during 2008-10.

Some cases of irregularities noticed during audit are discussed below:

Loss due to non-adherence to delivery schedule

2.1.24 For delivery of wheat, the Company had to adhere to the linkage plan as well as specific instructions issued by GOI/FCI from time to time failing which carry over charges were not reimbursed by FCI. The GOI authorised (February 2004) the Company to liquidate the entire stock of wheat of Rabi Marketing Season (RMS) 2003-04 latest by 31 March 2004 failing which the carry over charges would not be paid beyond this cut off date.

Non adherence to delivery schedule resulted in non-reimbursement of carry over charges of ₹ 70.35 lakh

We observed that District Manager, Sirsa did not adhere to the prescribed schedule and delivered wheat stock of 5,349.45 MT to FCI after this cut off date indicating lack of timely action by the Company. Consequently, FCI disallowed (March 2010) carryover charges of ₹ 70.35 lakh. Thus, non adherence to delivery schedule of FCI resulted in loss of ₹ 70.35 lakh to the Company.

The Management stated (July 2010) that the Company had taken up the matter with FCI for reimbursement of the carry over charges of ₹ 70.35 lakh.

Improper pursuance and defective documentation for claims

2.1.25 The GOI had allowed from time to time the Government of Haryana to dispose of the residual (old and damaged) stocks of wheat pertaining to the crop years 1998-99 to 2004-05 through tenders. The FCI was to reimburse the difference between the procurement price plus incidentals and sale value realised through

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[∇] Closing stock balances were not workable from opening stock, procurement and sale figures due to effects of moisture gain and shortages, which has not been assessed separately by the Company.

[#] Closing stock at the end of 2006-07 and 2007-08 was only 70 MT and 138 MT respectively.

[•] Position as on 15 July 2010.

disposal by tenders for the relevant crop year. In order to avail the reimbursement of differential costs, the Company was required to ensure that categorisation of damaged stock was done in association with the FCI before its disposal.

FSC Palwal submitted (March 2005) the sale bills of differential claims amounting to ₹ 84 lakh in FCI pay office, Faridabad for the years 1998-2001. The FCI returned (July 2005) the same on the plea that there were no clear instructions for making payment pertaining to these years. We noticed that after return of these bills, the Company did not pursue the case with FCI for payment.

Improper pursuance and incomplete documentation for differential claims of damaged wheat resulted in blockage of ₹ 8.76 crore and loss of interest of ₹ 2.17 crore

The Company submitted (April 2009) bills amounting to ₹ 8.76 crore (including bills of ₹ 84 lakh returned earlier) for the crop years 1998-99 to 2004-05 for the sales made up to March 2007 without fulfilling the stipulated procedure and completion of documents. The FCI returned (May 2009) these bills pointing out various deficiencies in documentation viz. non categorisation of stock, inclusion of Value Added Tax (VAT) in the sale bills, excess claim of carry over charges etc. The Company resubmitted the bills in August 2009, against which no payment had been released by FCI so far (July 2010).

Thus, Company's failure to ensure complete documentation and improper pursuance for the claims had resulted in blockage of claim amount of ₹ 8.76 crore (March 2010) with corresponding loss of interest of ₹ 2.17 crore on avoidable cash credits for the period from July 2007 to March 2010.

The Management stated (July 2010) that it had now reconciled the figures of damaged wheat with FCI and the matter was being persued.

Improper storage

2.1.26 The Company suffered loss of ₹ 25.55 crore due to failure in keeping the stocks in safe and healthy conditions at the first instance and then delayed action against the erring officials for recovery of loss. The delayed actions of the Company for recovery of loss from employees and filing of civil suits after a lapse of over four years made the huge amount of recovery impossible.

GOI issues guidelines for procurement of wheat each year in which emphasis was given on safe storage of stocks. The Company had also issued instructions (November 2003) for recovery of loss occurred in the storage and delivery of wheat from the concerned DM and the respective Mandi Inspector (MI) in the ratio of 30 and 70 *per cent* respectively.

The FCI intimated (August 2004) that 1.25 lakh MT wheat, pertaining to crop years 2002-03 to 2004-05 at Sirsa and Palwal had been damaged due to heavy rains and negligence in preservation of wheat. Instead of fixing the loss and initiating recovery proceedings immediately against the defaulting employees, the Company referred the matter (September 2005) to the State Vigilance Department for investigation. The Vigilance Department in its report (February 2006) held the DMs/MIs and inspecting officers/officials responsible for improper maintenance/checking of the stock and

Due to improper storage, the Company suffered loss of ₹ 25.55 crore

resultant damage of wheat. The Company, after a lapse of more than one year constituted (March 2007) In House Enquiry Committee so as to analyse the losses suffered and pinpoint the responsible officers/officials. The Committee reported (June 2007) that the Company had suffered a loss of ₹ 25.18 crore on this account. The matter was considered by the Board (October 2007) and decided that the case be examined by a Committee of two members of Board. The Committee of the Board in its report (February 2008) recommended for filing of FIRs/recovery suits and imposing major penalties against the defaulting officials. After the approval (April 2008) of the Board, FIRs were lodged (June/September 2008), and recovery suits for ₹ 25.55 crore with interest were filed (March/April 2009) against 14 officers/officials in the District Civil Courts. An expenditure of ₹ 1.30 crore was incurred by the Company towards court fee for filing of civil suits.

