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REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL

OF INDIA

FOR THE YEAR ENDED 31 MARCH 1988

(COMMERCIAL)

GOVERNMENT OF HARYANA

For the year 1987-88

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PREFACE

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories :

(i) Government Companies;

(ii) Statutory Corporations; and

(iii) Departmentally-managed commercial undertakings.

2. This Report deals with the results of audit of Government Companies and Statutory Corporations including Haryana State Electricity Board and has been prepared for submission to the Government of Haryana under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in March 1984. The results of audit relating to Departmentally managed commercial undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil) Government of Haryana.

3. There are, however, certain companies which inspite of Government investment are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled Companies/Corporations hold less than 51 *per cent* of the shares. A list of such Undertakings in which Government investment was more than Rs. 10 lakhs as on 31st March 1988 is given in *Annexure '1'*.

4. In respect of the Haryana State Electricity Board which is a Statutory Corporation, the Comptroller and Auditor General of India is the sole auditor. In respect of Haryana Financial Corporation and Haryana Warehousing Corporation he has the right to conduct the audit of their accounts independently of the audit conducted by the Chartered Accountants appointed under the respective Acts.

5. The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1987-88 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports; matters relating to the period subsequent to 1987-88 have also been included wherever considered necessary.

OVERVIEW

1. The State had 20 Government Companies (including 6 subsidiaries), I company under the purview of Section 619 (B) of the Companies Act, 1956 and 3 Statutory Corporations as on 31st March 1988.

(Paragraph 1.2.1. and 1.3.1.)

2. The aggregate paid-up capital of the Government Companies was Rs. 71.23 crores of which Rs. 60.37 crores was invested by the State Government, Rs. 2.16 crores by the Central Government and Rs 8.70 crores by others. The State Government loans to the extent of Rs. 106.45 crores were outstanding as on 31st March 1988 against 7 companies. The State Government had also guaranteed repayment of loans raised by 7 companies and interest thereon; the amounts guaranteed and outstanding thereagainst as on 31st March 1988 were Rs. 179.56 crores and Rs. 93.29 crores, respectively.

(Paragraph 1.2.2.)

3. Three companies had finalised the accounts for the year 1987-88; the accounts of 13 companies were in arrears for the period ranging from 1 to 7 years and the accounts of 4 companies were not due.

(Paragraph 1.2.3.)

4. On the basis of latest available accounts which varied from company to company, the cumulative losses of 13 companies were Rs. 31.72 crores; 3 companies together earned profit of Rs. 1.15 crores during the year 1987-88. One company did not, however, finalise the accounts since its incorporation in April 1983. The cumulative losses of Rs. 19.86 crores incurred by 5 companies had exceeded their paid-up capital of Rs. 8.30 crores.

(Paragraph 1.2.2., 1.2.4.1. and 1.2.4.2.)

5. As against the paid-up capital of Rs. 1,35.15 lakhs, the accumulated loss of Haryana Tanneries Limited, a company under Section 619(B) of the Companies Act, 1956, was Rs. 4,41.78 lakhs as on 31st March 1986. The State Government had guaranteed the repayment of loans raised by the Company and interest thereon; the amount guaranteed and outstanding thereagainst as on 31st March 1988 was Rs. 30 lakhs and Rs. 1,37.88 lakhs, respectively.

(Paragraph 1.2.4.3.)

6. The State Government had invested more than Rs. 10 lakhs in 8 private limited companies. Against its total investment of Rs. 1,43.65 lakhs, the dividend received up to 31st March 1988 was only Rs. 4.57 lakhs which worked out to 3.2 *per cent* of the total investment.

(Paragraph 1.2.5.)

7. As a result of supplementary audit under Section 619(4) of the Companies Act, 1956, of the accounts of 4 companies reported upon by the Statutory Auditors, the net effect on the profit/loss was Rs. 75.84 lakhs.

(Paragraph 1.2.6.)

8. The Haryana State Electricity Board (HSEB) had declared a net deficit of Rs. 156.15 crores during the year 1987-88, which was found understated by Rs. 50.30 crores due to non provision of liabilities amounting to Rs. 37.97 crores and non adjustment of sundry debtors for sale of power of Rs. 12.33 crores.

(Paragraph 1.4.3. and 1.4.4.)

9. Haryana Financial Corporation and Haryana Warehousing Corporation finalised their accounts for the year 1987-88 and earned a net profit of Rs. 69.53 lakhs and Rs. 3,27.72 lakhs respectively.

(Paragraph 1.5.4. and 1.6.3.)

Activities of two Government Companies viz. Haryana Seeds Development Corporation Limited and Haryana Concast Limited, and Recovery performance of loans sanctioned by Haryana State Industrial Development Corporation Limited and Haryana Financial Corporation were reviewed in audit.

10. (i) The Haryana Seeds Development Corporation Limited failed even after fourteen years of its existence to fix any norm for production of raw seed out of the foundation seed which varied widely year after year. The production of certified seed out of the raw seed was not only below the targets but the yield also varied extensively year after year.

(ii) The processing plants suffered from low production and had been incurring heavy losses year after year which made their working highly uneconomical. Consequently, 3 plants located at Bhiwani, Palwal and Tohana were closed during 1987-88 thereby rendering assets valuing Rs. 25.24 lakhs surplus. Cotton processing plant (ginning and bale pressing; acid delinting) set up at Hisar at a cost of Rs. 2,91.90 lakhs belied the Company's expectations, as the production obtained was either defective/damaged or economically unviable. The sale of damaged seed resulted in a loss of Rs. 5.32 lakhs. Though the main object of the Company was to market quality seeds within the State, the actual sales, were far below the targets, which were fixed in consultation with the State Agriculture Department (except in case of wheat seed during 1985-86 and 1986-87). Failure to correctly assess the demand of wheat seed (HD-2281) resulted in a loss of Rs. 20.04 lakhs.

(Paragraph 2.1)

11. (i) The Haryana Concast Limited which was formed in joint sector, became a subsidiary of Haryana State Industrial Development Corporation Limited (HSIDC) in September 1977. Excepting in 4 years, the Company had incurred loss in every year since inception. The accumulated loss up to 1987-88 was Rs. 3,85.87 lakhs and had completely wiped out the entire paid-up capital of Rs. 3,11.15 lakhs.

(ii) The Rehabilitation scheme which envisaged improvement in the Company's economic viability, undertaken at the behest of the financial institutions had to be shelved as the institutions refused to provide additional resources. The State Government on its part also did not provide adequate relief to the Company. The Company in disregard of the advice of Industrial Reconstruction Bank of India acquired equipment worth Rs. 14.72 lakhs for setting up of a Rolling mill, which was lying idle.

(iii) The trial production of stainless steel which was taken without techno economic study culminated in a loss of Rs. 3.92 lakhs. The addition of third strand at a cost of Rs. 14.91 lakhs to the billet casting machine not only defeated the object for which it was installed but the Company was saddled with the problem of continuous maintenance. The manufacture of ingots in place of billets resulted in a loss of Rs. 61.65 lakhs. While the sales to private parties were made on credit basis, the sales to Government departments were strictly on cash basis. Sale of 1,968 tonnes of ingots/billets at rates below the sale price resulted in a loss of Rs. 3.92 lakhs.

