Chapter-III

Transaction Audit Observations

Chapter III

3 Transaction Audit Observations

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

Government companies

Haryana Power Generation Corporation Limited

3.1 Avoidable loss due to deficient contract

HPGCL had incurred loss of ` 1.87 crore on account of excess transit loss *vis-a-vis* HERC norms due to entering into deficient contract with coal agent.

Haryana Power Generation Corporation Limited (HPGCL) procures coal from various coal companies of Coal India Limited through rail for its Thermal Power Stations (TPSs). HPGCL (Company) appoints coal agent for supervision of loading, weighment of coal at loading/ unloading points and rendering liasioning services with coal companies/ railways and other agencies so that transit loss of coal from collieries to TPSs of the Company are minimised. HPGCL allows maximum transit loss of 1.50 *per cent* as per Haryana Electricity Regulatory Commission (HERC) norms to its coal agents and in case, it is more than 1.50 *per cent*, penalty is leviable on coal agents as per terms of Notice Inviting Tenders (NIT).

In order to improve the overall coal availability of TPSs, coal companies also offer coal on "as is where is" basis. Western Coalfields Limited (WCL), Nagpur (a subsidiary of Coal India Limited) with whom HPGCL was having coal supply agreement up to 2014-15, offered (August 2014) 3.00 lakh MT of crushed coal to HPGCL on "as is where is" basis. As per offer of WCL, all arrangements *viz.* evacuation, lifting, transporting, loading of coal into railway rakes and dispatch were to be made by HPGCL. For evacuation of this coal quantity, the Company issued (26 September 2014) a work order (WO) to M/s Gupta Global Resources Pvt. Ltd., Nagpur (firm) for evacuation, handling and transportation of coal from WCL to railway siding and loading in the railway rakes at a cost of ` 4.85 crore plus service tax.

Audit noticed that on earlier occasions when HPGCL had deployed (September 2012) coal handling agent for supervision of coal handling from collieries to its TPSs, a clause in the work orders which provided that the payments to coal agent were to be linked with transit loss minimization performance was inserted.

Though HPGCL was well aware that its transit losses were reduced significantly whenever it deployed coal agent (whose job, *inter-alia* included minimising the

transit loss also), it did not include the clause to restrict the transit loss within norms in the NIT for deployment of coal agent for evacuation of 3.00 lakh MT coal through WCL, Nagpur. Audit observed (April 2016) that the firm dispatched (September to December 2014) 3,00,904.70 MT[1] coal against which HPGCL received only 2,90,425.13 MT[2] coal at its TPSs. Thus, there was transit loss of 10,479.57 MT (3.48 *per cent*) as against HERC norm (1.50 *per cent*) of 4,513.57 MT. Resultantly HPGCL had to suffer loss of ` 2.29 crore[3] due to excess transit loss of 5,966 MT (10,479.57 MT - 4,513.57 MT).

Government stated (August 2017) that the firm was engaged for transportation on "as is where is" basis coal, from WCL mines to railway siding and then loading into railway rakes for dispatch to TPSs of HPGCL. The transit loss after dispatch from loading points was not in the scope of work of firm and for minimising the transit loss, services of coal agents are required which would had resulted in extra financial burden on the Company. The reply is not acceptable as the Company had not made any cost benefit analysis before inviting tenders for inclusion of clause for transit loss minimisation and had HPGCL included such a clause in its work order, it would have had to bear an additional cost of only ` 0.42 crore[4] and it could have avoided loss of ` 1.87 crore (` 2.29 crore - ` 0.42 crore).

3.2 Infructuous expenditure on overhauling of Unit–I of Panipat Thermal Power Station

The Company had incurred expenditure of ` 2.07 crore on overhauling of Unit-I of Panipat Thermal Power Station without analysing its financial feasibility and overlooking its own decision to phase out Units I to IV.

Units I to IV of Panipat Thermal Power Station (PTPS) were the oldest coal based power generating plants in the State and had outlived their useful life of 25 years. Their auxiliary power and oil consumption was much higher as compared to targets set by Haryana Electricity Regulatory Commission (HERC). HERC in tariff order for the year 2014-15 had also observed (May 2014) that these Units had outlived their life and were the least efficient generating units. The average cost of power purchase for DISCOMs from PTPS (Units I to IV) was ` 10 per kWh against maximum tariff of ` 6.95 and ` 7.45 per kWh[5] charged by the DISCOMs during 2013-14 and 2014-15 respectively. Consequently, the Board of Directors in their 96th meeting (August 2014) decided to phase out existing Units I to IV at PTPS, Panipat and set up a supercritical unit of 800 MW. The proposal was approved by State Government in November 2014.

Meanwhile, a problem of low vacuum in turbine occurred in Unit-I of PTPS in September 2014 and it was noticed that there were cracks in the bottom of the low pressure casing of turbine.

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[1] RGTPP – 1,08,414.63 MT, DCRTPP – 72,893.02 MT and PTPS – 1,19,597.05 MT.

[2] RGTPP – 1,04,798.30 MT, DCRTPP – 63,132.07 MT and PTPS – 1,22,494.76 MT.

[3] 5,966 MT x ` 3,833 (approximate cost of coal per MT).

[4] 3,00,904.70 MT x ` 13.85 per MT (Work order issued to firms M/s AKA Logistics Pvt. Ltd, Kolkata to act as coal agent for the period May 2015 to May 2016).

[5] Independent Hoarding and Decorative Lighting category.

Audit observed (January 2016) that the Company issued (January 2015) a work order to Bharat Heavy Electricals Limited for overhauling/ repair[6] of Unit–I for ` 2.07 crore overlooking the fact that the State Government had already approved (November 2014) Company's proposal to phase out Units I to IV. The quantum of backing down[7] of these units were 83.19 and 81.41 *per cent* in 2013-14 and 2014-15 respectively. After overhauling, Unit-I was synchronised on 16 May 2015 on 35 MW load against its rated capacity of 117.8 MW and thereafter due to backing down it was closed on 17 May 2015. Units I to IV were finally phased out on 9 December 2015. Thus, the Company incurred expenditure of ` 2.07 crore and that too, without running the Unit I.

The Government stated (August 2017) that the repair was carried out to keep the plants in healthy condition as fixed cost was being recovered from the DISCOMs. The reply is not tenable as fixed cost was being recovered by taking Units I to IV as a single composite unit and the Company could have continued operating Units II to IV without incurring expenditure on repair of Unit I. Therefore, the decision of the Management to get the plant repaired/ overhauled without cost benefit analysis, resulted in infructuous expenditure of ` 2.07 crore.

3.3 Loss due to non-completion of dry fly ash system

Due to non-completion of dry fly ash system, the Company suffered loss of ` 16.91 crore on account of non-disposal of dry fly ash and avoidable expenditure on extra water consumption for evacuation of ash in wet mode.

The Haryana Power Generation Corporation Limited (Company) awarded (August 1999) the work for construction of Ash Handling System for Unit-VI of Panipat Thermal Power Station (PTPS), to M/s Melco India Pvt. Ltd. (Firm 1). The Firm 1 completed (July 2001) the work of wet ash disposal system but could not complete the work of dry fly ash evacuation system due to change in capacity of Ash silo[8] and location as suggested by Central Electricity Authority (CEA).

For completion of the balance work, the Company entered (May 2006) into a tripartite agreement, by bringing in another contractor**,** M/s Shree Cement Ltd. (Firm 2), who was to complete at its own cost by August 2007. The Company in return agreed to supply dry fly ash to Firm 2 free of cost up to September 2009 and thereafter up to May 2026 at the rates which would be charged from other firms lifting fly dry ash from PTPS, Panipat. Firm 1 was required to demonstrate the successful completion and running of complete ash handling system. The Company obtained Bank Guarantees (BGs) of ` 37.40 lakh and ` 15 lakh for successful completion of work from Firm 1 and Firm 2 respectively. As the ash handling system was not completed within the stipulated period, the Company encashed (8 June 2011) BGs of both the firms. The matter regarding non operation of dry fly ash evacuation system at full

[6] Metal stitching of cracks in LP turbine and overhauling of LP turbine.
[7] Quantum of backing down means shutting down of units due to no demand from DISCOMs.
[8] Ash Silos are storage tanks for evacuation of ash.

capacity was taken up with both the firms from time to time but the system was not rectified.

Audit observed that there was no provision in the agreement for termination of contract in the event of non-completion of work and penalty in the event of short-lifting of dry fly ash. The Company took no action to complete the unfinished work of dry fly ash evacuation system even after lapse of ten years (August 2007 to July 2017). Due to non-completion of system, there was less evacuation of 4.72 lakh MT dry fly ash valuing ` 14.51 crore during April 2012 to March 2017 which had to be perforce disposed off to ash pond in wet mode in the form of slurry[9]. The conversion of dry fly ash to wet mode required water on which the Company incurred expenditure of ` 2.40 crore[10]. Meanwhile, Firm 2 which was to lift dry fly ash by payment of charges, continued to lift the slurry free of cost as the contract never provided for any rates for the same. The Firm 2 lifted 24.99 lakh MT slurry during 2011-17.

Thus due to non-completion of dry fly ash system, the Company suffered loss of ` 16.91 crore on account of less evacuation of dry fly ash and extra water used for evacuation of ash in wet mode.

The Government stated (August 2017) that the Company was not in a position to cancel the tripartite agreement as this would have led the parties to deny the completion of pending works by taking excuse of such cancellation. It was also stated that there was no penal provision in the contract for short lifting of dry fly ash. The reply upholds the contention of Audit that the agreement was deficient of clauses for termination of the contract in the event of non-completion of work and imposition of penalty in case of short lifting of dry fly ash. However, Section 55 of Indian Contract Act 1872, provides option to the Company to terminate the contract in case the firms fail to perform their obligations provided in the contract. Thus, the Company did not safeguard its interests in the tripartite agreement by incorporating requisite exit clause.

3.4 Improper planning resulting in unfruitful expenditure

The Company awarded work of preparing tender documents before obtaining a firm coal linkage resulting in unfruitful expenditure of ` 62.54 lakh.

Haryana Power Generation Corporation Limited (HPGCL) decided (September 2009) to set up a 660 MW coal based supercritical unit at Yamunanagar and applied (October 2009) to the Ministry of Coal (MoC) Government of India for coal linkage. Despite pursuing with the MoC, HPGCL could neither get the coal linkage nor any assurance for the same up to December 2011. In the meantime, HPGCL awarded (May 2011) work for design consultancy services[11] for the proposed unit to M/s TATA Consultancy Engineers Limited, Bangalore (firm) at a cost of ` 11.37 crore. The firm prepared the draft tender documents and submitted (September 2011) them to

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[9] A semi-liquid mixture of coal powder and water.

[10] 4,71,726.46 MT (short lifted ash) x 5 (ratio of water required for evacuation of ash through wet mode) x ` 10.19 (rate of water per MT as worked out by Company) = ` 2.40 crore.