We noticed that of the four employees against whom ₹ 5.62 crore was recoverable, two had since been retired while other two had been dismissed. Had the Company initiated recovery action immediately on receipt of report from FCI in August 2004, it could have recovered the amount to some extent.

The Management stated (July 2010) that the exact loss for initiating recovery proceedings could be worked out after the sale of entire damaged stock, which was sold in 2006-07 and 2007-08 as feed category and after that the matter was considered and approved by the Board in April 2008. The reply was not based on facts as the loss could have been estimated after categorisation of damaged stock. The major portion of stock was categorised as cattle feed stock by FCI in March 2006 itself and all the stock was disposed of by June 2007 when the In-House Committee of Company assessed the loss.

Paddy

2.1.27 The Company enters into agreements with the Millers for timely milling of paddy and for delivery of rice to FCI. After procurement from the allotted mandis, the Company stores the paddy in the premises of the Millers selected for milling under the joint custody of the Company and the Millers. The Millers deliver the rice to FCI within the stipulated period after milling of paddy.

For smooth operation of Custom Milling of Rice (CMR), the State Government issued guidelines every year which *inter alia*, provided that:

- joint physical verification of the paddy would be conducted by the Company and Miller on a fortnight basis;
- selection of rice mills for CMR would be made by the Milling Committee headed by Deputy Commissioner (DC) at district level for all the procurement agencies. The rice mills which had satisfactorily delivered entire CMR during previous year by the stipulated date should be considered as eligible for allotment of paddy keeping in view their milling capacity;

- guarantee shall be obtained in the shape of cheques drawn in favour of the Company at the rate of ₹ 15 lakh (₹ 25 lakh for Khariff Marketing Season (KMS) 2008) for each tonne milling capacity and two sureties of *Arhtias* of same mandi.

- the rice miller would be required to deliver the entire rice by ensuing 31 March to FCI.

The State Government had allocated nine *per cent* share of the total paddy procurement made by State agencies to the Company. Though the Company had achieved the procurement targets in all the five years up to 2009-10, rice quantity of 1,379 MTs, 510 MTs and 1487• MTs was short delivered to FCI during crop years 2007-08, 2008-09 and 2009-10 respectively.

Deficiencies noticed in this activity are discussed below:

Misappropriation of paddy

2.1.28 M/s Jai Bajrang Rice Mills, Jind (Miller) was considered for allotment of paddy by District Milling Committee, Jind during KMS 2007 and 5,414.70 MT paddy was stocked in premises of the miller. As per agreement, the Miller was required to obtain 3,627.85 MT rice against milling of 5,414.70 MT of paddy at the rate of 67 *per cent* and deliver the same to FCI by 31 March 2008. However, the Miller short delivered 1,379.05 MT of rice to FCI. On the failure of rice Miller to deliver the rice, the Company conducted physical verification of the stock lying in the premises of Miller and recovered (October 2008) 864 MT of rice lying in the premises. However, there was still shortage of 515.05 MT of rice, which was pending for recovery till date (July 2010).

We observed the following deficiencies on the part of the Company:

- the Miller was defaulter during KMS 2006 due to non-delivery of rice by the due date i.e. by 31 March 2007, and despite poor track record, miller was considered for allotment of CMR in KMS 2007 in contravention to the State Government guidelines;

- as per State Government instructions, the Miller having capacity up to 3 MT per hour was to be allocated maximum of 4,000 MT paddy. The Company however, allotted 5,414.70 MT paddy to this Miller having capacity of 3 MT resulting in excess allotment of 1,414.70 MT paddy;

- entire paddy was released to the Miller in one lot which facilitated miller to misappropriate the rice;

- failure of the miller to deliver the rice to FCI and existence of stock of rice in the premises of the Miller indicated that periodical physical verification was not conducted;

• As on 14 July 2010.

- the Company obtained security in the form of three post dated cheques of ₹ 15 lakh (dated 31 March 2008) each. The Company, however, neither presented these cheques for payment within validity period nor got the same revalidated before their expiry. The Company obtained another two cheques (15 December 2008 and 15 January 2009) of ₹ 25 lakh each from the miller towards CMR not delivered to FCI. The Company presented these cheques for encashment repeatedly during January to May 2009, but the same could not be encashed due to 'insufficient funds'. The Company preferred complaint under Section 138 of the Negotiable Instruments Act, 1881 only in July 2009, though the same could have been lodged in January 2009 itself. The Legal Advisor of the Company had advised (November 2008) to lodge FIR against the miller as well as the DM concerned, but the same had not been lodged till date (June 2010).