(iv) In its agreement with the re-rollers, the Company had failed to watch its interest; material valuing Rs. 8.69 lakhs had remained under disputes for more than a year. On retransportation of material the Company had to forego a saving of Rs. 3.78 lakhs. Finished goods valuing Rs. 78.34 lakhs were received back as defective from customers in utter disregard of the terms of sale. Shortages on physical verification (Rs. 11.02 lakhs) during the five years up to 1987-88 were adjusted without investigation. By disregarding the advice of the Managing Director, the retendering done at the instance of the Board of Directors, resulted in an extra expenditure of Rs. 1.83 lakhs which would further increase to Rs. 3.20 lakhs on completion of contract. Failure of the Company to claim excise duty set off in time resulted in a loss of Rs. 10.48 lakhs.

(Paragraph 2.2.

12 (i) In the case of Haryana State Industrial Development Corporation Lmited (HSIDC) and Haryana Financial Corporation (HFC), the percentage of amount disbursed to amount due for disbursement was low considering a period of 12 months allowed by the two institutions for availing loan as loans amounting to Rs. 1,13.39 lakhs, Rs. 3,20.51 lakhs and Rs. 8,47.10 lakhs sanctioned during 1984-85, 1985-86 and 1986-87 had not been availed up to March 1988. Both the financial institutions failed to ensure prompt recovery of the loans as Rs. 21,27.49 lakhs (HSIDC) and Rs. 87,63.08 lakhs (HFC) were outstanding as at the end of the year 1987-88. Out of the total loans outstanding, Rs. 1,16.77 lakhs (HSIDC) and Rs. 6,12.66 lakhs (HFC) were overdue for recovery. In respect of amounts aggregating Rs. 2,22.01 lakhs (HSIDC-10 *per cent*) and Rs. 20,28.16 lakhs (HFC-23 *per cent*), suits/recovery certificates had to be filed as the chances of recovery were very bleak.

(ii) Test Check in audit revealed instances of undue benefits to the assisted units (two units outstanding amount Rs. 97.12 lakhs), delay in auction of the units taken over by HFC (23 cases involving Rs. 4,19.82 lakhs), heavy losses (Rs. 2,36.02 lakhs) in the disposal of mortgaged properties (HFC), coupled with laxity in post disbursement inspections and monitoring which deprived the institutions of timely guaging of the financial position of the assisted units. The introduction of scheme of waiver of penal interest and admission of rebate worked to the detriment of the HFC as it had to forego Rs. 43.43 lakhs which worked out to 30.8 *per cent* of the amount recoverable.

(Paragraph 2.3.)

13. A test check of records of the Government Companies and Haryana State Electricity Board revealed cases of avoidable, wasteful, infructuous expenditure, losses, *etc*. as under :

—extra expenditure of Rs. 4.82 lakhs was incurred by Haryana Breweries Limited on purchase of malt (Rs. 3.28 lakhs), cartons (Rs. 1.08 lakhs) and new bottles (Rs. 0.46 lakh);

(Paragraphs 3.1.2 to 3.1.4.)

—supply of television sets by Haryana Television Limited to the distributors without executing agreement and non-pursuance of claims resulted in loss of Rs. 2.14 lakhs;

(Paragraphs 3.2.1 to 3.2.2.)

—lack of expertise and proper cost analysis for the manufacture of circulating water pump for supply to HSEB forced the Haryana State Minor Irrigation and Tubewells Corporation Limited to abandon the project after spending Rs. 6 lakhs;

(Paragraph 3.3.1.)

—in Haryana State Electricity Board, delay in transfer of remittances by banks, into its main account and non pursuance thereof by the Board resulted in loss of interest to the extent of Rs. 19.24 lakhs;

(Paragraph 3.5.1.)

—due to extension of closing date for receipt of tenders without waiting for the response till stipulated time, the Board purchased disc-insulators at an extra cost of Rs. 6.27 lakhs;

(Paragraph 3.5.2.)

—due to allotment of electrical works at higher premium, the Board incurred extra expenditure of Rs. 4.09 lakhs;

(Paragraph 3.5.3.)

—purchase of crane without proper inspection resulted in a fatal accident and loss of Rs. 1.57 lakhs as repair charges;

(Paragraph 3.5.4.)

—nugatory expenditure of Rs. 2.31 lakhs was incurred due to termination of services/retirement of employees without observing the prescribed procedures;

(Paragraph 3.5.5.)

—owing to acquisition of land without fulfilling the pre-requisites, the Board had to pay extra compensation of Rs. 1.64 lakhs to the land owner;

(Paragraph 3.5.6.)

—failure to finalise the tenders in time and subsequent retendering resulted in extra expenditure of Rs. 1.73 lakhs;

(Paragraph 3.5.8.1.)

—failure of the field staff to check the meters in time led to non recovery of energy charges to the tune of Rs. 2.87 lakhs;

(Paragraph 3.5.12.)

—placing of order for tube-mills without conducting feasibility study resulted in blockade of funds amounting to Rs. 2.83 crores.

(Paragraph 3.5.14.)

CHAPTER 1

1. GENERAL VIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1. Introductory

This chapter contains particulars about the investments, state of accounts, etc., of the State Government Companies and Statutory Corporations.

Paragraph 1.2 gives a general view of Government Companies, paragraph 1.3 deals with general aspects relating to the Statutory Corporations and paragraphs 1.4 to 1.6 give more details about each Statutory Corporation including its financial and operational performance.

1.2. GOVERNMENT COMPANIES—General View

1.2.1. There were 20 Government Companies (including 6 subsidiaries) as on 31st March 1988, as against 19 Government Companies (including 6 subsidiaries) at the close of 31st March 1987. A new Government company, *viz,* Haryana Roadways Engineering Corporation Limited, was incorporated on 27th November 1987 during the year under report.

1.2.2. Statement *(Annexure-*2) gives the particulars of up to date paid-up capital, outstanding loans, amounts of guarantees given and outstanding thereagainst, working results, etc. The position is summarised as under :

(a) The aggregate paid-up capital as on 31st March 1988 stood at Rs. 71.23 crores in 20 companies (including 6 subsidiaries) as per particulars given below :

Particulars	Number of companies	Investment by State Government	Investment by Central Government	Investment by Others	Total investment
		(Rupees in crores)			
1. Companies wholly owned by the State Government	10	54.83	—	—	54.83
2. Companies jointly owned with the Central Government/ Others	4	4.93	2.16	0.51	7.60
3. Subsidiary Companies	6	0.61	—	8.19	8.80
Total :	20	60.37	2.16	8.70	71.23

(b) The balance of long-term loans outstanding against 16 companies (including 5 subsidiaries) as on 31st March 1988 was Rs. 198.48 crores (State Government : Rs. 106.45 crores; others : Rs. 91.89 crores and deferred payment credits : Rs. 0.14 crore). This was Rs. 38.48 crores against 15 companies (including 5 subsidiaries) on 31st March 1987.

(c) The State Government had guaranteed the repayment of loans raised by 7 companies and payment of interest thereon. The amounts guaranteed and outstanding thereagainst as on 31st March 1988, were Rs. 179.56 crores and Rs. 93.29 crores, respectively.

1.2.3. A synoptic statement showing the financial results of all the 20 companies based on their latest available accounts is given in *Annexure* 3.

Three companies (including 1 subsidiary) had finalised their accounts for the year 1987-88 (serial numbers 11, 13 and 20 of *Annexure* 3). The accounts of 3 Government Companies (serial numbers 5, 7 and 9), which have accounting year as July-June and another Government Company which was incorporated in November 1987 (serial number 14) were not due. Eleven companies (including 3 subsidiaries) have finalised their accounts for earlier years (serial numbers 1, 2, 3, 4, 5, 7, 9, 10, 15, 17 and 20 of *Annexure* 3).