[11] Preparation of tender specifications for selecting Engineering Procurement and Construction (EPC) contractor, review of design engineering *etc.*

HPGCL. On evaluation of the tender documents, HPGCL realised that the boiler design could be finalised only after coal linkage was allocated and detailed specifications of the coal were decided. MoC communicated (May 2012) that there was no scope for grant of any letters of assurances for coal linkage in the 12th Five year Plan Power projects up to March 2017. HPGCL released (April 2013) payment of ` 62.54 lakh to the firm for the work done. Further, work of preparation of tender documents and finalisation of tender specifications were stalled for want of coal linkage.

As the validity of the consultancy contract was expiring on 30 June 2016, HPGCL asked the firm to continue the existing contract but for an upgraded 800 MW unit at the same location. The firm, however, refused to work on the existing terms and conditions and HPGCL decided to close the contract.

Audit observed that despite no assurance from MoC for coal linkage which, if awarded, would have made known the quality specifications of coal likely to be received for firing in the boiler, HPGCL awarded the consultancy contract for preparation of tender documents and allowed its commencement. Consequently, the expenditure of ` 62.54 lakh incurred on tender documents prepared by the firm proved unfruitful.

The Government stated (August 2017) that activities like taking statutory clearances, appointment of consultants, preparation of tender documents by consultant take at least two to three years and these activities were generally initiated/ completed simultaneously. The reply was not tenable as obtaining a coal linkage was the starting point for the project and in any event, plant specifications cannot be finalised without details of calorific value of coal to be used. Hence, the award of the contract for design consultancy services and allowing to start the work in absence of coal specifications was not justified which resulted in unfruitful expenditure of ` 62.54 lakh.

3.5 Avoidable expenditure due to non-observance of instructions of Operational Manual

The Company did not observe procedures prescribed in the Operational Manual while shutting down the Unit-I of RGTPP, Hisar and had to bear an avoidable expenditure of ` 13.18 crore.

The Rajiv Gandhi Thermal Power Plant (RGTPP), Khedar, Hisar of Haryana Power Generation Corporation Limited (HPGCL) with two units of 600 MW each was commissioned in 2010-11. State Load Despatch Centre (SLDC), which manages the supply of power in the State, directs the power generators of the State, including RGTPP, to generate and supply power or to shut down the plant on the basis of demand of power in the State on real time basis.

The Operational Manual provided by the Original Equipment Manufacturer (OEM), *i.e.* M/s Shanghai Electric Corporation, China stipulated to confirm that fuel system was good, oil pressure and its temperature were normal and oil guns[12] should be inspected to ensure their usage at any time before shutting down the plant. The manual further provides that during the process of load

[12] Instruments to inject oil in boilers to maintain the flame.

reduction (below 210 MW) when supply of coal is reduced, the oil guns should be casted into the furnace for its stable combustion. Meanwhile, the Company decided (December 2013) to minimise the application of oil gun during load reduction in order to reduce the variable cost.

On 1 July 2015, the SLDC conveyed 'no demand' to RGTPP and the plant authorities commenced the load reduction. During the process of shut down of Unit, there was an explosion in the furnace and was damaged. Due to the accident, the Unit remained shut down for 54 days. The preliminary fact finding committee[13] constituted to find out the reasons for damages brought out (July 2015) that when the load was reduced up to 190 MW and the furnace was in disturbed condition, the plant did not use the recommended oil support for stable combustion of fuel. Further, three coal mills continued to feed coal into the furnace whereas flame of one coal mill was extinguished which led to the partial combustion and accumulation of unburnt fuel leading to the explosion. These findings were corroborated (August 2015) by a Committee[14] of Experts. The Company incurred fixed cost of ` 3.16 crore for shut down period and an avoidable expenditure of ` 10.02 crore for making the Unit operational.

The Management had issued (December 2015) charge sheets to four officers/ officials for lapses in their duties but these were subsequently dropped (July 2016) on the basis of their responses which *inter-alia* stated that the manual procedures and superior instructions were followed whereas both the fact finding committee and the Committee of Experts concluded that manual procedure was not followed during shut down of the plant. HERC too disallowed (April 2017) this expenditure on the grounds that the required procedure was not followed and the incidence of fire was within the reasonable control of the Company and avoidable. Despite the conclusions of both Committees and HERC about the non-compliance with manual provisions/ procedures leading to avoidable expenditure of ` 13.18 crore, the Company did not fix responsibility for the lapse leading to additional financial burden.

The Government stated (May 2017) that earlier when the backing down of the Unit was not so frequent, oil guns were always being used for safe shutdown. However, due to excessive backing down of units, the focus was to reduce the cost of generation, therefore, instructions were issued to minimise the practice of taking oil guns into service. Further, oil guns are being taken in service while shutting down the Units to ensure furnace stability. Moreover, Standard Operating Procedures (SOPs)[15] are now being developed by M/s PWC Ltd. for strict compliance in future. The reply is not acceptable as the Company resorted to minimising the use of oil guns without any technical study and in violation

[13] Chief Engineer, Superintending Engineer, two Executive Engineers of HPGCL thermal power plants and two Ex- National Thermal Power Corporation Limited experts.

[14] Director, Central Electricity Authority, New Delhi, Superintending Engineer (Technical), HPGCL, two Assistant General Managers from National Thermal Power Corporation Limited.

[15] A set of step by step instructions compiled by an organization to help workers' carryout complex routine operations. SOPs aim to achieve efficiency, quality output and uniformity of performance, while reducing miscommunications and failure to comply with industry regulations.

of manualised procedure and only after the explosion, it started using it for furnace stability as per the manual. Further, since HERC has also held that it was a controllable and an avoidable incidence, responsibility for the same needs to be fixed for the negligence leading to avoidable financial burden of ` 13.18 crore.

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

3.6 Avoidable expenditure on purchase of short term non-solar renewable power

DISCOMs incurred avoidable expenditure of ` 127.23 crore on purchase of short term non-solar renewable power instead of purchasing Renewable Energy Certificates by the Haryana Power Purchase Centre.

Haryana Electricity Regulatory Commission (HERC) issued Renewable Purchase Obligation (RPO) Regulations, 2010 under Section 181 of the Electricity Act 2003 for distribution licensees to meet Renewable Purchase Obligations (RPO) by purchase of Renewable Energy and/ or Renewable Energy Certificates (RECs). Further, Ministry of Power, Government of India issued (May 2012) guidelines under Section 63 of the Electricity Act 2003, for short term procurement of power by Distribution Licensees through a tariff based competitive bidding process. The bids would be evaluated at the procurer's periphery after taking into account the applicable Point of Connection charges[16]. If any deviation from these guidelines is required, prior approval from Commission has to be sought.

Under Renewable Purchase Obligation (RPO) Regulations, 2010, HERC fixed year wise targets[17] for RPO in its tariff orders. The shortfall of previous years was carried forward to the succeeding year. Cumulative shortfall up to June 2015 was 2,391.40[18] MUs. During the period 2014-16, Haryana had surplus power of 1,903.40 MUs and hence had no need for additional power. For meeting RPO, Haryana Power Purchase Centre (HPPC)[19] had two options *viz.,* Option A was purchase of Renewable Energy Certificates (REC)[20] and Option B was short term purchase of renewable power.

However, HPPC exercised Option B and purchased (August 2014 to March 2016) 974.50 MUs of non-solar power from Himachal Pradesh State Electricity Board Limited (HPSEBL) through M/s Mittal Processors Pvt. Ltd. (firm) at a cost of ` 516.04 crore.

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[16] These are transmission charges computed on the basis of sharing of Inter-state Transmission charges and losses depending on the location of the node in the grid.

[17] 1,232.58 MUs (2013-14), 1,463.41 MUs (2014-15) and 1,635.59 MUs (2015-16).

[18] 527.77 MUs up to 2012-13, 860.71 MUs (2013-14), 813.48 MUs (2014-15) and 189.44 MUs (April to June 2015).

[19] HPPC is purchasing power on behalf of UHBVNL and DHBVNL.

[20] It is a market based instrument to promote renewable energy and facilitate compliance of Renewable Purchase Obligation.

A comparison of cost involved in both options is tabulated below:

Table 3.1: Statement showing difference between cost involved in exercising Options A & B

Period	Option A	Option B-purchase of non-solar renewable power					Difference (Option A-Option B)
	Purchase cost of REC	Units purchased	Net unit received[21]	Total expenditure[22]	Total amount realised	Net cost of option B	
1	2	3	4	5	6	7 = (5-6)	8 = (7-2)
	(` in crore)	(MUs)		(` in crore)			
August to September 2014	6.60	44.02	42.78	20.35	13.64	6.71	0.11
December 2014 to March 2015	29.66	197.73	189.12	104.16	46.62	57.54	27.88
June 2015 to March 2016	109.91	732.75	709.18	391.53	182.38	209.15	99.24
Total	**146.17**	**974.50**	**941.08**	**516.04**	**242.64**	**273.40**	**127.23**

Audit observed (September 2016) that HPPC could have availed option A *i.e.* purchasing RECs as it had no need of the power purchase thereby saving ` 127.23 crore. It was also noted that HPPC had not invited tenders for short term procurement of power from the non-solar renewable power suppliers/ producers as mandated in the MoP guidelines nor was prior approval sought from HERC for deviating from the laid down MoP guidelines.

Thus, the action of HPPC to opt for option B of purchasing non-solar renewable power was unnecessary and had resulted in avoidable expenditure of ` 127.23 crore which had subsequently to be borne by consumers.

The Government stated (August 2017) that the Steering Committee for Power Planning (SCPP) decided (August 2015) that instead of purchasing RECs, HPPC should explore means to purchase renewable power at reasonable rate. Further, the cost benefit analysis was made and effective rate of this power was only ` 3.20 per unit {` 4.70 (power purchase cost) - ` 1.50 (per unit REC cost)} which was less than allowed power purchase cost. The reply was not acceptable as the cost of power at Himachal periphery was taken for cost benefit analysis by SCPP instead of Haryana periphery which ranged between ` 4.88 to ` 5.60 per unit. The purchase of short term power was clearly avoidable and was undertaken in violation of MoP guidelines stipulating competitive bidding. The position of surplus power and sale of renewable power in the energy exchanges at cheaper rates was also not considered at the time of purchasing non-solar renewable power, causing avoidable expenditure of ` 127.23 crore.

[21] Units received after adjustment of injection losses of Himachal Pradesh and withdrawal losses of Haryana.
[22] Total expenditure includes amount paid to supplier plus transmission charges.

3.7 Loss of revenue due to non-implementation of single point supply metering

DISCOMs did not implement the single point supply metering at RGTPP, Hisar and DCRTPP, Yamunanagar as required by HERC and suffered loss of revenue of ` 26.46 lakh.

Haryana Electricity Regulatory Commission (HERC) issued (9 January 2013) notification for single point supply to residential colonies or office cum residential complexes of employers, group housing societies and commercial cum residential complexes of developers. The notification *inter-alia* provides that at existing employer's colonies, which had 20 or more residential units with restricted entry and had individual electricity connections, the Distribution Licensees *i.e.,* Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) and Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) were required to convert the supply to single point supply at 11 kV or higher voltage, depending upon the feasibility, within three months from the date of notification. The billing to these colonies was to be done on the basis of energy consumption recorded as per single point supply meter after allowing a rebate of 4 or 5 *per cent*[23].