Thus, the Company failed to comply with the guidelines of the Government and extended undue favour to the Miller which facilitated misappropriation of rice (1,379.05 MT) valuing ₹ 1.92 crore. After adjusting the amount against the dues payable to Miller (₹ 85.91 lakh) and sale of rice (864 MT value ₹ 63.29 lakh) seized from Miller's premises, the Company suffered loss of ₹ 69.81 lakh (including loss of interest of ₹ 27 lakh).

The Management stated (July 2010) that on being pointed out by us, the concerned DM had been charge sheeted for causing loss to the Company and efforts were being made for recovery of dues.

2.1.29 Similarly, M/s Devi Dayal Sachin Kumar, Shahbad was allocated 3,010.40 MT paddy for milling in KMS 2008-09. As per agreement (October 2008), the Miller was required to manufacture 2,016.97 MT rice at the rate of 67 *per cent* and deliver the same to FCI by 31 March 2009. The Miller submitted two cheques of ₹ 25 lakh each dated 31 March 2009 drawn on State Bank of India (SBI), Shahbad towards security deposit. The Miller, delivered 1,511.36 MT of rice up to July 2009 and failed to deliver remaining quantity of rice (505.61 MT) to FCI. The Company's loss on this account worked out to ₹ 96.85 lakh (including interest of ₹ 14 lakh) after adjustment of dues (₹ 15 lakh) payable to the Miller and recoveries (₹ 25 lakh) already affected. The Company neither encashed two cheques valuing ₹ 50 lakh with in validity period nor got the same revalidated before their expiry.

In this case also, the Company failed to comply with of the State Government guidelines regarding procurement and milling of paddy resulting in undue favour to the miller, which caused misappropriation of paddy.

Non-enforcement of milling guidelines by the Company resulted in non-recovery of ₹ 1.67 crore

The Management stated (July 2010) that the Company was making efforts to recover the dues and a criminal case had been filed (June 2010) against the miller.

Thus, despite misappropriation of paddy by the millers, the Company at the first instance failed to encash the cheques within validity period and secondly, take appropriate action to recover the dues which resulted in non recovery of ₹ 1.67 crore.

Bajra procurement

2.1.30 The Company had been procuring bajra on behalf of FCI since 2003-04 and its share was assigned at nine *per cent* in the total procurement in the State. The bajra procured was to be disposed of by the Company as per directions of FCI.

The table below indicates the area under cultivation, total production, Company's procurement, MSP and prevailing rates in respect of bajra for the last five years up to 2009-10.

Crop year	Area under cultivation (lakh hectare)	Total production (lakh MT)	State Procurement (in MT)	Company's share in State procurement (at the rate of 9 *per cent*) (in MT)	Actual procurement of the Company (percentage)	MSP	Market rate
						(₹ per quintal)	
2005-06	5.92	6.79	4895	441	153 (3.13)	525	490-586
2006-07	6.21	10.24	----	----	----	540	545-720
2007-08	6.30	11.61	122718	11045	1952 (1.59)	600	540-610
2008-09	6.10	10.79	310478	27943	89646 (28.87)	840	730-847
2009-10	5.20	9.62	77376	6964	----	840	840-930

An analysis of the above table reveals that the Company failed to achieve the procurement targets set by the State Government during 2005-06 to 2009-10 except in 2008-09. Its share in total procurement ranged between nil to 3.13 *per cent* (except during 2008-09) against the target of 9 *per cent*. Though, during 2008-09, there was no increase in the area under cultivation and there was decrease in total production of bajra in the State, the procurement by the Company jumped to 89,646 MT from 1952 MT in 2007-08. The increase in procurement was mainly on account of procurement from outside States due to comparatively higher MSP than the prevailing market rate of bajra.

Non-reimbursement of interest charges

Non claiming of interest charges for sale of bajra beyond 31 March 2009, resulted in loss of ₹ 3.92 crore

2.1.31 FCI did not provide interest charges to the Company on holding of bajra beyond 31 March each year though sale of bajra was to be made on the directions of FCI and it was often sold by FCI through auction after 31 March. Resultantly, the Company suffers loss of interest in sale of bajra by FCI after 31 March whereas it had to pay interest to the banks on corresponding cash credits availed. The Company procured 89,646 MT bajra during KMS 2008-09 and 89,341 MT bajra remained unsold as on 31 March 2009. The interest charges incurred by the Company due to delayed sale of bajra worked out to ₹ 3.92 crore on the stock of bajra (KMS 2008-09) remaining unsold beyond 31 March 2009. During exit conference, the Management agreed to take up the matter with FCI.