It will be observed from *Annexures* 2 and 3 that the accounts of 13 companies (including 5 subsidiaries))were in arrears. The position is summarised as under :

Extent of arrears	Number of years involved	Number of companies involved	
		Companies	Subsidiary companies
1	2	3	4
1981-82 to 1987-88	7	1	—
1982-83 to 1987-88	6	—	1
1983-84 to 1987-88	5	—	1
1984-85 to 1987-88	4	1	—
1985-86 to 1987-88	3	1	—
1986-87 to 1987-88	2	2	—
1987-88	1	3	3

Investment				Reference to serial number of *Annexure* 2
Government		Holding companies		
Capital	Loans	Capital	Loans	
5	6	7	8	9
(Rupees in crores)				
9.87	1.17	—	—	1
—	—	0.19	—	15
—	—	3.41	2.55	16
10.89	94.61	—	—	2
3.47	—	—	—	4
6.55	1.60	—	—	3,6
6.50	2.41	4.34	0.74	8,10,12,17,18 and 19

In the absence of finalisation of accounts, the productivity of investment of Rs. 1,37.07 crores (capital : Rs. 37.28 crores; loans : Rs. 99.79 crores) by the State Government in these companies could not be conclusively determined.

The position of arrears in finalisation of accounts was last brought to the notice of Government in September 1988.

1.2.4. In regard to working results of the Companies the following further points are made :

1.2.4.1. Three companies which had finalised the accounts for 1987-88 earned profit of Rs. 1,15.42 lakhs during 1987-88; compared to Rs. 89.15 lakhs during the previous year as given below :

Name of company		Paid-up capital		Profit(+)/Loss(—)		Percentage of profit to paid-up capital	
		1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
1	2	3	4	5	6	7	8
				(Rupees in lakhs)			
1.	Haryana State Industrial Development Corporation Limited	16,47.58	16,47.58	(+)66.15	(+)69.71	4.0	4.2
2.	Haryana State Electronics Development Corporation Limited	1,45.00	2,25.00	(+)3.54	(+)3.35	2.4	1.5
3.	Haryana Minerals Limited	24.04	24.04	(+)19.46	(+)42.36	80.9	176.2
	Total :	18,16.62	18,96.62	(+)89.15	(+)1,15.42		

1.2.4.2. Accumulated losses in respect of following 5 companies (including 3 subsidiaries) as reflected in the accounts received up to the period noted against each had exceeded their paid-up capital as at the close of that year :

Name of company	Year up to which accounts prepared	Paid-up capital at the close of the year	Accumulated loss up to the year	Serial number of *Annexure* 2
		(Rupees in lakhs)		
1. Haryana Agro Industries Corporation Limited	1986-87	2,29.66	9,56.89	5
2. Haryana Dairy Development Corporation Limited	1986-87	2 57.35	5,88.88	12
3. Haryana Television Limited	1981-82	19.40	90.96	15
4. Haryana Matches Limited	1986-87	12.50	20.11	17
5. Haryana Concast Limited	1986-87	3,11.15	3,29.02	18
		8,30.06	19,85.86	

1.2.4.3. In addition there is one company, *viz.*, Haryana Tanneries Limited coming under the purview of Section 619 (B) of the Companies Act, 1956. The paid-up capital of the company was Rs. 1,35.15 lakhs (State Government : Rs. 63.75 lakhs and Others : Rs. 71.40 lakhs) as on 31st March 1988. The Company had finalised the accounts up to 1985-86 only. The Company had been incurring losses which accumulated to Rs. 4,41.78 lakhs as on 31st March 1986. The State Government had guaranteed the repayment of loans raised by the Company and payment of interest thereon. The amount guaranteed and outstanding there-against as on 31st March 1988 was Rs. 30 lakhs and Rs. 1,37.88 lakhs, respectively.

1.2.5. There are eight other companies where Govern-
of which are not subject to audit by the Comptroller and controlled Companies/ Corporations hold less than fifty one Government investment was more than Rs. 10 lakhs as on

The return on Government investment in these com-

Serial number	Name of company	Year of account ending
1	2	3
1.	Indo Swiss Times Limited, Gurgaon	30th June 1987
2.	East India Syntex Limited, Dharuhera	31st December 1986
3.	Pashupati Spinning and Weaving Mills Limited, Dharuhera	31st December 1987
4.	Sehgal Papers Limited, Dharuhera	31st March 1981
5.	Rama Fibres Limited, Hisar	30th June 1987
6.	Victor Cables Limited, Dharuhera	30th June 1987
7.	Uni Product Limited, Ladowas (Mohindergarh)	30th September 1987
8.	Omex Autos Limited, Dharuhera	30th April 1987

It would be seen from the above table that Government investment of Rs. 1,43.65 lakhs in these 8 companies.

ment has invested funds (in equity shares) but the accounts Auditor General of India as Government or Government owned/ *per cent* of shares. A list of these undertakings in which 31st March 1988 is given in *Annexure* 1.

panies as per latest available accounts is as under :

Government investment	Profit(+)/ Loss(—)	Accumulated Loss	Dividend paid		
			Year	Percentage	Amount
4	5	6	7	8	9
		(Rupees in lakhs)			
15.00	(+)23.85	—	1981-82	6	0.90
15.40	(—)2.64	—	1985	10	1.54
20.00	(+)46.96	—	1986	10	2.00
25.00	(—)2,06.81	1,15.64	1977-78	0.5	0.13
19.50	(—)44.91	1,72.47	—	—	—
12.75	(+)22.01	19.55	—	—	—
19.00	(—)84.49	84.49	—	—	—
17.00	(—)5.52	5.71	—	—	—

had received only Rs. 4.57 lakhs as dividend on its total

1.2.6. Some of the important points made by the statutory auditors and by the Comptroller and Auditor General of India in respect of the accounts of the companies audited during the year are mentioned below :

(i) The Companies Act, 1956, empowers the Comptroller and Auditor General of India to issue directions to the statutory auditors of Government Companies in regard to the performance of their functions. In pursuance of the directives so issued, special reports of the statutory auditors on the accounts of 3 companies for the years 1985-86 and 1986-87 were received during the year. Some of the defects pointed out in these reports are summarised below :

Serial number	Nature of defects	Number of companies in which defects were noticed	Serial number of companies as per Annexure 3
1	2	3	4
1.	Absence of accounting manual	1	19
2.	Absence of internal audit manual	3	3,18,19
3.	Non-preparation of annual budgets	2	3,19
4.	Absence of regular costing system	1	19
5.	Internal audit system does not commensurate with the nature and size of business	3	3,18,19

1	2	3	4
6.	Non-fixation of minimum/ maximum limits of stores and spares	2	3,19
7.	Non-fixation of norms for manpower	3	3,18,19
8.	Non-invitation of open tenders	1	18
9.	Non-determination of surplus/ unserviceable stores	2	18,19

(ii) Under Section 619(4) of the Companies Act, 1956, the Comptroller and Auditor General of India has right to comment upon or supplement the audit reports of the statutory auditors. Supplementary audit under Section 619(4) of the Act by the Comptroller and Auditor General of India had the effect of having a net effect on the Profit and Loss Account in respect of 4 companies to the extent of Rs. 75.84 lakhs.