Scrutiny of records of Rajiv Gandhi Thermal Power Plant (RGTPP), Khedar, Hisar and Deenbandhu Chhotu Ram Thermal Power Plant (DCRTPP), Yamunanagar of Haryana Power Generation Corporation Limited (HPGCL) residential colonies showed that DHBVNL and UHBVNL had not converted the electricity supply to single point supply residential as envisaged resulting in continuing revenue losses as depicted in table 3.2 below:

Table 3.2: Showing loss of revenue to DISCOMs

Year[24]	Units received	Unit to be billed (after rebate of 4 *per cent*)	Units actually billed	Units less billed	Tariff rate of Bulk Supply (Domestic) `/kWh[25]	Revenue loss (`)
A	**B**	**C**	**D**	**E (C-D)**	**F**	**G (E x F)**
A – RGTPP Khedar, Hisar						
2013-14	15,69,270	15,06,499	13,64,049	1,42,450	4.2	5,98,290
2014-15	15,68,850	15,06,096	13,85,856	1,20,240	4.2	5,05,008
2015-16	15,02,790	14,42,678	14,15,908	26,770	4.7	1,25,819
2016-17	14,77,740	14,18,630	13,03,216	1,15,414	4.7	5,42,446
Total A	**61,18,650**	**58,73,903**	**54,69,029**	**4,04,874**		**17,71,563**
B - DCRTPP Yamunanagar						
2013-14	4,16,198	3,99,550	3,29,359	70,191	4.2	2,94,803
2014-15	6,78,986	6,51,827	6,16,454	35,373	4.2	1,48,565
2015-16	7,60,522	7,30,101	6,90,049	40,052	4.7	1,88,245
2016-17	10,63,979	10,21,420	9,69,671	51,749	4.7	2,43,220
Total B	**29,19,685**	**28,02,898**	**26,05,533**	**1,97,365**		**8,74,833**
Grand total (A+B)	**90,38,335**	**86,76,801**	**80,74,562**	**6,02,239**		**26,46,396**

[23] 4 *per cent* in case of supply at 11 kV and 5 *per cent* in case of supply at more than 11 kV.

[24] Due date for implementation of HERC notification was 10 April 2013 but for calculation of loss the period has been taken from April 2013 as the segregation of consumption from 1 April to 9 April 2013 is not feasible.

[25] For calculation of loss, the Bulk supply (Domestic) tariff rate has been applied on conservative basis as rates of Bulk supply (Domestic) tariff were lower than non-domestic tariff.

Thus, due to non-implementation of single point supply at these colonies, the DISCOMs have been suffering line losses of approx. 6,700 units[26] per month on average basis and the required action for implementation of single point supply at *ibid* colonies have not been implemented (March 2017) even after lapse of more than four years of issue of HERC notification. Had the DISCOMs implemented the provisions of single point metering regulations within the stipulated period of three months, as prescribed by HERC, the loss of revenue of ` 26.46 lakh could have been avoided.

The DISCOMs stated (November 2016/ June 2017) that single point metering would be implemented at the earliest.

The matter was referred (May 2017) to the Government; their replies were awaited (November 2017).

3.8 Implementation of Meter Pillar Box Scheme

DISCOMs introduced the Meter Pillar Box Scheme without obtaining approval from HERC and initiated the scheme for the entire State without waiting for outcome of pilot project. A Firm has been benefitted by DHBVNL as 65 *per cent* of the total work orders awarded were issued to this one firm who ultimately executed only 19 *per cent* of the work orders. The scheme could not be implemented effectively as only 34 *per cent* of total material to be supplied was utilised in the project.

3.8.1 Introduction

In view of the increase in Aggregate Technical & Commercial (AT & C) losses from 24 *per cent* (2011-12) to 28 *per cent* (2012-13), the Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL), the two power Distribution Companies (DISCOMs) in Haryana[27] introduced (April 2013) Meter Pillar Box Scheme (MPBS) in the State. The main objective of the scheme was reduction in AT&C losses and restricting the consumers from tapping energy directly to achieve increase in revenue generation. The scheme involved relocating of existing energy meters positioned inside consumers premises to outside their premises. Audit examined the records relating to MPBS to assess the effectiveness of its implementation. Under the Scheme, the DISCOMs issued 330 work orders (UHBVNL: 48 and DHBVNL: 282) in 16 Circle offices (UHBVNL: nine and DHBVNL: seven) amounting to ` 283.53 crore during April to November 2013 for implementation of MPBS. Of these, Audit examined 104 work orders (UHBVNL: 14 and DHBVNL: 90) in nine circle offices.

3.8.2 Audit findings

A) Assessment of offers for pilot project

i) UHBVNL after inviting tenders[28], awarded (11 April 2013) the work for

[26] 6,40,759 units (Total of units less billed)/ 96 months (total period taken by audit).
[27] UHBVNL and DHBVNL distribute electricity through nine operation circles each in north and south zone respectively of Haryana.
[28] NIT number 27/P&D/2013-14/B-326.

pilot project of MPBS in six villages of Daryapur feeder in OP Circle, Jhajjar to M/s Arun Enterprises, Ghaziabad (L_1) for ` 1.06 crore. Audit observed that the rates awarded were 23 *per cent* higher than the estimated rates of ` 0.86 crore. Audit noticed that the estimated cost of ` 0.86 crore itself was higher by 13 *per cent* as compared to the rates circulated by Planning, Design and Construction (PD&C) wing of UHBVNL.

UHBVNL stated (August 2017) that the estimates were prepared as per its laid down instructions by including overhead charges. The reply is not acceptable as PD&C wing circulated item-wise rates for the purpose of preparation of estimates which were inclusive of overhead charges *i.e.* all taxes, freight, insurance and profit of supplier *etc*. Thus, the estimates prepared were on higher side.

ii) The rates of pillar boxes of various sizes[29] supplied (March 2013) by M/s Arun Enterprises, Ghaziabad (L_1) to UHBVNL were higher than the rates of pillar boxes supplied (February 2013) by the same contractor to DHBVNL by 34 *per cent*.

iii) The procurement manual of DISCOMs stipulates that if L_1 rate obtained is more than 10 *per cent* of the estimated rate, the tender enquiry should be dropped and re-tendering be done. Here, for the pilot project, the L_1 rates accepted were 23 *per cent* higher than the estimated rates. UHBVNL stated that re-tendering was not done as the work was allotted after due negotiation with L_1 bidder. The management reply is not acceptable as despite negotiation, rates were on the higher side *vis-a-vis* estimated rates. Audit also observed that subsequently these inflated rates accepted, of pilot project, were made applicable to the entire State.

B) Implementation of the Scheme in the State

Board of Directors (BoDs) of DHBVNL approved (25 April 2013) the award of work under MPBS scheme at the same rates as of the pilot project of UHBVNL. UHBVNL too awarded the work at same rates as its own pilot project. However, it obtained (22 April 2013) a list of firms from Punjab State Power Corporation Limited (PSPCL) to whom contracts for MPBS were awarded in the Punjab State and decided (23 April 2013) that the work of MPBS be got executed from these firms for all its circle offices by capping the rates at which pilot project of UHBVNL was awarded. The estimated expenditure on this scheme covering 35 lakh consumers of DISCOMs was ` 903 crore[30]. DISCOMs placed work orders for ` 282.47 crore (UHBVNL: ` 20.98 crore on three firms[31] and DHBVNL: ` 261.49 crore on five firms[32]) on turnkey basis between April to November 2013.

Audit observed:

i) As per Delegation of Powers, the turnkey works of value more than

[29] 20 x 1 MMPB, 6 x 1 MMPB and 4 x 1 MMPB.

[30] At ` 2,580 per consumer.

[31] M/s Arun Enterprises, Ghaziabad, M/s Jay Bee Industries, Bhatinda and M/s JR Transformers, Bhatinda.

[32] M/s Ishwar Metals Industries, Jaipur, M/s Aggarwal Traders, Bhiwani, M/s JR Transformers, Bhatinda, M/s Saini Electricals, Palwal and M/s Arun Enterprises, Ghaziabad.

` 50 crore are to be awarded with the approval of High Powered Purchase Committee (Government). However, DISCOMs carried out the works of ` 282.47 crore through its circle offices and at rates 23 *per cent* above the estimated cost.

ii) The decision to carry out the works of MPBS in the entire State and to make applicable the rates at which pilot project was got executed, was taken within 12-14 days from the award (11 April 2013) of pilot project without even waiting for the outcome of the pilot project, which was scheduled for completion within 4 months *i.e.* August 2013.

iii) DISCOMs introduced (April 2013) the Meter Pillar Box scheme, with capital investment of ` 282.47 crore, without obtaining the approval of HERC. Further, DISCOMs did not include (March 2015) the Capital Expenditure of ` 87.46 crore (UHBVNL: ` 2.81 crore and DHBVNL: ` 84.65 crore) incurred on scheme while filing their Annual Performance Review petition for financial year 2015-16 (including true up of ARR for 2013-14).

iv) For execution of turnkey projects through empanelled firms, the PD&C wing of DHBVNL had directed (September 2012) field offices that in order to avoid any favour to any particular contractor, the work should be distributed uniformly to all the empanelled firms. DHBVNL issued 282 work orders to five contractors[33]. Following points were noticed in this regard:

- Out of total 282 work orders valuing ` 261.49 crore, 184 work orders valuing ` 179 crore were awarded by DHBVNL to one contractor M/s Ishwar Metal Industries, Jaipur (Firm A) only.
- Out of these 184 work orders, 86 work orders valuing ` 123 crore were awarded during September to October 2013, even though Firm A was unable to complete 98 work orders issued earlier during April to June 2013.
- Of the 86 work orders issued subsequently, in respect of 38 work orders SE (OP) Faridabad enhanced the quantity of the materials from ` 38.77 crore to ` 71.86 crore without giving any justification.
- Firm A could erect (up to March 2017) material of ` 34.12 crore only, against work orders valuing ` 179 crore.

Thus, 65 *per cent* of the total work orders awarded were issued to a single firm, Firm A, which could complete only 19 *per cent*[34] of the work.

v) Superintending Engineers (OP) were competent to execute the work of MPBS through empanelled contractors up to financial limit of ` five crore[35] in each case. However, Superintending Engineers (SEs) of DHBVNL issued (April to November 2013) work orders valuing ` 241 crore[36] in five circle offices exceeding their financial competence of ` five crore.

C) Incomplete execution of scheme

Company wise details of materials supplied, erected and lying unutilised as on

[33] M/s Ishwar Metals Industries, Jaipur, M/s Aggarwal Traders, Bhiwani, M/s JR Transformers, Bhatinda, M/s Saini Electricals, Palwal, and M/s Arun Enterprises, Ghaziabad.
[34] ` 34.12 crore/ ` 179 crore x 100.
[35] Initially the limit was ` two crore which was increased up to ` five crore for this scheme only.
[36] Bhiwani: ` 57 crore, Faridabad: ` 123 crore, Hisar: ` 15 crore, Narnaul: ` 35 crore and Jind: ` 11 crore.