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worked out at the rate of ₹ 82.94 per MT per month allowed by FCI for KMS 2008-09, for the period from 1 April 2009 to 31 March 2010.

Petrol Pumps

2.1.32 The Company set up one petrol pump (PP) at Gurgaon during 1974-75. The Indian Oil Corporation (IOC) allotted (October 2003) 10 PPs to the Company to be established at different locations in the State. The Company could establish only five PPs (Murthal, Pipli, Hissar, Yamunanagar and Karnal) and could not set up remaining five PPs against allotments by IOC.

The Management attributed (July 2010) reasons for not setting up all the PPs to non-receipt of no objection certificate from competent authority, non transfer of title deed in favour of the Company, unviable locations and non approval of sites by IOC. The reply was not acceptable as the reasons put forth by the Company for not setting up the PPs were avoidable and could have been sorted out by the Company by selecting alternative sites and fulfilling the procedural requirements prescribed by IOC. Thus, the farmers of these areas were deprived of the quality supply of petroleum products.

Working results of PPs

2.1.33 The sales and gross profit of the PPs of the Company for the last four years up to 2008-09 are tabulated below:

(₹ in lakh)

Sl. No.	Location of PPs	2005-06		2006-07		2007-08		2008-09	
		Sales	Gross profit⊗	Sales	Gross profit	Sales	Gross profit	Sales	Gross profit
1.	Gurgaon	557.47	11.53	707.88	11.93	876.26	17.72	942.76	16.05
2.	Hissar	307.81	5.58	716.61	18.55	812.29	16.68	729.47	10.47
3.	Karnal	34.51	0.62	268.95	4.75	322.83	6.41	347.69	5.24
4.	Pipli	94.75	2.17	168.37	2.15	242.95	7.71	336.85	5.58
5.	Yamunanagar	183.12	4.23	572.11	8.67	669.90	13.69	724.23	12.84
6.	Murthal	151.23	2.49	444.61	3.26	549.09	16.49	568.22	11.11
	Total	**1328.89**	**26.62**	**2878.53**	**49.31**	**3473.32**	**78.70**	**3649.22**	**61.29**

From the table, it can be seen that all the six PPs were earning gross profits during all the four years upto 2008-09. The turnover figures of two PPs i.e. Karnal and Pipli were, however, comparatively low. The Management had not analysed the reasons for poor performance of these two PPs.

We, however, noticed that the PP at Karnal was set up in a remote village ignoring the recommendations of the IOC to set up the PP at GT Road, Nilokheri. The unsuitable location of the PP was the main cause for its poor performance. As regards the poor performance of PP at Pipli, we noticed that the PP had lack of basic infrastructure (i.e. metalled entrance road, shed, etc.) and inadequate staff, which was essential for better operation of PP.

⊗ The gross profit excludes lease money received from IOC as the same had been merged with the miscellaneous income of the FSCs.

Warehousing Activities

2.1.34 The Company started warehousing activities at Shahabad, Pipli, Murthal and Jind during 2002-03, with the storage capacity of 54,590 MT. These godowns were leased out to FCI under the seven years guarantee scheme. As per the scheme, the lease payments against these godowns were to be made by FCI at the rates fixed by Central Warehousing Corporation (CWC). Accordingly, the full payment against the installed capacity of the godown was received by the Company at the rates notified by CWC from time-to-time. The warehouses were functioning under the control of the respective FSC located in the area where warehouse was situated. However, the working results of the warehouses were being merged with the FSCs accounts and no separate accounts were maintained depicting complete details of income and expenditure for these warehouses so as to assess their operational results.

During test check of records of the selected three warehouses at Shahabad, Pipli, and Jind having capacity of 49,590 MT (91 *per cent*), following deficiencies were noticed:

- At Pipli warehouse, the Company charged old rate of ₹ 35.80 per MT from the FCI up to October 2009 whereas rates had been revised to ₹ 38.00 per MT[α] by CWC retrospectively from April 2004 which were also approved (August 2009) by FCI. The Company, however, failed to claim the differential amount so far (March 2010) which was indicative of ineffectiveness of the monitoring system of the Company. This had resulted in under recovery of ₹ 21.51 lakh from April 2004 to October 2009. The Management stated (July 2010) that differential bills have now been raised.

Non pursuance for payment of warehousing charges as per revised rates resulted in non-recovery of ₹ 1.48 crore

- The CWC rates were revised (November 2008) to ₹ 54 per MT w.e.f. November 2008. The FCI, however, did not accept the bills raised by the four warehouses at revised rates as the revised rates of CWC were pending for adoption by FCI. The Company took up the matter with the FCI in March 2009, but did not pursue the case thereafter and Company continued raising bills at old rates. This has resulted in non-recovery of ₹ 1.48 crore up to March 2010 on total 54,590 MT capacity from November 2008 to March 2010. The Management stated (July 2010) that though the CWC had revised the rates, same were pending for approval by FCI/GOI for implementation in respect of State procurement agencies. The reply is not acceptable as the Company, being directly affected with the revision and considering the huge recoveries involved, needs to pursue the issue vigorously with FCI for necessary notification of revised rates.