Some of the major errors/omissions etc., noticed in the course of review of annual accounts of these companies not pointed out by the statutory auditors are :

(i) Haryana Tourism Corporation Limited (1984-85)

(a) Current liabilities and provisions (Rs. 3.26 crores) did not include Rs. 56.75 lakhs being interest accrued but not due on loans aggregating Rs. 2,55 lakhs received from the State Government and paid to its subsidiary 'Haryana Hotels Limited.'

(b) The net profit of Rs. 3.17 lakhs was overstated by Rs. 2.21 lakhs owing to short/non-provision for depreciation/ expenses (Rs. 1.44 lakhs) and over valuation of closing stock (Rs. 0.77 lakh).

(ii) Haryana Agro Industries Corporation Limited (1985-86)

Current assets (Rs. 17.76 lakhs) included surplus imported spare parts valued at Rs. 12.11 lakhs, the realisable value of which was Rs. 2.04 lakhs.

(iii) Haryana Economically Weaker Sections Kalyan Nigam Limited (1985-86)

The net loss of Rs. 24.57 lakhs was understated by Rs. 0.85 lakh due to short/non-provision of expenses.

(iv) Haryana Breweries Limited (1986-87)

The net profit of Rs. 16.02 lakhs was overstated to the extent of Rs. 5.98 lakhs due to non-provision of extra shift depreciation allowance (Rs. 5.01 lakhs), expenses (Rs. 0.76 lakh) and under provision of depreciation (Rs. 0.21 lakh).

1.3. STATUTORY CORPORATIONS—General Aspects

1.3.1. There were three Statutory Corporations in the State as on 31st March 1988 :

—Haryana State Electricity Board;

—Haryana Financial Corporation; and

—Haryana Warehousing Corporation.

1.3.2. The Haryana State Electricity Board was constituted on 3rd May 1967 under Section 5(i) of the Electricity (Supply) Act, 1948.

The audit of accounts of the Board vests solely with the Comptroller and Auditor General of India. Separate Audit Report, mainly incorporating the comments on its annual accounts of each year is sent separately to the Board and to Government.

The Board had finalised its accounts for the year 1987-88. The separate draft Audit Report thereon was issued to the Board and Government in October 1988. The replies of the Board/ Government were still awaited. The accounts of the Board alongwith separate Audit Report thereon for the year 1986-87 was yet to be presented to the State Legislature (October 1988).

1.3.3. The Haryana Financial Corporation was constituted on 1st April 1967 under Section 3(i) of the State Financial Corporations Act, 1951 and the Haryana Warehousing Corporation was constituted on 1st November 1967 under Section 18(i) of the Warehousing Corporations Act, 1962.

Under the respective Acts, the accounts of the Corporations are audited by the Chartered Accountants appointed by the State Government in consultation with the Comptroller and Auditor General of India; and the latter may also undertake audit of the Corporations separately. Separate Audit Reports in respect of the Corporations are also issued by the Comptroller and Auditor General of India. The annual accounts of both the Corporations had been certified by the Chartered Accountants up to 1987-88. Separate Audit Reports up to 1986-87 had been issued in respect of both the Corporations. The separate Audit Reports on the accounts of Haryana Financial Corporation for the years 1984-85, 1985-86 and 1986-87 though issued to Government on 7th March 1986, 9th September 1987 and 27th May 1988 respectively were yet to be presented (October 1988) to the State Legislature. The Report on the accounts of Haryana Warehousing Corporation for the year 1985-86 was placed before the State Legislature on 21st December 1987 whereas the report for the year 1986-87 was yet to be presented (October 1988).

1.3.4. The working results of these three Statutory Corporations for the latest year for which accounts have been finalised are summarised in *Annexure* 4.

Salient points about the accounts and physical performance of these Statutory Corporations are given in paragraphs 1.4 to 1.6.

1.4. HARYANA STATE ELECTRICITY BOARD

1.4.1. The capital requirements of the Board are met by way of loans from Government, the public, the commercial banks and other financial institutions.

The aggregate of long-term loans (including loans from Government) obtained by the Board and outstanding at the close of March 1987 and March 1988 are as follows :

Source	**Amount outstanding as on 31st March**		**Percentage increase**
	1987	**1988**	
	(Rupees in crores)		
State Government	8,98.13	10,41.73	15.99
Other sources	4,09.04	4,50.23	10.07
Total	13,07.17	14,91.96	14.14

Government had guaranteed the repayment of loans raised by the Board to the extent of Rs. 5,08.52 crores and the payment of interest thereon. The amount of principal guaranteed and outstanding as on 31st March 1988 was Rs. 3,07.81 crores.

1.4.2. The table below summarises the financial position of the Board for the three years up to 1987-88:

	1985-86	1986-87	1987-88
	(Rupees in crores)		(Provisional)
A. Liabilities			
1. Loans from Government	7,66.25	8,98.13	10,41.73
2. Other long-term loans (including bonds and consumers contributions)	3,45.71	4,29.13	7,08.08
3. Deposit from public	28.20	29.36	29.34
4. Reserves and Reserve funds	4.16	45.32	55.38
5. Current liabilities	3,08.26	3,61.40	4,93.92
Total-A	14,52.58	17,63.34	23,28.45
B. Assets			
1. Gross fixed assets	7,93.82	8,54.67	9,35.76
2. *Less* : depreciation	51.24	1,91.07	2,15.91
3. Net fixed assets	7,42.58	6,63.60	7,19.85
4. Capital work-in-progress	4,29.80	4,84.76	5,65.81
5. Current assets	2,80.20	6,14.98	10,42.79
Total-B	14,52.58	17,63.34	23,28.45
C. Capital employed*	7,14.52	9,17.18	12,68.72
D. Capital invested**	11,44.24	13,11.60	14,92.62

*Capital employed represents net fixed assets (excluding work-in-progress) *plus* working capital.

**Capital invested represents long-term loans *plus* free reserves.

1.4.3. The working results of the Board for three years up to 1987-88 on comparative commercial basis are summarised below :

		1985-86	1986-87	1987-88
		(Rupees in crores)		(Provisional)
1.	(a) Revenue receipts	1,99.23	2,35.97	2,70.64
	(b) Subsidy from the State Government	19.97	—	64.76
	Total :	2,19.20	2,35.97	3,35.40
2.	Revenue expenditure including write-off of intangible assets	1,80.40	2,06.36	3,23.41
3.	Gross surplus for the year (1—2)	38.80	29.61	11.99
4.	Appropriations :			
	(a) Interest on Government loans	41.25	48.80	1,22.06
	(b) Interest on other loans	36.81	41.54	46.08
	(c) Contribution to repayment of loans under Section 65 of the Act	—	—	—
5.	Net deficit (3—4)	(–)39.26	(–)60.73	(–)1,56.15
6.	Total return on :			
	—capital employed	38.80	29.11	4.63
	—capital invested	21.81	(–)20.33	(–)1,17.43
7.	Percentage of return on :			
	—capital employed	5.43	3.17	0.36
	—capital invested	1.91	—	—

1.4.4. Under Section 69(2) of the Electricity (Supply) Act, 1948, the accounts of the Board are subject to comment by the Comptroller and Auditor General of India. The following major irregularities and omissions were pointed out in the draft Audit Report on the annual accounts of the Board for the year 1987-88 referred to in para 1.3.2.