March 2017 is given below:

Table 3.3: Value of material unutilised

(` in crore)

Name of the Company	Total Value of work order including supply & erection	Value of material to be supplied	Value of material supplied	Value of material erected	Value of material unutilised[37]
1	**2**	**3**	**4**	**5**	**6**
DHBVNL	261.49	199.86	131.20	68.80	58.35
UHBVNL	20.98	15.33	6.44	3.75	2.69
Total	**282.47**	**215.19**	**137.64**	**72.55**	**61.04**

Source: Data provided by DISCOMs

Above table revealed that 34 *per cent* and 24 *per cent* of the total material to be supplied was erected in DHBVNL and UHBVNL respectively and the DISCOMs failed to execute the project in its entirety.

D) Inventory management

Contractors supplied only ` 131.20 crore and ` 6.44 crore of material against ` 199.86 crore and ` 15.33 crore of material to be supplied in respect of DHBVNL & UHBVNL respectively. Even this short supply was not fully used in erection works. As a result DISCOMs were burdened with huge inventory. Audit observed that the DISCOMs did not use the unutilised material of MPBS in subsequently introduced (July 2015) Mhara Gaon Jagmag Gaon (MGJG) scheme, despite specific directions (February 2017) of the State Government. Due to non-utilisation of this material, the DISCOMs had to bear avoidable interest of ` 21.97crore[38] (March 2017) on inventory of ` 61.04 crore procured for implementation of MPBS.

UHBVNL stated that the unutilised material is lying with the firms and the leftover material cannot be used for other scheme *i.e.* MGJG and loss reduction programme. The reply is not acceptable as the State Government had specifically directed to use the material under MGJG scheme in order to avoid it becoming scrap.

Conclusion

Without waiting for the outcome of the execution of the pilot project of the Meter Pillar Box scheme, DISCOMs extended this project to the entire State. In DHBVNL, one single firm *i.e.* M/s Ishwar Metal Industries, Jaipur was benefitted by award of as much as 65 *per cent* of the total work orders who ultimately could execute only 19 *per cent* of the work orders. Implementation of the scheme was poor as only 34 *per cent* of total material to be supplied by contractors was utilised in the project. The DISCOMs did not utilise the material remaining in inventory in its subsequent MGJG scheme and are bearing interest burden.

[37] The difference between column 4 and total of column no. 5 & 6 crore is subject to reconciliation by DISCOMs.

[38] Calculated @ 12 *per cent* on ` 61.04 crore for three years (April 2014 to March 2017).

The matter was referred to the Government and DHBVNL in May 2017; their replies were awaited (November 2017).

Dakshin Haryana Bijli Vitran Nigam Limited

3.9 Extra expenditure due to payment at higher rate

The Company incurred extra expenditure of ` 2.12 crore due to payment to contractor at the existing higher rates instead of rates finalised in the new NIT.

Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) awarded (January 2012) the work of collection and analysis of meter data[39] on monthly basis through Common Meter Reading Instrument (CMRI) of the consumers having High Tension (HT) and Low Tension (LT) Current Transformer (CT) meters to M/s Signals & Systems (India) Pvt. Ltd. Chennai (contractor) @ ` 239.91 per connection per month. The period of the contract was for two years up to January 2014. The same was extended for one year up to January 2015. The Company floated (September 2014) a Notice Inviting Tender (NIT) for the aforesaid work, to discover fresh rates, but was dropped due to inadequate response. Another new NIT for the work was floated in May 2015 whose price bid was opened in October 2015. Meanwhile, the existing work order was extended by Whole Time Directors (WTDs) from time to time[40] up to March 2016 with the condition that the payment in this extended period would be adjusted with the L_1 rates finalised of NIT under process (September 2014/May 2015), in case the new rates finalised are lower than the existing work order rates.

Audit observed that at every stage of contract extension, Circle Office, Metering & Protection (M&P), Gurugram, DHBVNL issued letters (January, April, August, November 2015 and January 2016) to the contractor for extension of work order with the condition that the rates would be paid as finalised in NIT under process or the existing (January 2012) work order rates, whichever is lower. However, the contractor protested (May, September, December 2015 and February 2016) and intimated Circle Office (M&P), Gurugram that the condition of payment at lower rates as per NIT under process than existing rates was not acceptable and requested to consider the rates of existing work order awarded in 2012. Despite non-acceptance by the contractor to work at lower rates as per WTDs orders, the Circle Office continued the work order with existing contractor at existing rates. The Circle Office in its follow up report (August and November 2015) to the WTDs did not apprise the factual position of non-acceptance of the contractor to work at lower rates[41] as decided by WTDs. After finalisation of NIT floated in May 2015, the work was awarded (11 February 2016) to the existing contractor and another contractor *i.e.* M/s BCITS, Jaipur @ ` 174 per connection which was lower than the existing rates

[39] Tamper data and load survey.

[40] Extension period: February to March 2015, April to June 2015, July to October 2015, November to December 2015 and January 2016 to March 2016 approved on 14 January, 8 April, 7 August, 6 November 2015 and 18 January 2016 respectively.

[41] Existing work order rates of January 2012 or rates finalised in the NIT under process, whichever is lower.

by ` 65.91 per connection (` 239.91 - ` 174). The new work orders were awarded on 22 July 2016 after completion of procedural formalities. The field offices of DHBVNL released (February 2015 to September 2016) payment of ` 7.23 crore[42] to M/s Signals & Systems (India) Pvt. Ltd. Chennai for work executed during February 2015 to March 2016 on old rates (January 2012 rates) but did not adjust excess payment of ` 2.12 crore already (before opening of price bid in October 2015 - ` 1.34 crore and after opening - ` 0.78 crore) made at existing higher rates of January 2012 from the subsequent bills of the contractor.

This non-compliance with WTDs orders of adjusting payments with reference to the L_1 rates of NIT finalised in February 2016 has resulted in excess payment of ` 2.12 crore to contractor during February 2015 to March 2016. The Company has not fixed accountability for non-compliance with directions.

The Management stated (May 2017) that the recovery of excess payment made to M/s Signals & Systems (India) Pvt. Ltd. Chennai will be effected after re-verification of calculations of excess payment.

The matter was referred (May 2017) to the Government; their replies were awaited (November 2017).

3.10 Irregular reimbursement

The Company made irregular reimbursement of ` 1.41 crore towards payment of Central Sales Tax to a contractor without obtaining documentary evidence.

Central Sales Tax (CST) is levied on interstate sales under CST Act 1956. Section 6(2) of the Act provides that if during movement of goods in the course of interstate sale, the goods are sold in-transit by transfer of documents of title of such goods to the Government or to a registered dealer, the in-transit sale would be exempt from CST.

Dakshin Haryana Bijli Vitran Nigam Limited (Company) issued (3 July 2013) a work order (WO) for supply of material for installation of high tension lines for high voltage distribution system and system strengthening for non-HUDA areas of Gurugram City to M/s Shyam Indus Power Solutions Pvt. Limited, New Delhi (contractor) at a cost of ` 110 crore plus taxes[43] of ` 8.27 crore. As per clause 5 of the WO, taxes in respect of transactions between the Company and the contractor, on all items of supply including bought-out finished items, which were to be dispatched directly from the sub-vendor's work to the Company's site, was to be paid after receipt of each shipment at site against documentary evidence.

Audit observed that the contractor raised (October 2013 to January 2016) invoices towards exempted sale under the aforesaid provision of the CST Act amounting to ` 70.59 crore. No tax had been paid as per returns filed by the contractor against such supply. However, the contractor raised a separate bill for reimbursement of CST amount of ` 1.41 crore in February 2016 without

[42] ` 4.64 crore during February to October 2015 and ` 2.59 crore during October 2015 to March 2016.

[43] Central Sales Tax, Value Added Tax *etc*.

submitting any supporting documentary evidence of tax payment. The Company also did not seek any documentary evidence of payment of CST paid from the contractor before allowing the reimbursement of tax in May 2016.

Government stated (August 2017) that the contractor had raised the claim of taxes which had been paid on purchases made by contractor. The reply was not tenable as taxes paid by the contractor on his purchases were not liable to be paid by Company as the sale price was including all incidental expenses and profit element. As per aforesaid provision of Act no tax was payable under transit supply, hence the tax reimbursement of ` 1.41 crore to the contractor was irregular.

Uttar Haryana Bijli Vitran Nigam Limited

3.11 Short recovery from consumers while replacing stolen transformers

The Company issued sales circulars which were non-compliant of Electricity Supply Code Regulations, 2014, resulting in short recovery of ` 10.04 crore.

Haryana Electricity Regulatory Commission (HERC) notification of 8 January 2014 on Electricity Supply Code Regulations, 2014 *inter-alia* provided that in case of Low Tension connections (other than domestic supply connections), where the transformer has been installed by the consumer exclusively for his supply, the transformer would be replaced, for any reason including theft, by recovering 50 *per cent* of the cost from the consumer. Accordingly, Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) circulated (1 April 2014) the Electricity Supply Code Regulations, 2014 to its field offices for compliance. Prior to aforesaid regulations of 2014, UHBVNL had been recovering 20 *per cent* of the cost of transformers, installed under self financing scheme from consumers.

Audit observed that UHBVNL forwarded (1 April 2014) the *ibid* regulations to its field offices for compliance. It issued (3 April 2014) instructions to its field offices to replace the stolen transformer after recovering 20 *per cent* of the cost from the consumer which was in contravention of Electricity Supply Code Regulations, 2014. Accordingly, field offices continued to recover 20 *per cent* cost of stolen transformers from the consumers till July 2015. Thereafter, UHBVNL instructed[44] (31 August 2015) its field offices to recover 50 *per cent* cost of transformer only if the transformer was under warranty and 20 *per cent* of cost for transformer which was beyond warranty. UHBVNL replaced (May 2014 to May 2017) 5,348 transformers in five circles[45] due to theft after receiving 20 *per cent* where it should have recovered 50 *per cent* of the cost as per the Electricity Supply Code Regulations 2014, resulting in short recovery of ` 10.04 crore from the consumers. Thus, due to non-adherence to the notified regulations, the Company has lost the opportunity to recover the loss of stolen transformers to the extent of ` 10.04 crore.

[44] Vide sales instructions no. U-08/2015.

[45] Karnal, Kurukshetra, Kaithal, Panipat and Yamunanagar.

Management stated (April 2017) that Government decided in April 2013 to recover 20 *per cent* of cost of transformer in case of theft for replacement of stolen transformers. Management added that it has subsequently clarified (31 August 2015) charging the amount as per Supply Code and directed (18 April 2017) Superintending Engineers[46] to recover the balance amount from consumers. The reply is not tenable as instructions of 3 April 2014 and 31 August 2015 were in contravention of the Electricity Supply Code Regulations, 2014 under which UHBVNL was required to recover 50 *per cent* of the cost of stolen transformers. Moreover, since the Government decision was of April 2013 and Electricity Supply Code Regulations, 2014 was effective from the date of publication in the official Gazette *i.e.* since 8 January 2014, UHBVNL should have followed these regulations.