[α] Shahbad, Jind and Murthal warehouses have recovered the storage charges at revised rates.

Loss due to indecisiveness

Non-disposal of Murthal Plant

2.1.35 The State Government had decided in September 1997 for disposal of the plant. The COPU in its 53rd Report of March 2007 had also recommended that the disposal of plant be appraised. But no steps were taken by the Company in this direction. The Company, however, invited (September 2007) tenders to lease out the plant against which one party responded (September 2007) offering annual lease of ₹ 12 lakh. The Board did not approve (December 2007) the proposal and desired to explore possibilities for setting up of cold storage/warehouse. The matter was again placed before the Board (April 2008) and Board desired to engage a consultant to suggest viable projects to make proper utilisation of surplus land and machinery. A Committee was constituted to select consultant and examine the proposals submitted by consultant. After examining the proposals of consultant, Committee suggested (September 2008) the following two options:

a) to construct additional godown of the capacity of 5,000 MT of food grains which would generate estimated profit of ₹ 15 lakh per year; or

b) to lease out the plant at minimum lease rent of ₹ 15 lakh per year.

No decision was, however, taken against the suggestion made by the Committee. In June 2009, the Board decided to construct godown by HWC for the storage of 10,000 MT of food grains on the surplus land and dispose of plant and machinery. After the valuer assessed the value of Plant and Machinery at ₹ 12.52 lakh, the Company invited tenders for disposal of plant and machinery which were opened on 25 November 2009. The highest price of ₹ 5 lakh received was considered much below the reserve price and it was decided to re-invite the tenders. In the re-invited (January 2010) tenders, four parties participated and highest bid of ₹ 8.25 lakh received was accepted (June 2010) and the plant was disposed of. The Company, further, decided to construct additional capacity of 18,000 MT of godowns. The work of construction of additional capacity of godowns was, however, not commenced so far (June 2010).

The series of events narrated above were indicative of indecisive approach of the Company which abnormally delayed the disposal of the plant despite the recommendations of COPU.

Non realisation of investments

2.1.36 A reference was made in the Report of the Comptroller and Auditor General of India for the year 1997-98 (Para 2A.8) regarding investments of ₹ 6.44 crore by the Company in 18 unviable units under the Assisted Sector Scheme. Out of these 18 units, however, one unit had already fulfilled the obligation by buy back of shares in September 2000. While discussing the para, COPU had recommended (December 2001) that screening committee which identified these units without analysing their financial viability should be held responsible. The action taken note submitted by the

Company on the issue was under consideration of the COPU (March 2010). The Board constituted (March 2004) a sub-committee of three directors to hold negotiations with the promoters of defaulting units. The negotiations were held with the promoters in September 2004. The promoters were interested in making payments at the face value of shares and none of the promoters agreed to make payments as per collaboration agreement. The Committee, however, recommended for recovering full amount. We noticed that the Haryana State Industrial and Infrastructure Development Corporation Limited, which had jointly participated in most of these cases of equity investment, had already decided (2003) to settle the cases with the promoters at face value of the share. The Company also put up (March 2006) the case before the Board with the proposal to recover the amount at face value of shares with 16 *per cent* interest from the date of decision of settlement to the actual date of payment. The Board, however, did not agree and advised to pursue all cases in the courts for recovery as per provisions of law.

The Board again constituted (March 2009) a sub-committee of three directors to give their recommendation for settlement of the cases. The sub-committee keeping in view non-availability of any tangible security with the Company and the fact that some units registered with Board for Industrial and Financial Reconstruction (BIFR), recommended (November 2009) for settlement at face value of shares plus 10 *per cent* simple interest or double the amount of equity participated whichever was lower. The Board approved (February 2010) the above recommendations of the committee which were also got approved from the State Government. The Management stated (July 2010) that the Company had received consent of 10 promoters for making payment and ₹ 2.97 crore had been recovered so far. However, a sum of ₹ 9.01 crore as worked out by the Company, was still recoverable. The Company needs to recover the dues from other promoters also by pressing them to adopt settlement scheme so as to improve its liquidity and decrease interest liability.

Receivables

Debtors

2.1.37 The Company had not framed any credit policy for marketing of its products and trading items. As on 31 March 2009, the Company was having debtors of ₹ 66.03 crore.