(1) Deficit for the year (1,56.15 crores) was understated to the extent of Rs. 50.30 crores on account of excess billing for sale of power to Delhi Electricity Supply Undertaking (Rs. 3.04 crores), non-provision of liabilities (Rs. 37.97 crores) and non-adjustment of surcharge due from Irrigation Department since waived by the State Government (Rs. 9.29 crores).

(2) The register of fixed assets with details of the life, value, date of acquisition/commissioning etc., had not been maintained.

(3) Additions to the fixed assets (Rs. 81.09 crores) during the year were not supported by Completion Reports.

(4) The closing stock (Rs. 93.91 crores) represents balances as per financial books without any reconciliation with the priced stores ledgers.

1.4.5. The table below indicates the physical performance of the Board for the three years up to 1987-88 :

Serial number	Particulars	1985-86	1986-87	1987-88
1	2	3	4	5
				(Provisional)
1.	Installed capacity (MW) :			
	—Thermal	587.5	697.5	697.5
	—Hydel	831.0	847.0	863.0
	—Others	3.9	3.9	3.9
	Total ;	1,422.4	1,548.4	1,564.4

1	2	3	4	5
2.	Power generated (Mkwh) :			
	—Thermal	1,634.09	1,868	2,554
	—Hydel	3,142.64	3,397	3,305
	—Others	—	—	—
	Total :	4,776.73	5,265	5,859
3.	Auxiliary consumption	216.20	258	309
4.	Net power generated (2—3)	4,560.53	5,007	5,550
5.	Power purchased/ procured from other sources	595.99	681	1,199
6.	Total power available for sale (4+5)	5,156.52	5,688	6,749
7.	Normal maximum demand	967	1,042	1,331
8.	(a) Power sold*	4,256	4.639	5,157
	(b) Free supply to own works	14.7	16.1	19.4
9.	Transmission and distribution losses	900	1,049	1,592
10.	Load factor *(per cent)*	50.1	50.6	44.1
11.	Percentage of transmission and distribution losses to total power available for sale	17.5	18.4	23.6

*Includes free supply to Board's staff and offices.

1	2	3	4	5
12.	Number of units generated per KW of installed capacity (Kwh)	3,358	3,400	3,745
13.	Number of villages/ towns electrified	7,073	7,073	7,073
14.	Number of pump sets/ wells :			
	—energised	2,77,327	2,92,697	3,17,650
	—awaiting energisation	41,641	40,670	52,886
15.	Number of sub-stations (33 KV and above)	278	293	310
16.	Transmission/distribution lines (Kms) :			
	(i) High/Medium voltage	48,121	49,786	52,164
	(ii) Low voltage	79,850	82,983	87,078
17.	(i) Connected load (MW)	3,187	3,399	3,783
	(ii) Load awaiting energisation (MW)	48.94	46.11	53.00
18.	Number of consumers	17,26,346	18,64,644	20,24,953
19.	Number of employees	36,664	37,021	37,883
20.	Total expenditure on staff (Rupees in lakhs)	51,92.27	76,28.35	1,05,64.14

1	2	3	4	5
21.	Percentage of expenditure on staff to total revenue expenditure	28.78	36.96	32.66
22.	Break up of sale of energy according to category of consumers :		(M kwh)	
	(a) Agriculture	1,366.49	1,624.05	2,176.28
	(b) Industrial	1,322.46	1,368.40	1,317.60
	(c) Commercial	112.65	123.66	127.33
	(d) Domestic	486.06	581.88	657.27
	(e) Others*	968.73	940.59	878.34
	Total :	4,256.39	4,638.58	5,156.82
			(in paise)	
23.	(a) Revenue per Kwh**	46.81	50.87	52.48
	(b) Expenditure per Kwh***	65.81	63.96	95.32
	(c) Profit (+)/Loss (—) per Kwh	(—)19.00	(—)13.09	(–)42.84

1.5. HARYANA FINANCIAL CORPORATION

1.5.1. The paid-up capital of the Corporation as on 31st March 1988 was Rs. 7.41 crores (State Government : Rs. 3.58 crores, Industrial Development Bank of India (IDBI) :

*Includes free supply to Board's staff and offices.

** The revenue per Kwh sold for 1985-86 and 1987-88 had been arrived at after excluding subsidy from the State Government on account of rural electrification losses.

*** This includes charges on account of depreciation and interest.

Rs. 3.48 crores, Others : Rs. 0.35 crore) as against Rs. 6.31 crores as on 31st March 1987 (State Government : Rs. 2.98 crores, IDBI : Rs. 2.98 crores, Others : Rs. 0.35 crore).

1.5.2. Government had guaranteed the repayment of Rs. 6.68 crores of share capital and payment of minimum dividend thereon at 3 to 5 *per cent,* under Section 6 (i) of the Act, ibid.

Government had also guaranteed repayment of market loans (through bonds) of Rs. 28.65 crores, raised by the Corporation. Amount of principal outstanding thereagainst as on 31st March 1988 was Rs. 28.65 crores.

1.5.3. The table below summarises the financial position of the Corporation for three years up to 1987-88 :

	1985-86	1986-87	1987-88
	(Rupees in lakhs)		
A. Liabilities			
1. Paid-up capital	5,51.07	6,31.07	7,41.07
2. Reserve fund, other reserves and surplus	9,46.46	9,50.70	9,77.03
3. Borrowings :			
(i) Bonds	20,67.50	24,25.00	28,65.00
(ii) Others	32,47.69	35,62.43	38,03.77
4. Other liabilities and provisions	9,75.70	10,32.06	10,65.02
Total—A	77,88.42	86,01.26	94,51.89

	1985-86	1986-87	1987-88
	(Rupees in lakhs)		
B. Assets			
1. Cash and Bank balances	1,54.22	1,07.72	82.54
2. Loans and advances	71,71.36	79,49.07	88,35.21
3. Net fixed assets	20.66	20.73	18.42
4. Other assets	4,42.18	5,23.74	5,15.72
Total—B	77,88.42	86,01.26	94,51.89
C. Capital employed*	62,72.80	69,99.38	77,86.45
D. Capital invested**	66,21.14	73,77.62	81,95.29

1.5.4. The Corporation switched over to cash system of accounting from mercantile system of accounting with effect from Ist April 1983.

The following table gives details of the working results of the Corporation for three years up to 1987-88 :

Particulars	**1985-86**	**1986-87**	**1987-88**
	(Rupees in lakhs)		
I. Income			
(a) Interest on loans and advances	6,04.06	6,43.09	8,07.03
(b) Other income	17.15	17.54	22.53
Total—I	6,21.21	6,60.63	8,29.56

* Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, reserves and borrowings.

** Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves.

	1985-86	1986-87	1987-88
	(Rupees in lakhs)		
2. Expenditure			
(a) Interest on long-term loans	4,13.12	4,92.26	5,91.56
(b) Other expenses	1,25.01	1,33.79	1,68.47
Total—2	5,38.13	6,26.05	7,60.03
3. Profit before tax	83.08	34.58	69.53
4. Provision for tax	27.42	11.41	21.79
5. Other appropriations	38.18	13.83	27.66
6. Amount available for dividend	17.48	18.93	21.41*
7. Dividend paid	17.48	18.93	21.41*
8. Total return on :			
—capital employed	4,96.20	5,26.84	6,61.09
—capital invested	4,96.20	5,26.84	6,61.09
9. Percentage of return on :		*(per cent)*	
—capital employed	7.9	7.5	8.5
—capital invested	7.5	7.1	8.1

* Includes Rs. 1.33 lakhs transferred from General Reserve Fund under Section 35 of State Financial Corporations Act, 1951.