Thus, issue of circulars in contravention of Electricity Supply Code Regulations, 2014, resulted in short recovery of ` 10.04 crore.

The matter was referred to the Government in June 2017; their replies were awaited (November 2017).

3.12 Non-compliance with provisions of Employees' Provident Funds and Miscellaneous Provisions Act, 1952

Failure to discharge principal employer's statutory responsibility of ensuring compliance with provisions of Employees Provident Fund Act, 1952 resulted in Company being burdened with liability of ` 34.45 lakh.

The Employees' Provident Funds and Miscellaneous Provisions (EPF) Act, 1952 as applicable to all establishments employing 20 or more employees *inter-alia* provides that in respect of employees employed through a contractor, the contractor shall recover the contribution payable by such employee and shall pay to the principal employer the amount of employee's contribution so deducted together with an equal amount of employer's contribution. It shall be the responsibility of the principal employer to pay both the contributions to Employees' Provident Fund Organization (EPFO).

Uttar Haryana Bijli Vitran Nigam Limited engages staff on contractual basis through contractors at various offices of the Company. The terms and conditions of the work orders provided that all formalities *i.e.* insurance of labour, payment of EPF, maintaining records of payment to labour or any other statutory requirement of State and Central Acts shall be fulfilled by the contractor without any liability of the Company.

Audit observed (July 2016) that M/s Haryana Co-operative L&C Society Ltd. Yamunanagar (contractor) submitted monthly bills to Company containing the name of the worker engaged, period of work, leave period and wages paid, but the details of EPF account number of employee and deduction of EPF contribution of employee's share were not provided. The Company made the payment of bills submitted by contactor including the employee contribution share of ` 34.45 lakh for supplying manpower without obtaining the details of EPF account numbers of the employees, EPF dues against each employee and

[46] Panipat, Kurukshetra and Kaithal.

copy of challans as evidence for deposit of EPF contribution by the contractor with the EPFO.

EPFO issued (January 2012) a notice to the Company for ensuring compliance with the provisions of Act *ibid*. However, the Company was unable to produce any documentary evidence regarding payment of EPF dues. Finally, EPFO issued assessment order (11 April 2016) for recovery of ` 73.53 lakh (employer share - ` 39.08 lakh and employee share - ` 34.45 lakh) from the Company as EPF dues for the period April 2010 to December 2013. EPFO recovered (June 2016) ` 73.53 lakh (employee and employer share) from the Company including the employee contribution share of ` 34.45 lakh which has been already paid by the Company to the contractor. No documentary evidence was found regarding efforts made by the Company to recover the employee share of ` 34.45 lakh from the contractor despite the fact that contractor was traceable as the Company was aware of his address. FIR had also not been lodged against the contractor. Further, nothing on record was found that the Company flagged the issue of effecting recovery from the contractor with the bank authorities although his bank account was operative (July 2017). This indicates negligence on the part of the Management which led to the avoidable liability of ` 34.45 lakh.

The Government stated (August 2017) that as per terms and conditions of the work order, the contractor was liable for all the formalities *i.e.* insurance of labour, payment of EPF and any other statutory requirements of the State/ Central Government and there was no liability of the Company on this account. The reply is not acceptable as it was the statutory responsibility of the Company, being principal employer to remit EPF dues as per EPF Act. In any case the Company should have atleast carried out the basic minimum monitoring requirements of proper verification *viz.* details of EPF account numbers of the employees and copy of challans as evidence of deposit of EPF contribution by the contractor before making payment to the contractor for supplying manpower.

Haryana Vidyut Prasaran Nigam Limited

3.13 Avoidable payment of guarantee fee and interest

Injudicious decision of availment of fresh Cash Credit limit and delayed repayment of Medium Term Loan resulted in avoidable payment of guarantee fee and interest of ` 4.44 crore.

Haryana Vidyut Prasaran Nigam Limited (HVPNL) had Cash Credit (CC) limits[47] of ` 482 crore sanctioned from banks bearing interest rates ranging from 9.80 to 10.65 *per cent,* for meeting its working capital requirements, during 2015-16. To meet additional requirement of working capital, the Company got sanctioned (August 2015) a Medium Term Loan (MTL) of ` 100 crore at 12 *per cent* rate of interest from Rural Electrification Corporation (REC) for a period of 36 months (repayable in 18 equal monthly instalments along with interest after a moratorium period of 18 months from the date of first

[47] Andhra Bank, State Bank of India, State Bank of Patiala, Dena Bank and Canara Bank.

disbursement). The Company availed the entire MTL up to March 2016[48]. Thereafter, for improving its liquidity, the Company got sanctioned (February 2016) a fresh CC limit of ` 150 crore from State Bank of India (SBI) for one year from 9 February 2016 to 8 February 2017 for which guarantee fee of ` three crore was paid[49] to the State Government. HVPNL repaid (April 2017) the entire MTL before the scheduled date (October 2018).

Audit observed that the month-wise maximum utilisation of CC limits by HVPNL during 2015-16 and 2016-17 ranged between ` 296.22 crore to ` 474.40 crore and ` 164.62 crore to ` 353.30 crore only, which was within the original CC limits of ` 482 crore. Further, the fresh CC limits of ` 150 crore was not utilised except ` 19 crore in April 2016 though an amount of ` 184 crore was available in that month from the original CC limits of ` 482 crore. As such, the Company need not have obtained fresh CC limit of ` 150 crore for which it paid ` three crore as guarantee fee also. The Company could have prudently repaid the MTL of ` 100 crore out of unutilised CC limits bearing interest rate 10.65 *per cent* in February 2016[50] itself instead of in April 2017 and avoided extra interest of ` 1.44 crore paid on MTL which was availed at 12 *per cent* rate of interest.

Thus, inadequate analysis and computation of total financing cost of fresh CC limit led to an injudicious decision of availing fresh CC limit. In this it paid guarantee fee of ` three crore and delayed repayment of MTL led to avoidable interest of ` 1.44 crore.

Management stated (October 2017) that the distribution companies were struggling for their survival and it was a challenge for HVPNL to survive due to danger of severe defaults in payments by DISCOMs in pre UDAY era and CC limits were kept free intentionally. The reply is not tenable because as per prevalent practice HVPNL recovers the entire transmission charges due from DISCOMs out of RE subsidy released by the State Government. Thus, the fact remains that injudicious decision of availing fresh CC limit and delayed repayment of MTL led to avoidable payment of ` 4.44 crore.

The matter was referred (June 2017) to the Government; their replies were awaited (November 2017).

Haryana Agro Industries Corporation Limited and Haryana State Warehousing Corporation

3.14 Avoidable payment of interest due to delay in raising bills for differential claims

HAIC and HSWC raised bills for differential claims of wheat and custom milled rice on Food Corporation of India with a delay ranging between eight to 333 days which resulted in avoidable payment of interest of ` 2.66 crore.

Haryana Agro Industries Corporation Limited (HAIC) and Haryana State

48 First disbursement – ` 25 crore (October 2015), Second disbursement – ` 50 crore (December 2015) and Third disbursement – ` 25 crore (March 2016).

49 Deducted by State Government from the Rural Electrification subsidy.

50 The unutilised CC limit out of ` 482 crore was never less than ` 128.70 crore between January 2016 and April 2017.

Warehousing Corporation (HSWC) procure foodgrains on behalf of various States and Central Government agencies. The foodgrains procured for central pool are delivered to Food Corporation of India (FCI) and costs incurred by HAIC and HSWC on procurement activities are reimbursed by FCI, initially based on the provisional rates fixed by Government of India (GoI). Subsequently, on fixation of final rates by GoI, HAIC and HSWC (PSUs[51]) direct their field offices to raise claims for the differential amount *i.e.* the difference between provisional and final rates on FCI. Both PSUs avail the facility of cash credit and short term loans from commercial banks for their business activities and as such it is in their financial interest to recover the due amount at the earliest.

GoI finalised the rates of wheat for the period 2009-10 to 2012-13 during January to June 2016 and of Custom Milled Rice (CMR) for the period 2009-10 to 2011-12 during March to June 2015 which were communicated by above PSUs to their field offices.

The HAIC intimated the final rates of wheat and CMR to its field offices with delays of seven to 14 days. Further, the field offices took eight to 324 days and 30 to 333 days for raising their bills of differential claims[52] of wheat amounting to ` 40.51 crore and of CMR amounting to ` 12.76 crore respectively. As such, the bills amounting to ` 53.27 crore (Wheat – ` 40.51 crore plus CMR – ` 12.76 crore) for the period 2009-10 to 2012-13 were raised on FCI with a total delay ranging between eight to 333 days after allowing a margin of 15 days from the dates of receipt of final rates by HAIC as detailed below:

Table 3.4: Showing loss to HAIC due to delay in raising bills

Delay in number of days	No. of Cases	Amount involved (` in crore)	Loss of interest[53] (` in crore)
Wheat			
9 to 25 days	2	9.62	0.03
26 to 50 days	4	9.56	0.09
51 to 100 days	5	5.48	0.10
101 and above	15	15.85	0.80
Total	**26**	**40.51**	**1.02**
CMR			
26 to 50 days	2	0.54	0.01
51 to 100 days	1	0.13	0.01
101 and above	21	12.09	0.73
Total	**24**	**12.76**	**0.75**
Grand Total	**50**	**53.27**	**1.77**

It was observed that District Manager(s) of Kaithal and Karnal raised bills of differential claims of wheat with delay of 190 to 324 days and 141 to 221 days respectively whereas for CMR, District Manager(s) of Kurukshetra and Yamunanagar raised bills of differential claims with delay of 250 to 327 days and 256 to 333 days respectively.

Similarly, HSWC intimated the final rates of wheat of the years 2010-11 and

[51] Public Sector Undertakings.
[52] Wheat: 2009-10 to 2012-13, CMR: 2009-10 to 2011-12.
[53] Calculated at lowest rate of CCL/ STL *i.e.* 9.05 *per cent* per annum.

2011-12 to its field offices with a delay of 26 days each[54].The field offices took further four to 112 days for raising the bills of differential claims for the period 2009-10 to 2011-12. As such, the bills amounting to ` 74.38 crore for the period 2009-10 to 2011-12 were raised on FCI with a total delay ranging between nine to 118 days after allowing a margin of 15 days from the dates of receipt of final rates by HSWC as detailed below:

Table 3.5: Showing loss to HSWC due to delay in raising bills

Delay in number of days	No. of Cases	Amount involved (` in crore)	Loss of interest[55] (` in crore)
9 to 25 days	10	18.49	0.06
26 to 50 days	14	36.54	0.35
51 to 100 days	3	10.89	0.23
101 and above	2	8.46	0.25
Total	**29**	**74.38**	**0.89**

It was observed that District Manager(s) of Palwal, Rohtak, Panipat and Sirsa raised bills of differential amount with delay of 9 to 118 days[56].

Audit observed (January 2017) that lack of monitoring by HAIC and HSWC in intimation of final rates to their field offices and raising of the bills for differential claims by field offices, resulted in avoidable payment of interest of ` 2.66 crore on short term loans availed for their operational activities.