Out of this, ₹ 63 crore was recoverable from FCI. The Company recovered an amount of ₹ 48 crore from FCI up to July 2010 and ₹ 15 crore remained outstanding for more than five years. This includes ₹ 8.76 crore recoverable from FCI on account of differential claims for old and damaged stock of wheat for the crop years 1998-99 to 2004-05 pending for want of non-fulfillment of stipulated procedure and non-completion of documents by the Company (Para 2.1.25 *supra*).
Further scrutiny of debtors in audit revealed the following points:

- Due to non pursuance at higher level with FCI, an amount of ₹ 1.15 crore was outstanding in respect of FSCs Sirsa, Ambala, Fatehabad, Karnal, Jind and Kurukshetra on account of depreciation on gunnies for crop years 2007-09.

Non pursuance with FCI and non fulfillment of stipulated procedure resulted in non-realisation of ₹ 9.30 crore for the last five years

- In FSC Palwal, ₹ 10.44 lakh were shown outstanding against FCI for more than three years against transportation charges on account of shifting of Paddy beyond eight KMs. Similarly, the Company had reimbursed ₹ 54.28 lakh (₹ 25.08 lakh and ₹ 29.20 lakh for 2004-05 and 2005-06 respectively) to the Millers for transportation of paddy beyond 8 KMs at ten other FSCs. The same was not reimbursed by the FCI due to non pursuance at higher level.

- In FSC Palwal, the Company has shown ₹ 15.76 lakh outstanding against FCI for more than three years as transportation charges on account of shifting of bajra which was not recoverable in terms of policy of FCI and needs to be written off.

Thus, due to non pursuance at higher level with FCI and not maintaining proper records, huge amount had been blocked for a long period affecting adversely the day to day working capital needs and long term financial health of the Company. The Company needs to vigorously pursue the issue with FCI so as to the resolve the ongoing dispute and recover the old pending dues. Further, a decision should be taken for writing off the dues shown as recoverable from FCI but not admitted by FCI for reimbursement or the dues having very low chances of reimbursement by FCI.

Advances

Amount of ₹ 2.55 crore were shown recoverable from three employees on account of shortages/damages who had since expired

2.1.38 As on 31 March 2009, the Company had depicted an amount of ₹ 10.03 crore as advances recoverable from its employees under the head other advances. However, the same were in the nature of recoveries to be made from employees on account of less gain, moisture cut, shortages in foodgrains etc. Out of this, ₹ 5.17 crore was outstanding for more than three years and included a sum of ₹ 2.55 crore outstanding against three employees, who had since expired (January 1997, December 2003 and July 2005). The outstanding against expired employees pertain to shortages/damages of foodgrains recoverable from them for the years 1988-89 to 2003-04. We observed that the Company booked the huge amounts of shortages against the junior staff, recovery of which was unrealistic in most of the cases. This fictitious booking of recoveries tantamount to covering up the losses artificially on account of shortages through manipulation tactics.

The Management stated (July 2010) that all retirement benefits of employees against whom the advances were outstanding have been withheld and the Company had been filing recovery suits against such employees. However, the chances of recovery were very remote and the Company had already made a provision of ₹ 6.23 crore against these doubtful advances.

Manpower

2.1.39 In view of closure of certain activities, excess administrative cost, government policy regarding non filling up the vacant posts and negligible profit margin, the Company proposed restructuring plan of manpower which was approved (January 2004) by Haryana Bureau of Public Enterprises (HBPE) of the State Government.

The detailed staff position at the time of restructuring, restructured set up and actual deployment of staff (March 2010) thereagainst were as follows:

Category	Staff position at the time of approval of restructuring plan	No. of post approved by Bureau	Staff in position as on March 2010
Category-A	8	7	4
Category-B	25	29	10
Category-C	205	124	108
Category-D	152	37	113[◊]
Total	390	197	235

Against the actual strength of 390, the Government approved 197 posts only and balance posts were kept in the diminishing cadre to be abolished over the time on the retirement of the incumbents. However, the Company did not fill the vacancies occurred after retirements in A, B, and C categories, which resulted in depletion of strength in these categories.

Following further observations are made:

The vacant posts in category "A" included one post each of the Chief Accounts Officer (CAO) and the Deputy General Manager (DGM) which were lying vacant since 2005. The 19 posts vacant in category "B" include 14 posts of DMs (Out of 15 sanctioned) which became vacant on the retirement of occupants over a period of time (six before 2005, two from 2005-06, two from 2006-07, one from 2007-08 and three from 2008-09) and the same had not been filled so far (July 2010).

We observed that in the absence of CAO, DGM and DMs, the work of headquarters office and district offices in the field relating to procurement and storage of foodgrains was being looked after by junior officials. The assignment of work of higher responsibility involving high monetary risks to the junior staff without proper supervision, possibilities of committing errors and misappropriation could not be ruled out. Further, the deployment of staff was found to be inadequate in comparison to other State procuring agencies which had adverse impact on functioning of Company. The Management stated (July 2010) that to pull on the ongoing activities, there was no remedy with the Company than to post junior staff. During Exit Conference the Management stated that problem would be overcome on the proposed merger with Haryana Land Reclamation and Development Corporation.