1.5.5. The performance of the Corporation in the disburse- is indicated below :

Serial number	Particulars	1985-86		1986-87	
		Number	Amount	Number	Amount
1	2	3	4	5	6
			(Amount in lakhs of rupees)		
1.	Applications pending at the begining of the year	57	4,94.67	178	20,86.81
2.	Applications received	617	51,89.06	524	58,46.11
3.	Total	674	56,83.73	702	79,32.92
4.	Applications sanctioned	364	24,87.72	357	28,19.57
5.	Applications withdrawn/ rejected	132	9,93.13	184	21,08.18
6.	Applications pending at the close of the year	178	20,86.81	161	26,72.10
7.	Loans disbursed	357	14,77.48	426	16,96.67
8.	Amount out-standing at the close of the year	2,505	71,01.79	2,538	78,79.18
9.	Amount overdue for recovery at the close of the year	906	30,49.03	1,035	25,18.38
10.	Percentage of default to total loans outstanding	—	42.9	—	32.0

ment/recovery of loans during the three years up to 1987-88

1987-88		Cumulative	
Number	Amount	Number	Amount
7	8	9	10
(Amount in lakhs of rupees)			
161	26,72.10	—	—
776	53,25.99	9,104*	4,68,25.56
937	79,98.09	9,104	4,68,25.56
466	30,78.12	6,201	2,55,40.76
339	30,93.47**	2,771	1,73,28.45
132	15,29.19	132	15,29.19
343	20,27.35	5,748	1,48,92.35
2,505	87,63.08	2,505	87,63.08
1,046	26,40.82***	1,046	26,40.82
—	30.1	—	—

* Includes 13 applications (amount : Rs. 77.02 lakhs) received from erstwhile Punjab Financial Corporation at the time of reorganisation of the States.

** Excludes part amount rejected (Rs. 2,97.31 lakhs).

*** Includes Rs. 20,28.16 lakhs due from 586 industrial concerns against which suits are pending in courts.

It would be seen from the above table that out of outstanding loans of Rs. 87·63 crores from 2,505 loanees on 31st March 1988, an amount of Rs. 26.41 crores was overdue for recovery. The percentage of overdue amount to the total outstanding at the end of the year which was 42.9 *per cent* in 1985-86 decreased to 32.0 *per cent* in 1986-87 and 30.1 *per cent* in 1987-88.

The following further points in regard to overdue loans were noted :

(i) Agewise analysis of the overdue loans other than suit filed cases as on 31st March 1988 was as under :

Serial number	Age of overdue	Number of units	Amount		
			Principal	Interest	Total
			(Rupees in crores)		
1.	Up to 1 year	348	1.10	1.11	2.21
2.	1 to 2 years	76	0.47	0.43	0.90
3.	Over 2 years	36	0.93	2.09	3.02
		460	2.50	3.63	6.13

The total amount outstanding in civil suits lodged by the Corporation for recovery of its dues was Rs. 20.28 crores. The agewise break up of the outstanding amount in regard to suit filed cases was not available with the Corporation.

(ii) The investment of the Corporation in 444 closed units up to 31st March 1988 amounted to Rs. 12.41 crores, against which Rs. 29.14 crores (including interest : Rs. 16.73 crores) were overdue for recovery as on the date.

1.6. HARYANA WAREHOUSING CORPORATION

1.6.1. The paid-up capital of the Corporation as on 31st March 1988 was Rs. 5.71 crores (State Government : Rs. 2.92 crores ; Central Warehousing Corporation : Rs. 2.79 crores) against Rs. 5.41 crores (State Government : Rs. 2.92 crores ; Central Warehousing Corporation : Rs. 2.49 crores) as on 31st March 1987.

1.6.2. The table below summarises the financial position of the Corporation for three years up to 1987-88 :

Particulars	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
A. Liabilities			
1. Paid-up capital	5,06.07	5,41.07	5,71.07
2. Reserves and surplus	6,73.27	11,91.98	15,53.82
3. Borrowings	1,89.93	4,40.00	4,48.54
4. Trade dues and other current liabilities	12,24.81	18,71.12	11,51.85
Total—A	25,94.08	40,44.17	37,25.28
B. Assets			
1. Gross block	11,71.69	17,77.30	21,78.80
2. *Less* : depreciation	1,70.43	2,10.25	2,65.32
3. Net fixed assets	10,01.26	15,67.05	19,13.48
4. Capital work-in-progress	1,53.97	1,27.03	1,11.64
5. Investment	1.00	1.00	1.00
6. Current assets, loans and advances	14,37.85	23,49.09	16,99.16
Total—B	25,94.08	40,44.17	37,25.28

Particulars	1985-86	1986-87	1987-88
	(Rupees in lakhs)		
C. Capital employed *	12,14.30	20,45.02	24,60.79

1.6.3. The following table gives details of the working results of the Corporation for three years up to 1987-88 :

Particulars	1985-86	1986-87	1987-88
	(Rupees in lakhs)		
1. Income			
(i) Warehousing charges	6,29.82	6,69.72	6,75.89
(ii) Other receipts	12.22	3,25.15	1,77.55
Total —I	6,42.04	9,94.87	8,53.44
2. Expenditure			
(i) Establishment charges	1,03.02	1,40.89	1,66.95
(ii) Interest	15.88	22.94	52.58
(iii) Other expenses	1,87.20	2,79.81	3,06.19
Total—2	3,06.10	4,43.64	5,25.72
3. Profit before tax	3,35.94	5,51.23	3,27.72
4. Profit brought forward	0.47	0.23	0.17
5. Previous year's adjustment (Net)	(+)21.18	(+)8.13	(+)74.01
6. Other appropriations (excluding profit transferred to Balance Sheet)	3,57.59	5,59.42	4,01.40
7. Dividend paid	29.36	35.77	39.90

* Capital employed represents net fixed assets *plus* working capital.

Particulars	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
8. Return on capital employed (2(ii)+3)	3,51.82	5,74.17	3,80.30
		(per cent)	
9. Percentage of return on capital employed	29.0	28.1	15.5

1.6.4. The following table gives details about the operational performance of the Corporation for three years up to 1987-88 :

Serial number	Particulars	1985-86	1986-87	1987-88
1.	Number of stations covered	79	96	100
2.	Storage capacity created up to the end of the year (tonnes in lakhs) :			
	(a) Owned	3.66	4.52	5.15
	(b) Hired	3.86	3.88	3.34
	Total	7.52	8.40	8.49
3.	Average storage capacity *utilised during the year (tonnes in lakhs)	8.44	8.70	7.59
4.	Percentage of utilisation of average capacity	112.2	103.6	89.4
			(Rupees)	
5.	Average expenses per tonne	36.27	50.99	69.26
6.	Average income per tonne	76.07	114.35	112.44

* Including that of godowns closed during respective year.

CHAPTER II

2. Reviews relating to Government Companies and Statutory Corporations

This chapter contains reviews on the working of the following Companies and Statutory Corporation :

2.1. Haryana Seeds Development Corporation Limited.

2.2. Haryana Concast Limited.

2.3. Recovery performance of loans sanctioned by Haryana State Industrial Development Corporation Limited and Haryana Financial Corporation (a Statutory Corporation).

2.1. HARYANA SEEDS DEVELOPMENT CORPORATION LIMITED

Highlights

The Company was incorporated on 12th September 1974 with a view to organise production of quality seeds and process them on scientific lines for sale within and outside the State.