HAIC assured (February 2017) that the action would be taken against the officials for delay in raising claims. In respect of HSWC the Government stated (November 2017) that there was delay in submission of supplementary claims and it will be ensured that such type of delay be avoided in future.

The matter was referred (May 2017) to the Government; their replies were awaited (November 2017).

Haryana Agro Industries Corporation Limited

3.15 Follow up audit on Performance Audit on "Working of Haryana Agro Industries Corporation Limited"

Out of nine recommendations of the Committee on Public Undertakings, one recommendation has been fully implemented; partial progress was made in two cases and in six cases, the Company made no progress.

3.15.1 Introduction

A Performance Audit (PA) on working of Haryana Agro Industries Corporation Limited (Company) was featured in the Audit Report no. 4 (Commercial) of

[54] The final rates of 2009-10 were communicated by HSWC to its field offices without any delay.

[55] Calculated at average rate of short term loan *i.e.* 9 *per cent* per annum.

[56] Palwal-39 to 118 days, Rohtak- 9 to 84 days, Panipat- 17 to 42 days and Sirsa- 9 to 41 days.

CAG of India – Government of Haryana for the year ended 31 March 2010. The Audit Report was presented in the State Legislature on 4 March 2011. The performance audit contained 35 audit observations and six recommendations. The highlights of the performance audit are mentioned in succeeding tables.

The audit observations and recommendations were discussed by the Committee on Public Undertakings (COPU) of the Vidhan Sabha in its 59th report on 20 November 2012 which was laid in the State Legislature on 11 March 2013. The Report highlighted issues relating to deficiencies noticed in submission of claims to Food Corporation of India (FCI), non- reconciliation of accounts of gunny bales with Director General Supplies and Disposal (DGS&D) Kolkata, performance of manufacturing plants, loss due to non-adherence to delivery schedule, improper pursuance and defective documentation for claims, losses due to improper storage, misappropriation of paddy by millers and recoverable amount from FCI. The COPU made nine recommendations.

A follow up audit of the recommendations of this performance audit was conducted to ascertain the action taken by the Company towards implementation of the recommendations and remedying the concerns highlighted in the PA during the period 2011-17. The status of action taken by the Company on these observations and recommendations as discussed in COPU Report (November 2012) are brought out in the succeeding paragraphs.

3.15.2 Implementation of audit recommendations

The status of implementation of nine recommendations (including two on which recommendations of both COPU and of CAG were there) has been arranged in three categories *viz.* (A) insignificant/ no progress, (B) partial implementation and (C) full implementation as below:

(A) Insignificant/ no progress

Gist of Audit findings made in earlier Report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
1. 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 State Warehousing Corporation (HSWC) 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. While HSWC	-	The Committee asked (November 2012) the departmental representatives as to who is responsible in this case and recommended that efforts be made to settle the issue with Food & Supplies Department (FSD), Haryana and inform the Committee.	The Company has not fixed responsibility for the lapse so far. The Company took up the matter with Food & Supply Department, FSD (being nodal agency) and HAFED, after start of follow up audit only in March 2017 i.e. after lapse of almost seven years. The last correspondence was made in August 2010.	The Company did not follow up for recovery of outstanding amount with FSD and HAFED despite COPU's recommendation of March 2013 and the amount is still recoverable.

Gist of Audit findings made in earlier Report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
released payment of 5,978 gunny bales in March 2010 at current prices, payments for 1,387 gunny bales valuing of ` 1.83 crore 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. **(Para 2.1.13 of Report 2009-10)**				
2. The District Manager, Sirsa did not adhere to the prescribed schedule and delivered wheat stock of 5,349.45 MT to FCI after cutoff date. Consequently, FCI disallowed (March 2010) carryover charges of ` 70.35 lakh **(Para 2.1.24 of Report 2009-10)**	-	The Committee directed that a detailed reply be sent for its information after departmental action is completed.	In the quarterly progress report for the quarter ending June 2015 submitted to COPU, the Company stated that the matter is under consideration. FCI had declined (January 2013) to make payment of outstanding carry over charges. Thereafter the Company did not pursue with FCI the matter for release of said amount. The Departmental action had not been completed and action to issue charge sheets against officers/ officials was in progress (April 2017).	Audit observed that the Company was not addressing the issue in a systematic manner as similar irregularity was also pointed out at para no. 3.13 of Audit Report on PSUs (Social, General and Economic Sectors) for the year ended 31 March 2016 wherein deduction of carryover charges of ` 2.29 crore by FCI due to non-adherence to delivery schedule was highlighted.
3. Company's failure to ensure complete documentation and improper pursuance for the claims had resulted in blockage of claim amounting to ` 8.76 crore including	The Company should raise the differential claims timely and accurately.	The Committee recommended that the department should ensure that the payment be released at the earliest possible time and directed that the action taken by the department in this	In the quarterly progress report for the quarter ending June 2015 submitted to COPU, the Company stated that the Company has been following up the matter with FCI	This indicates that the Company had not made concrete efforts to recover the amount as no correspondence was made with FCI after July 2016 when the bills of differential claims

Gist of Audit findings made in earlier Report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
` 0.84 crore on account of bills for differential claims of wheat (March 2010) with corresponding loss of interest of ` 2.17 crore on avoidable cash credits for the period from July 2007 to March 2010. **(Para 2.1.25 of Report 2009-10)**		regard be intimated to it.	for release of payment. FCI vide its communication dated 15 July 2016 returned the bills of differential claims with the remarks that Annexures with the bills are incomplete and asked the Company to depute its representative to reconcile the figures of year wise damage of wheat. However, no further efforts were made by the Company either to reconcile or to recover the amount so far (February 2017).	were returned by FCI.
4. The Company had suffered a loss of ` 25.18 crore on account of damage of wheat pertaining to crop years 2002-03 to 2004-05 at Sirsa and Palwal. FIRs were lodged (June/ September 2008) and recovery suits for ` 25.55 crore with interest were filed (March/ April 2009) against 14 officers/ officials. **(Para 2.1.26 of Report 2009-10).**	-	The Committee observed that it is a serious matter which involved a loss of ` 25.55 crore due to failure in keeping the stocks in safe and healthy condition and recommended that the department should take action for recovery of amount from the erring officials under intimation to the Committee.	The Company had taken action against 15 employees by lodging FIRs/ issuing charge sheets. Out of these 15, Recovery Suits are pending in respect of 13 employees in various courts and retirement dues of one employee had not been released (May 2017). No recovery has been affected from the employees so far (May 2017).	Decision in the cases is pending in courts. Similar irregularity was highlighted at para no. 3.12 of Audit Report on PSUs (Social, General and Economic Sectors) for the year ended 31 March 2015. In this instance, the Company suffered avoidable loss of ` 7.89 crore due to unscientific and improper preservation of 5,974.85 MT wheat stock at Karnal and Kurukshetra for the crop years 2011-13.
5. The Company failed to comply with the guidelines of the Government and extended undue favour to the Miller (M/s Jai Bajrang Rice Mills, Jind) which facilitated misappropriation	The Company should strictly impose milling agreements with millers for custom milling of	During the oral examination of the departmental representatives, the Committee observed that G.M. (Finance) was not fully prepared to give answers to the queries raised by the Committee;	In the quarterly progress report for the quarter ending June 2015 submitted to COPU, the Company stated that it had sent the information to the Committee.	Further progress in this case is awaited.

Gist of Audit findings made in earlier Report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
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 valuing ` 63.29 lakh) seized from Miller's premises, the Company suffered loss of ` 69.81 lakh. **(Para 2.1.28 of Report 2009-10)**	paddy so as to safeguard against losses.	therefore, the Committee asked that in future the concerned officers called by the Committee for oral examination should come well prepared before the Committee. The then G.M. finance assured to furnish complete information asked by the Committee within seven days.	The Company had appointed (December 2010), arbitrator which gave decision (August 2013) in favour of the Company for recovery of outstanding amount along with interest and filed (February 2014) execution petition in Sessions Court Jind and the case is still pending (March 2017).	
6. The Miller (M/s Devi Dayal Sachin Kumar, Shahbad) was allocated 3,010.40 MT paddy and against this it was required to manufacture 2,016.97 MT rice. 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 within validity period nor got the same revalidated before their expiry. In this case also, the Company failed to comply with the State Government guidelines	The Company should strictly impose milling agreements with millers for custom milling of paddy so as to safeguard against losses.	The Committee recommends that the due amount be recovered at the earliest possible from the firm and also recommends that this type of omission should not be repeated in future.	The Company recovered (January to October 2010) ` 79 lakh (` 29 lakh; cost of rice and ` 50 lakh; interest) from the miller. However ` 50.91 lakh (` 8.09 lakh; interest ` 42.82 lakh; holding charges.) were recoverable as of November 2012. The Company appointed (June 2015) Arbitrator in this case. The award was pronounced in September 2016. The Company could not provide documentary evidence in support of its claim and the award was given against the Company. The Company had filed objection petition against award of arbitrator. Further progress in this case is awaited.	COPU recommended to put in place mechanism to avoid recurrence of such lapses in future but the Company had not taken remedial steps to avoid misappropriation of paddy by strictly following the milling policy of State Government as is evident from the fact that cases of misappropriation of paddy had also been pointed out in para 2.2.7.1 of Audit Report on PSUs (Social General and Economic Sectors) for the year ended 31 March 2015 wherein Company's failure to recover ` 44.86 crore (cost of rice ` 33.97 crore and interest and penalties ` 10.89 crore) pertaining to KMS 2012-13 to 2014-15 were highlighted.

Gist of Audit findings made in earlier Report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
regarding procurement and milling of paddy resulting in undue favour to the miller, which caused misappropriation of paddy. **(Para 2.1.29 of Report 2009-10)**				

(B) Partial Implementation

Gist of observations made in earlier audit report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
1. Due to non-pursuance at higher level with FCI	-	The Committee recommended (November 2012) that a detailed report in this case be sent for its information and on receipt of the information from the department this para would be taken up for discussion.	The detailed reply as desired by COPU had not been submitted by the Company so far (April 2017).	Further progress in this case is awaited.
• An amount of ` 1.15 crore was outstanding in respect of FSCs Sirsa, Ambala, Fatehabad, Jind, Karnal and Kurukshetra on account of depreciation on gunnies for crop years 2007-09.			The Company informed (May 2017) that it had taken up the matter with FCI for release of withheld amount.	
• 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 to the millers for transportation of paddy beyond 8 KMs at ten FSCs.			The Company informed (May 2017) that it had taken up the matter with FCI for release of withheld amount.	

Gist of observations made in earlier audit report	Recomme-ndation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
• 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. **(Para 2.1.37 of Report 2009-10)**			In the quarterly progress report for the quarter ending June 2015 submitted to COPU, the Company stated that it had recovered the amount from FCI.	-
2. 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 food grains *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 food grains recoverable from them for the years 1988-89 to 2003-04. **(Para 2.1.38 of Report 2009-10)**		The Committee recommended that a detailed report in respect of the recovery of amount in this case be submitted for the information of the Committee. The Committee further also would like to know as what action is taken in respect of seven F.I.R.s filed by the police against the erring officers. The committee further also recommends that only on receipt of the information from the department this para will be taken up for discussion.	In the quarterly progress report for the quarter ending June 2015 submitted to COPU, the Company stated that recovery suits were filed against erring officials/ officers and these are pending in various courts. An amount of ` 10.03 crore shown (31 March 2009) as advances recoverable from its employees under the head other advances had increased to ` 11.63 crore (March 2015). As regards the position of ` 2.55 crore outstanding against three deceased employees, ` 0.09 crore due from two employees were written off and process of writing off ` 2.46 crore is in progress.	Further progress in the matter was awaited.