◊ Excess posts kept in diminishing cadre.

HAIC Agro Research and Development Centre

Results of the centre in which the Company had contributed ₹ 8.35 crore as capital fund, were not apprised to the BOD of the Company

2.1.40 The Company set up (1993) the HAIC Agro Research and Development Centre as a registered society for carrying out research and development activities in the State. The Company had contributed ₹ 8.35 crore towards capital fund of society till 2001-02. The Directors in the governing body of the Centre were the officers and Directors of the Company. We observed that the Company did not evolve any system to ensure that funds contributed to the Centre had been utilised properly for the intended purpose. It could not be ensured from the records of the Company that the Centre was making efforts for accomplishment of its objectives and spending the funds provided by the Company judiciously in accordance with the canons of financial propriety. The working results of the Centre were neither being reviewed by the Company nor brought to the notice of the Board/State Government. However, during exit conference, the Management agreed to place the working results of the Centre before the Board of Directors on regular basis.

Internal Audit and Internal Control

Internal Audit

2.1.41 The Company had not prepared internal audit manual prescribing the scope and extent of internal audit checks. The internal audit of field units of the Company was got conducted from the firms of Chartered Accountants (CAs). We noticed that the internal audit reports of CAs contained points of routine nature and did not point out any system lapses/deficiencies. The Company had not prescribed any system to prepare action plan for internal audit based on the risk factors resulting in audit being conducted without deciding the priorities. Unit wise number of inspection reports, paras outstanding were not compiled to monitor outstanding observations and to ensure the compliance of outstanding objections. The Management stated (July 2010) that the inventory of outstanding paras was compiled to ensure compliance thereof. However, no such inventory was made available to us for examination.

Internal Control

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

- In the field offices, despite large number of financial transactions, the system of cash management was not effective. This was also pointed out by the CAs in their reports.

- Books of accounts were not properly maintained. All the monetary transactions like raising bills, recovery of dues, writing of cash book and deposit in the banks were assigned to assistant accountants or even to the lower level staff, without adequate supervision.

- Huge closing stock of wheat was lying in open plinth which was prone to damage. There was no system of having insurance cover against loss due to fire/theft.

- The instructions of the State Government regarding joint custody and inspection of paddy issued for CMR had not been followed strictly which resulted in incidents of misappropriation of rice.

The field staff of the Company was neither trained nor properly equipped to carry out procurement duty

- Joint inspection by the officers of State Government and FCI pointed out (February 2008) that the field staff was neither trained nor properly equipped to carry out procurement duty as most of the centre incharges were not even aware of the specifications and not having analysis kits and moisture meters.

- Large dues were outstanding against FCI and employees of the Company for which there was no systematic approach for recovery.

- The Company had shortage of manpower in category A, B and C, which affects the smooth working and effectiveness of internal control systems, as due to shortage, the work was allotted to junior officials.

The Management stated (July 2010) that lower level staff was maintaining books of accounts due to shortage of staff and stock lying in open was not being insured due to higher premium not reimbursable by FCI. Recovery of outstanding dues from employees would be affected from the retirement benefits and by filing recovery suits. The reply was not acceptable as the higher management cannot absolve itself from the huge losses as it was also responsible for effective supervision and monitoring. Further, huge recoveries booked against the lower staff were not practically possible.

Some other points on failure of internal control system were as under:

Non payment of statutory dues

Service Tax

Non fulfillment of service tax provisions resulted in interest and penalty liability of ₹ 45.28 lakh in respect of FSCs

2.1.43 The Company makes payment of transportation charges on transportation of wheat by road from mandis either to its own godowns or to FCI's godowns. As per provisions of the Finance Act 1994, the Company was responsible for depositing the Service Tax on behalf of the transporters with effect from 1 January 2005. We observed that six of the seven FSCs test checked, had neither recovered the component of Service Tax from the transporters relating to transportation of wheat nor deposited the same with the tax authorities. The remaining one FSC (Jind), however, had started depositing Service Tax since June 2008. As per Section 75 and 76 of Finance Act, 1994, interest and penalty was also payable by the defaulter on

delayed payment of Service Tax at the rates prescribed from time to time for the period of delay.

The Service Tax liability of seven FSCs test checked worked out to ₹ 23.61 lakh for the period from 2005-09 besides interest and penalty of ₹ 21.67 lakh*. As the dues of Service Tax component pertain to old periods, chances of their recoveries from transporters were remote. During exit conference, the Management agreed to streamline the system.