The Company sustained a loss of Rs. 2,66.49 lakhs during the three years up to 1986-87. The accumulated loss up to 1986-87 was Rs. 2,26.42 lakhs which was 88.3 *per cent* of the paid-up capital of Rs. 2,56.48 lakhs. Even after fourteen years of its existence the Company failed to fix any norm for production of raw seed out of the foundation seed. The production of raw seed varied widely year after year. The production of certified seed out of the raw seed was not only below the targets but also varied year after year.

The processing plants apart from suffering from the malady of low production had been incurring heavy losses year after year which made their working highly uneconomical. Consequently, 3 plants located at Bhiwani, Palwal and Tohana were closed during 1987-88 thereby rendering assets valuing Rs. 25.24 lakhs as surplus. Cotton processing plant (ginning and bale pressing ; acid delinting) which was set up at Hisar at a cost of Rs. 2,91.90 lakhs belied the Company's expectations, as the production obtained was either damaged or economically unviable. Out of 35,19.25 quintals of raw seed procured for processing, 27,56.65 quintals which initially met the certification standard were found to be damaged at the time of sale. The sale of damaged seed resulted in a loss of Rs. 5.32 lakhs.

Though the main object of the Company was to market quality seeds within the State, the actual sales were far below the targets which were fixed in consultation with the State Agriculture Department (except in case of wheat seed during 1985-86 and 1986-87). Failure to correctly assess the demand of wheat seed (HD-2281) resulted in a loss of Rs. 20.04 lakhs.

The Company distributed Karnal bunt infested wheat seed as labelled seed (failed during certification) against the direction of the Government of India.

2.1.1. Introductory

The Company was incorporated on 12th September 1974 with the object to supply foundation seeds to the grower-shareholders, process seeds on scientific and commercial lines, storage and marketing of seeds within the State at reasonable prices.

2.1.2. Objects

The main objects of the Company are to :

—carry on production of certified seeds of all kinds and varieties coming under the purview of the Seeds Act, 1966 and quality seeds of other kinds or varieties, processing, drying, storing, distribution and transportation of the same on commercial lines ;

—carry on business as seed merchants including export and import and make available at reasonable prices sufficient quantities of certified seeds to support agricultural production programme ;

—purchase, own, acquire, take on lease, instal, manage and operate land, seed farms, farm machinery and seed storage, seed cleaning, seed processing and transportation equipments deemed necessary for seed business and to give equipment on rental basis ;

—undertake seed quality control measures and own and operate seed testing laboratories ; and

—make arrangement for the supply of foundation seed to grower-shareholders and to implement State Seed Project.

The Company had, however, confined its activities to production, processing and marketing of certified seed.

2.1.3. Scope of audit

The present review covers the performance of the Company in the areas of production, processing and marketing of seeds during the three years ending 30th June 1987.

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1980-81 (Civil)—Government of Haryana. The recommendations of the Committee on Public Undertakings thereon are contained in their 16th Report (1983-84).

2.1.4. Organisational set-up

The management of the Company is vested in a Board comprising of 11 Directors including a Chairman and a Managing

Director who are appointed by the State Government. As on 31st December 1987, there were 11 Directors who were appointed by the State Government (five), grower-shareholders (one), National Seeds Corporation Limited (four) and Haryana Agricultural University (one).

2.1.5. Capital structure

The authorised capital of the Company as on 30th June 1987 was Rs. 5 crores which was to be subscribed by the State Government, National Seeds Corporation Limited (NSC) and Growers in the ratio of 35:30:35 respectively.

The table below indicates the position of paid-up capital of the Company as on 30th June 1987 :

	Preference shares	Equity shares	Total	Shortfall (—)/ excess (+)
	(Rupees in lakhs)			
State Government	31.80	1,04.07	1,35.87	(+)46.10
NSC	32.23	58.12	90.35	(+)13.41
Growers	—	30.26	30.26	(—)59.51
Total	64.03	1,92.45	2,56.48	

The State Government, NSC and the growers had also paid Rs. 20 lakhs, Rs 21.15 lakhs and Rs. 4.64 lakhs respectively during 1986-87 as contribution towards share capital, but shares were not issued thereagainst till 30th June 1987. After allotment of shares the shortfall in the contribution from growers would further increase to Rs. 70.89 lakhs. Grower-shareholders who did not participate in the production programme of the Company for more than one year were liable to be disqualified from shareholding under the Articles of Association of the Company. No details were, however, available as to whether there were such shareholders.

2.1.6. Borrowings

In additon to the paid-up capital, the Company has been borrowing funds from the State Government and financial institutions/banks etc. Out of the total loans of Rs. 19,96.84 lakhs, Rs. 7,79.61 lakhs was outstanding as on 30th June 1987.

Besides, the Company had cash credit arrangements with commercial banks up to a limit of Rs. 6,00 lakhs against hypothecation of stock and stores. The amount outstanding thereagainst as on 30th June 1987 was Rs. 1,42.19 lakhs.

2.1.7. Financial position

The following table summarises the financial position of the Company for the five years up to 1986-87 :

	1982-83	1983-84	1984-85	1985-86	1986-87
		(Rupees in lakhs)			
A. Liabilities					
(a) Paid-up capital	1,40.86	1,84.04	2,25.72	2,33.74	2,56.48
(b) Reserves and surplus	58.13	63.00	65.34	37.28	65.43
(c) Borrowings (loans from banks and government including cash credit)	3,73.00	5,70.86	9,78.60	11,42.18	9,21.80
(d) Trade dues and current liabilities (including provisions)	1,53.80	1,59.89	2,29.46	1,90.22	2,39.10
Total—A	7,25.79	9,77.79	14,99.12	16,03.42	14,82.81

	1982-83	1983-84	1984-85	1985-86	1986-87
B. **Assets**	(Rupees in lakhs)				
(a) Gross block	1,77.03	2,53.62	5,15.54	6,72.81	8,46.86
(b) *Less* : depreciation	44.32	70.15	1,14.31	1,70.02	2,43.64
(c) Net fixed assets	1,32.71	1,83.47	4,01.23	5,02.79	6,03.22
(d) Capital work-in-progress	78.94	1,50.18	2,14.90	1,63.94	0.61
(e) Current assets including loans and advances	5,14.06	6,44.14	8,82.99	8,42.90	6,52.56
(f) Miscellaneous expenditure (loss)	0.08	—	—	93.79	2,26.42
Total-B	7,25.79	9,77.79	14,99.12	16,03.42	14,82.81
C. Capital employed*	4,92.97	6,67.72	10,54.76	11,55.47	10,16.69
D. Net worth**	1,98.91	2,47.04	2,91.06	1,77.23	95.50

2.1.8. Working results

2.1.8.1. The working results of the Company for the five years up to 1986-87 are summarised below :

	1982-83	1983-84	1984-85	1985-86	1986-87
	(Rupees in lakhs)				
1. Income					
(a) Sales	6,00.48	7,70.63	8,60.84	10,23.81	9,71.30
(b) Subsidy from State Government	33.02	34.98	33.59	43.28	1,48.97
(c) Other income	17.80	19.34	32.91	68.91	77.36
Total—1	6,51.30	8,24.95	9,27.34	11,36.00	11,97.63

*Capital employed represents net fixed assets *plus* working capital.