(C) Full Implementation

Gist of observations made in earlier audit report	Recomm-endation made by audit	Recommendation made by COPU	Findings in Follow up audit and current status	Audit comments
Due to low off take by FCI, huge stocks of wheat remained with the Company during 2008-10. **(Para 2.1.23 of Report 2009-10).**	-	The committee recommended that a detailed reply of action taken in this regard by the Department be sent for the information.	The closing stock of wheat has decreased from 2.51 lakh MT in 2010-11 to 0.02 lakh MT as on 31 March 2017.	The recommendation has been fully implemented as negligible stock of wheat is lying with the Company at present.

Conclusion

The extent of implementation (February 2017) of recommendations made by audit and COPU in pursuance of audit observations accepted by the Government was poor as out of total nine recommendations, six recommendations were not implemented, two were partially implemented and only one recommendation was fully implemented. Deficiencies of the nature of non-timely submission of bills of differential claims with FCI, non-adherence to schedule of delivery of wheat to FCI, improper preservation of wheat stock, non-compliance of milling policy resulting in misappropriation of paddy *etc.* that had been pointed out in performance audit in 2010 and also noted by COPU continued to persist. It incurred loss of ` 2.29 crore due to non-adherence to delivery schedule of wheat, loss of ` 7.89 crore due to unscientific and improper preservation of wheat stock and failed to recover ` 44.86 crore against misappropriation of paddy. Advances recoverable from employees under the head 'other advances' had increased (March 2009) from ` 10.03 crore to ` 11.63 crore (March 2015). The Company had not submitted the detailed report on various matters as directed by the COPU.

The matter was referred to the Government and the Company in May 2017; their replies were awaited (November 2017).

Haryana Police Housing Corporation Limited

3.16 Construction of Police Infrastructure financed through funds from HUDCO

The Company awarded four contracts valuing ` 4.71 crore on single tender basis without specifying any special circumstances. Further ` 51.12 crore remained blocked for more than six years due to 164 acres forest land obtained on exchange, on which construction could not be undertaken.

The State Government approved (December 2010) a proposal of Police Department to establish four new police lines[57] and one office of Commissioner of Police at Gurgaon at a cost (including cost of land) of ` 333.92 crore. For

[57] Manesar, Mewat, Palwal and Sunaria.

these projects, Police Department acquired 514 acres land at three places[58] for ` 134.50 crore and the Company incurred ` 230.82 crore on 117 works up to December 2016, of which 116 works had been completed.

The Company availed loan of ` 300 crore from Housing and Urban Development Corporation Limited (HUDCO) during 2010-15 and got the balance amount from Police Department. The Company repaid ` 226.31 crore (including interest amount ` 121.31 crore at the rate 9.50 *per cent* to 12 *per cent* per annum) by getting the same from Police Department up to March 2017.

To assess the efficiency of the project to create police infrastructure, Audit scrutinized records relating to raising of loans and repayment thereof, acquisition of land for the projects and execution of 49 works contracts[59]. The audit findings are discussed below:

3.16.1 Acquisition of land

The Police Department acquired 199 acres of land, in March 2011, through Land Acquisition Officer (LAO) Rohtak for ` 74.12 crore for construction of Police Lines at Sunaria, Rohtak. Subsequently in April 2011, Government decided that 188 acres out of this 199 acres may be exchanged with land of Technical Education department, including 164 acres of forest land, for establishment of Indian Institute of Management (IIM) campus at Rohtak as the land previously acquired for IIM was categorized as forest land on which there could be no construction. Consequently, the Company informed Police Department (November 2013) that construction of Police lines at Sunaria may be deferred till receipt of forest clearance and requested for change in location of some buildings to old Police lines, Rohtak which the Government approved in August 2014. The Forest clearance had not been received so far (July 2017).

Audit observed that the decision for exchange of land was taken despite knowing the fact that the payment for purchase of this 188 acres land was made out of borrowed funds from HUDCO and no construction activity on 164 acres forest land (transferred to Police Department) could be undertaken. The investment of the Company remained unfruitful as it had not been able to utilise this 164 acres forest land valuing ` 51.12 crore even after a lapse of more than six years and had also paid interest of ` 20.36 crore[60] to HUDCO on this blocked amount. Due to this exchange of land, the planned Indian Reserve Battalion police line was not constructed and out of 16 works of Sunaria Police Line, five works[61] were not carried out and one work *i.e.* construction of Administrative Block was carried out at old police line at Rohtak by dismantling an existing building.

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[58] Manesar, Palwal and Sunaria. Police Department was already having land at Mewat and Gurgaon.

[59] All Contracts above ` 30 lakh and 20 *per cent* of contracts with lesser value carried out at Palwal, Gurgaon and Sunaria and four incomplete work contracts awarded at risk and cost of the contractor at Manesar.

[60] Calculated on actual basis till repayment of ` 51.12 crore.

[61] NGO mess, NGO Barrack, two sulabh toilets and armoury kot.

The Management replied (July 2017) that the exchange of land was within the Government departments prerogative and there is no loss to the company since loan along with interest was refunded by Police Department. The reply is not tenable as the land was purchased out of loan funds and its non-utilisation resulted in non-creation of envisaged infrastructure. It also entailed avoidable payment of interest and ultimate burden on the state exchequer, though the amount was reimbursed by Police Department.

3.16.2 Execution of works

In the execution of test checked works, Audit observed as follows:

a) Allotment of contract on single tender basis

Para 13.18.1 (g) of Haryana PWD code provides that the single tender shall normally not be considered unless there are special circumstances to do so. If special circumstances are not present, a single tender shall be recalled.

Audit observed that the Company on the recommendation of its Tender Allotment Committee (TAC) awarded (December 2012 to January 2014) four works valuing ` 4.71 crore on single tender basis on the plea that the rates were reasonable without specifying any special circumstances. These four works were (i) construction of underground water tank, tubewell chambers, rain water harvesting wells at police lines in Palwal, (ii) providing barbed wire fencing at Gazetted Officers mess Bhondsi, (iii) installation, testing and commissioning of 10 lifts in New police lines, Palwal and (iv) construction of boundary wall at police line, Manesar.

The Management replied (July 2017) that the tender rates of these single tenders were in consonance with the rates of works in the similar time period and all these works were of urgent nature. The reply is not acceptable as no such justification was found on record to substantiate the urgency and in any case despite the urgency cited, one work had not been completed so far and two works were completed with delays ranging from three to 20 months**.** Moreover, there remains inherent risk of lack of competition in award of work on single tender basis.

b) Delays in completion of work

Out of 49 selected work contracts, 24 works were completed with delays ranging between three and 30 months. The general conditions of the contracts *inter-alia* provided that Contractor shall pay Liquidated Damages (LD) at the rate as given in tender document for the period of delay subject to maximum of 10 *per cent* of the value of the contract. Audit analysed 10 cases where delay was seven months or more and amount of LD that could be imposed was more than ` 30 lakh in each case. Details of these 10 cases are given in ***Appendix 5***.

(1) In four cases (Sl. No. 1 to 4), works could not be completed in time as the Company could not provide timely necessary drawings/sites/ specifications and increased the scope of work without giving definite extension in timeline. Delay in such cases ranged from seven to 27 months. Hence slackness in

monitoring on the part of the Company exposed them to requests for repeated extensions. Thus, it could not impose liquidated damages amounting to ` 2.15 crore in three cases and imposed ` 41.99 lakh in one case but finally recovered only ` 0.40 lakh.

(2) In two cases (Sl. No. 5 and 6), the Company imposed LD of ` 47.68 lakh against maximum LD that could be imposed of ` 90.12 lakh despite the fact that the reasons for delay were entirely attributable to the contractors. The Company recovered only ` 4.96 lakh from the contractors.

(3) In remaining four cases (Sl. No. 7 to 10) the Company did not impose any LD against the maximum LD that could be imposed of ` 2.65 crore for the period where delay was on the part of contractor only.

Thus, the Company could not recover LD of ` 3.50 crore[62] in six cases (Sl. No. 5 to 10), where the delay was entirely attributable to the contractor. Further, the Company also failed to get works executed timely in four cases amounting to ` 25.68 crore (Sl. No. 1 to 4) due to its own slackness.

The Management stated (July 2017) that the circumstances *viz.* ban on quarrying, stoppage of work due to rain, shortage of labour, and non-finalisation of layout plan by the Police Department were beyond the control of both employer as well as the executing agency. The reply is not acceptable because reasons such as rain, labour shortage *etc.* were known and foreseeable circumstances. Further, non-finalisation of lay out plan, due to change in the scope of work could have been better addressed through restating the revised timelines and monitoring performance accordingly. Hence, non recovery of LD as per terms of contract was either due to the Company not imposing LD without any justifiable reasons or by not revising the timelines due to change in the scope of work, thereby exposing itself to requests for extension. Further, due to delayed execution of the works the intended benefit could not be received timely.

c) Non-completion of work resulting in unfruitful expenditure

As per para 15.1.4 (a) of the Haryana PWD code, the encumbrance free land/ site on which construction is to take place should be in possession of Company before commencement of work. The Company allotted (January 2015) the work of construction of boundary wall of police lines in Manesar, Gurgaon to M/s Surya Builders & Engineer, Gurgaon (contractor) at ` 1.14 crore which was to be completed by May 2015. The contractor could execute the work of ` 4.91 lakh only and thereafter the work was held up pending re-demarcation of land. The Company had incurred ` 29.34 lakh (including ` 24.43 lakh already incurred) on the work which is yet to complete (June 2017). The Company had also incurred ` 1.09 crore on the construction of entry gate.

Audit observed that the work of construction of boundary wall could not be completed as the ownership of the land was not clear. Construction of entry gate without completion of boundary wall defeated the purpose of providing security

[62] ` 0.90 crore + ` 2.65 crore - ` 0.05 crore.

and restricting unauthorised entry in the police lines which rendered expenditure of ` 1.38 crore (` 1.09 crore + ` 0.29 crore) unfruitful.

Management stated (July 2017) that proper demarcation of land was taken from Revenue department in 2011-12 and during execution of work, some people from adjoining village raised some dispute that resulted in stoppage of work and the dispute is being resolved. However, the fact remains that the work was incomplete resulting in blockage of funds and consequent loss of interest on the funds spent.

Conclusion

Thus, an amount of ` 51.12 crore was blocked in 164 acres forest land on which no construction was allowed pending permission. The Company allotted four contracts valuing ` 4.71 crore on single tender basis without recording reasons. It did not recover LD of ` 3.50 crore in six cases where delay was on the part of the contractor. One work remained incomplete resulting in blockade of funds of ` 1.38 crore.