Value Added Tax (VAT)

2.1.44 The paddy procured by the Company was got milled through the millers selected annually as per prescribed procedure. The market rate of milling ranged from ₹ 150 to ₹ 200 per quintal during the year 2008-09. The GOI had fixed the provisional milling charges at ₹ 15 per quintal (including transportation charges up to 8 KMs) for the corresponding period keeping in view the fact that the by-products viz. broken rice (6 to 7 *per cent*), rice bran (7 to 8 *per cent*), paddy husk (17 to 18 *per cent*) and Nakku (1 to 2 *per cent*) were also retained by the millers. In view of this, Excise and Taxation Commissioner (ETC), Haryana in its guidelines endorsed to the Company on 21 April 2009 had observed that allowing retention of by-products to the millers by paddy procurement agencies was in nature of barter arrangement with the millers. Accordingly, ETC had assessed value of by product (based on rates prevalent during 2008-09) retained by the millers at ₹ 151.75 per quintal which would add to the turnover of the procuring agency and invite levy of VAT as per provisions of Haryana VAT Act applicable with effect from 1 April 2003. ETC also advised the Company to pay VAT accordingly. The non-payment of VAT also attracted penalty equivalent to a sum thrice the amount of tax which had been avoided.

Company's liability due to non-fulfillment of VAT provisions worked out to ₹ 28 crore including penalty

We observed that the Company was required to pay VAT of ₹ 7 crore on total turnover of ₹ 174.89 crore (at the rate of ₹ 151.75 per quintal of paddy milled as assessed by ETC for 2008-09) of by products produced during custom milling of paddy during 2005-06 to 2009-10 as per above guidelines. However, Company had not made VAT payment of ₹ 28 crore including penalty of ₹ 21 crore.

The Management stated (July 2010) that as the by-product remained with the miller, the liability of the VAT was that of the miller. The reply is not acceptable since the benefit of by-products is availed by the Company in the shape of lesser milling charges. However, during exit conference, the Management agreed to take up the matter with ETC.

The Company needs to streamline the system of recovering the VAT relating to the value of the by-products from the millers in future and timely remitting the same to the VAT authorities. Further, the issue of VAT liabilities and the leviable penalties

* Simple interest (₹ 7.61 lakh) for period of delay at the rate of 13 *per cent* per annum and penalty (₹ 1.06 lakh) at the rate of 2 *per cent* per month on unpaid tax for the period of default.

thereon for prior periods also need to be resolved with the ETC, FCI and the concerned millers.

Acknowledgement

In addition to examination of records and documents, a number of issues were deliberated for conducting this performance audit by the audit team. We acknowledge the co-operation and assistance extended by different levels of Management at various stages of conducting performance audit.

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

Conclusion

- **The activities of the Company were procurement concentric and it failed to pay due attention towards promoting agro based industries, providing agricultural inputs and assisting farmers in farm mechanisation, etc., which were the main objectives of forming the Company.**

- **The Company failed to evolve any system to get feedback of the impact of its activities in bringing improvement in the conditions of the farmers.**

- **The Company failed to provide agricultural implements to the farmers at competitive rates. The manufacturing plants with obsolete infrastructure had no effective marketing network and were highly dependent for supply orders on Government organisations. The Company, despite analysing the reasons for low capacity utilisation of the plant, did not take any remedial measure.**

- **Though the procurement activity of the Company for the central pool contribute significantly towards its total turnover and profits, deficiencies were noticed in adherence of delivery schedule, and proper storage of foodgrains. The Company also failed to enforce terms of agreements executed with the Millers for milling of paddy thus putting the interests of the Company at stake.**

- **The Company did not raise differential claims as per prescribed procedure and in time resulting in blockage of funds.**

- **The activities of FSCs showed adverse operational results during all five years under review raising questions on their viability.**

- **The manpower in A, B and C categories was inadequate resulting in junior staff undertaking higher responsibilities involving huge funds without any supervision thereby exposed to risks of committing errors and misappropriation.**

- **The Company did not prepare budgets on realistic basis and was not prompt in claiming from FCI, the reimbursement of guarantee fee paid to State Government. There are remote chances of recovery of dues shown recoverable from employees.**

- **There were deficiencies in the internal audit and internal control system of the Company which needs improvement.**

Recommendations

- **The Company needs to channelise its resources for achieving its main objectives of development of agro based industries and farm mechanisation.**

- **The Company should upgrade old machinery of its manufacturing plants and appoint appropriate technical, marketing and accounting staff, in order to make the plants viable.**

- **The Company should strictly impose milling agreements with Millers for custom milling of paddy so as to safeguard against losses.**

- **The Company should raise the differential claims timely and accurately.**

- **The Company should strengthen its marketing and explore possibilities of new ventures so as to enhance turnover of FSCs and make them viable.**

- **The Company should prepare budgets on realistic basis by linking production and demand of its products.**