The matter was referred to the Government in June 2017; their replies were awaited (November 2017).

Corporate Governance in Public Sector Undertakings

3.17 Study on the state of Corporate Governance in Public Sector Undertakings of Haryana State

Independent directors were not appointed in two Public Sector Companies (PSCs). The gender diversity in one PSC was not maintained. Requisite four Board meetings in a year were not held in case of seven PSCs. There was a shortfall in expenditure on Corporate Social Responsibility activities by ` 12.15 crore in three PSCs which diluted the accomplishment of the social development objective.

3.17.1 Introduction

Corporate Governance involves a set of relationships between a Company's management, its Board, its shareholders and other stakeholders. It is about commitment to values, ethical business conduct and transparency *etc*. Corporate governance is one of the important differentiators of a business that has impact on the profitability, growth and sustainability of an enterprise.

3.17.2 Provisions governing Corporate Governance - Companies Act, 2013

The Companies Act, 2013 was enacted on 29 August 2013 replacing the Companies Act, 1956. In addition, the Ministry of Corporate Affairs notified (March 2014) Companies Rules, 2014 on Appointment and Qualification of Directors, Management and Administration, Meetings of Board and its powers and Appointment and Remuneration of Managerial Personnel. The Companies Act, 2013 together with the Companies rules provide the framework for Corporate Governance.

With the aim of analysing compliance with the Corporate Governance provisions in Public Sector Companies, an audit exercise was undertaken in selected 13 ***(Appendix 6)*** out of 26 working Companies under administrative control of various Departments for the period April 2014 to March 2017. The audit findings are presented in the following paragraphs.

3.17.3 Audit Findings

3.17.3.1 Independent Directors, Audit Committee and Nomination & Remuneration Committee

The presence of independent directors on the Board of Directors is aimed at bringing an element of objectivity in the process of decision making of the Company. The Audit Committee is required to review the annual financial statements before their submission to the Board and to examine adequacy of internal audit and control system. The role of Nomination & Remuneration Committee is to assist the Board in laying down terms and conditions for appointment and remuneration of senior management and other employees.

Section 149 of the Companies Act 2013, read with Rule 4 of the Companies (Appointment and qualification of Directors) Rules, 2014 and Section 177 of the Companies Act, 2013 read with rule 6 of the Companies (Meetings of the Board and its powers) Rules, 2014 respectively stipulates that Public Companies having paid up share capital of ten crore rupees or more or Public Companies having turnover of one hundred crore rupees or more or Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees shall have at least two directors as independent directors, constitute an Audit Committee of a minimum three directors with independent directors forming a majority. A Nomination and Remuneration Committee shall also be constituted in these cases.

Scrutiny of records revealed that out of 13 test checked companies, only four[63] companies come under the purview of the above mentioned provisions. Of these, the Haryana Agro Industries Corporation Limited (HAIC) and Haryana Scheduled Castes Finance and Development Corporation Limited (HSCFDC) did not appoint any independent director. Further, HAIC did not constitute audit committee whereas HSCFDC and Haryana State Roads and Bridges Development Corporation Limited (HSRDC) constituted the audit committee without independent director. Statutory auditors also commented on inadequacy of internal control system in HSRDC and non-existence of internal audit system in HAIC and HSCFDC. The HSRDC did not constitute the nomination and remuneration committee.

The HAIC stated (June 2017) that they had already requested (August 2014 to December 2015) the State Government to appoint independent directors. HSRDC stated (October 2017) that proposal for constitution of Nomination and Remuneration Committee has been approved (21 June 2017) by Board of Directors and change in the composition of Audit Committee will be made in future.

[63] HSIIDC, HAIC, HSRDC and HSCFDC.

3.17.3.2 Woman Director in the Board

Section 149 (1) of the Companies Act, 2013, read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014, provides that every public company having paid–up share capital of one hundred crore rupees or more; or turnover of three hundred crore rupees or more shall appoint at least one woman director.

In terms of these provisions, woman directors were to be appointed by three[64] companies out of 13 selected companies. However, no woman director was appointed in HAIC during 2015-16.

HAIC stated (June 2017) that it had already requested the Government on various occasions (August 2014 to December 2015) to appoint the woman director.

3.17.3.3 Meetings of Board of Directors

The Board of Directors is the agency for the implementation of governance policies and practices. It is imperative that the Board devotes adequate attention to corporate governance and must be equipped with the requisite representation and its members should meet regularly.

Section 173(1) of Companies Act, 2013 stipulates that the Board shall meet at least four times in a year with a maximum time gap of 120 days between two consecutive meetings. Analysis of position of BoDs' meeting is shown in ***Appendix 7***. Audit observed that six out of selected 13 companies complied with minimum requirements of four BoDs meetings in a year during 2014-17. Table 3.6 below shows the Companies where the requirement of number of meetings to be held in a year was not complied with during 2014-17.

Table 3.6: Yearwise detail of Public Sector Companies where less than four meetings were held and the years

Sl. No.	Name of Company	Number of meetings held and period
1.	HLRDC	3 (2014-15) & 3 (2016-17)
2.	HFDC	3 (2014-15) & 3 (2016-17)
3.	HARTRON	3 (2015-16)
4.	HWDC	2 (2014-15) & 3 (2015-16)
5.	HBCKN	2 (2014-15), 3 (2015-16) & 2 (2016-17)
6.	HSCFDC	1 (2014-15), 1 (2015-16) & 2 (2016-17)
7.	HREC	3 (2014-15)

The HLRDC stated (June 2017) that the required four meetings of BoDs could not be held due to frequent change of Chairman/ Managing Directors and other directors of the Company. HARTRON informed (June 2017) that requisite meetings could not be held due to unavoidable circumstances. HFDC admitted (June 2017) the facts and HSCFDC stated (September 2017) that the point has been noted for future compliance.

3.17.3.4 Appointment of Company Secretary

A company needs a Company Secretary to strengthen its governance and compliance of Acts and rules made thereunder, as applicable to the Company.

[64] HAIC, HSIIDC and HSRDC.

Section 203(1) of Companies Act, 2013 read with Rule 8 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that every public company having a paid up share capital of ten crore rupees or more shall have a whole-time Company Secretary.

Accordingly, three PSCs *i.e.* HSCFDC, HSIIDC and HSRDC were to appoint whole time Company Secretary. However, a whole time Company Secretary was not appointed in HSRDC and HSCFDC and the work was being got done through a part time Company Secretary. HSCFDC and HSRDC stated (September/ October 2017) that steps are being taken to engage a whole time Company Secretary.

3.17.3.5 Secretarial Audit

Secretarial Audit is an audit to check compliance of various legislations including the Companies Act applicable to the company. Section 204(1) of Companies Act 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that every company having a paid-up share capital of ` 50 crore or more; or having a turnover of ` 250 crore or more, shall annex with its Board's report made in terms of section 134(3), a secretarial audit report, given by a practicing Company Secretary.

The secretarial audit was mandatory in HAIC, HSIIDC and HSRDC. It was observed that in HSRDC, secretarial audit was not conducted. HSRDC stated (October 2017) that timely compliance would be made in future.

3.17.3.6 Corporate Social Responsibility

Corporate Social Responsibility (CSR) activities ensure the involvement of the corporate sector in accomplishment of social development objectives. The CSR committee shall identify programs in which the CSR activities can be undertaken and recommend the same to the Board from time to time.

Section 135 of the Companies Act, 2013, *inter-alia*, requires that every company having net worth of ` 500 crore or more, or turnover of ` 1000 crore or more or a net profit of ` five crore or more, during any financial year shall constitute a Corporate Social Responsibility Committee. As per Section 135(2), the constitution of CSR Committee shall be disclosed in the Directors' report. Section 135(4) provides that the BoDs shall after taking into account the recommendations made by the CSR Committee, approve the CSR policy for the company and disclose contents of such policy and report CSR activities in the Director's Report. Section 135(5) of the Companies Act, 2013, set forth the mandatory spending on CSR activities by the company in every financial year, at least two *per cent* of its average net profits made during the three immediately preceding financial years.

Accordingly, CSR provisions were applicable on HSIIDC, HARTRON, HAIC and HSRDC during 2014-17. The details of amount to be spent on CSR

activities and amount actually spent in these four companies is shown in table 3.7 below:

Table 3.7: Amount to be spent *vis-a-vis* actually spent on CSR activities

(` in crore)

Company	Year	Amount to be spent	Amount Spent	Shortfall
HSIIDC	2014-15	9.55	5.29	4.26
	2015-16	10.03	2.99	7.04
	2016-17	Accounts not finalised	-	-
HARTRON	2014-15	0.14	Nil	0.14
	2015-16	0.19	0.09	0.10
	2016-17	0.19	0.01	0.18
HSRDC	2014-15	Not required due to loss	NA	NA
	2015-16	0.43	Nil	0.43
	2016-17	Accounts not finalised	-	-
HAIC	2014-15	Not required due to loss	NA	NA
	2015-16	Accounts not finalised	**-**	**-**
	2016-17	Accounts not finalised	**-**	**-**
	Total	**20.53**	**8.38**	**12.15**

Audit observed that HSIIDC spent the amount on villages development and sports activities and HARTRON on E-literacy activities as per their CSR policy during the above said period. We further observed that HSRDC had not formed a CSR committee while CSR policy was not framed in HAIC and HSRDC as required under Section 135(2) & (4) of the Companies Act, 2013.

HSIIDC informed (July 2017) that its BoDs have decided to carry forward the unspent CSR amount to the next financial years as per the allocation made for incurring such expenses. However, the fact remains that by not spending the due amount on CSR activities, the fulfilment of social development objectives envisaged by law were short achieved. HSRDC informed (October 2017) that its Board has approved (June 2017) the CSR policy and to constitute a Corporate Social Responsibility Committee of the company.

3.17.3.7 Annual Report

As per Section 394 of the Companies Act, 2013, the Annual Report of a Company, where State Government is a member, is required to be placed before the State Legislature within three months from the date of conclusion of Annual General Meeting.

We observed that HSRDC, HWDC, HSCFDC, HBCKN and HREC had never prepared an Annual Report for placement in State Legislature resulting in non-monitoring of their working. The administrative departments of the Public Sector Companies also did not insist upon an Annual Report. HSRDC stated (October 2017) that compliance would be made in future.

Conclusion

There were shortfalls in adhering to legal provisions of corporate governance by the Public Sector Companies. Instances of non-appointment of independent

directors, non-constitution of nomination and remuneration committee, non-compliance of requirement of holding of minimum of four meetings in a year of Board of Directors were noticed. There was shortfall in expenditure on CSR activities by ₹ 12.15 crore in three Companies.

The matter was referred (June 2017) to the Government and the respective Companies; the replies of Government and five Public Sector Companies were awaited (November 2017).

(MAHUA PAL)

Chandigarh **Principal Accountant General (Audit), Haryana**

Dated: 5 February 2018

Countersigned

(RAJIV MEHRISHI)

New Delhi **Comptroller and Auditor General of India**

Dated: 8 February 2018