**Net worth represents paid-up capital *plus* reserves and surplus *less* intangible assets.

	1982-83	1983-84	1984-85	1985-86	1986-87
			(Rupees in lakhs)		
2. Expenditure					
(a) Purchases	4,64.55	6,85.81	9,37.45	8,26.57	7,99.53
(b) Salaries, operational, administrative expenses and other overheads	1,25.52	1,51.15	1,90.39	2,18.82	2,43.77
(c) Interest	16.82	38.65	53.70	1,01.12	1,20.06
(d) Depreciation	21.43	26.39	45.14	58.31	75.16
(e) Provisions	12.23	7.60	6.22	11.49	29.28
(f) Accretion(—)/ Decretion(+) in stock	(+)15.31	(—)85.15	(—)3,06.64	(+)51.31	(+)59.69
(g) Previous years adjustments	(+)0.55	(—)0.33	1.60	1.72	2.77
Total-2	6,56.41	8,24.12	9,27.86	12,69.34	13,30.26
3.(a) Net profit(+)/ Loss(—) for the year	(—)5.11	(+)0.83	(—)0.52	(—)1,33.34	(—)1,32.63
(b) Accumulated loss	—	—	—	93.79	2,26.42

The accumulated loss up to 1986-87 was Rs. 2,26.42 lakhs which was 88.3 *per cent* of the paid-up capital of Rs. 2,56.48 lakhs. The losses were attributed (October 1987) by the management to :

—heavy burden of interest on working capital and long-term loans;

—general slump in the seed industry from 1985-86 onwards and consequential sale of seed as grain;

—under-utilisation of the seed processing plants;

—heavy burden of depreciation charges; and

—over-staffing.

2.1.8.2. The table below shows the value of production and break up of expenses incurred by the Company during the three years up to 1986-87 :

	1984-85	1985-86	1986-87
	(Rupees in lakhs)		
1. Value of production (including subsidy and sale of rejected seed)	12,27.89	10,53.21	11,04.23
2. Expenses			
(a) Operational expenses	64.05	65.76	69.94
Percentage to value of production	5.2	6.2	6.3
(b) Salary and allowances	69.60	90.27	95.02
Percentage to value of production	5.7	8.6	8.6
(c) Administrative expenses	36.70	34.76	33.59
Percentage to value of production	3.0	3.3	3.0
(d) Selling and distribution expenses	20.04	28.03	45.22
Percentage to value of production	1.6	2.7	4.1
(e) Total expenses (excluding interest and depreciation)	1,90.39	2,18.82	2,43.77
Percentage to value of production	15.5	20.8	22.0

It would be seen from the above that while the total expenses increased from 15.5 *per cent* in 1984-85 to 22 *per cent* in 1986-87, the value of production decreased from Rs. 12,27.89 lakhs in 1984-85 to Rs. 11,04.23 lakhs in 1986-87 (10.1 *per cent*).

2.1.9. Production performance

2.1.9.1. Nucleus/breeder seed constitutes the basis of all further seed production. Foundation seed which is marked by genetic purity and other physical characteristics is multiplied either from breeder, or nucleus seed and used for multiplication/production of certified seed. The term 'certified seed' is widely used to denote seed which is sold to farmers for raising crops on larger scale.

The Company procures the foundation seed of the project crops *viz.,* wheat, paddy and cotton from Agricultural University, NSC and other research institutes. The foundation seed is thus distributed amongst grower-shareholders and others for multiplication/production of raw seed which is processed in the processing plants of the Company (Yamuna Nagar, Hisar, Sirsa, Haily Mandi, Umri, Palwal, Bhiwani and Tohana) and then sold as certified seed to the farmers.

2.1,9.2. The Company draws up production programme of certified seeds for each season (*rabi and kharif*) according to the requirement indicated by the State Agriculture Department and keeping in view the market trends. The production programme is carried out through grower - shareholders who are required to enter into agreement with the Company.

The requirement of foundation seed is assessed by the Company on the basis of estimated coverage of the total cultivated area as per crop production programme of each season. The foundation seeds are sold to the growers on 'no profit no loss' basis. The targets of the three major crops *viz,* wheat, paddy and cotton are fixed by the Company. The table below indicates the targets and distribution of foundation seed amongst the growers and raw seed produced thereagainst for the three years up to 1986-87 :

Year	Target for distribution	Foundation seed procured	Foundation seed distributed	Raw seed obtained	Raw seed obtained per quintal of Foundation seed
			(In quintals)		
Wheat					
1984-85	1,82,69	1,44,57	1,28,16	27,59,60	21.5
1985-86	92,47	96,30	89,95	27,28,82	30.3
1986-87	71,42	63,24	62,02	14,86,69	24.0
Paddy					
1984-85	3,57	3,54	3,34	4,39,94	1,31.7
1985-86	2,90	3,18	2,45	3,69,89	1,51.0
1986-87	1,78	1,23	1,18	1,53,44	1,30.0
Cotton					
1984-85	4,14	3,65	4,42	1,39,36	31.5
1985-86	4,14	1,23	4,29	1,64,79	38.4
1986-87	3,67	3,65	3,26	1,55,83	47.8

The Company had neither fixed any norms for the production of raw seed from foundation seed issued to growers nor it had means to ensure that the growers did not divert the yield.

The Company stated (February 1988) that variation in production of seeds depends upon climatic conditions and other factors like plant disease which are beyond the control of the growers.

2.1.9.3. The table below indicates the targets and the certified seeds obtained during the three years up to 1986-87 :

Crop/Year	Targets	Actual production	Percentage of achievement
		(In quintals)	
Wheat			
1984-85	30,72,00	24,86,62	80.9
1985-86	17,31,00	22,16,90	1,28.1
1986-87	15,80,00	9,92,68	62.8
Paddy			
1984-85	5,77,00	3,40,45	59.0
1985-86	3,75,00	2,75,17	73.4
1986-87	3,04,44	1,26,63	42.1
Cotton			
1984-85	1,55,00	1,12,90	72.8
1985-86	1,55,00	1,23,46	79.6
1986-87	1,55,30	1,31,27	84.5

It would be observed from the above table that the targets of production of wheat and paddy seeds went on declining during the three years up to 1986-87. The Company stated (February 1988) that excessive rain/drought and plant diseases were some of the factors that caused variation in yield.

2.1.10. Capacity utilisation of plants

2.1.10.1. The Company took over three processing plants at Karnal, Yamuna Nagar and Hisar from NSC during 1976-77. Three more plants were set up at Sirsa (August 1978), Haily Mandi (April 1980) and Umri (June 1983). The plant at Karnal was closed and its machinery shifted to newly set up plants at Palwal, Bhiwani and Tohana during 1983-84.

The table below indicates the plant-wise capacity utilisation (wheat seed) for the three years ended *Rabi* 1986-87 :

Plant	1984-85	1985-86	1986-87
		(In quintals)	
(1) *Umri*			
Installed capacity	10,00,00	10,00,00	10,00,00
Raw seed processed	5,92,83	7,71,49	3,76,75
Percentage	59.3	77.1	37.7
(2) *Hisar*			
Installed capacity	6,00,00	6,00,00	6,00,00
Raw seed processed	4,00,03	5,19,13	3,23,05
Percentage	66.7	86.5	53.8

Plant	1984-85	1985-86	1986-87
		(In quintals)	
(3) *Yamuna Nagar*			
Installed capacity	4,00,00	4,00,00	4,00,00
Raw seed processed	2,92,59	2,58,89	1,39,62
Percentage	73.1	64.7	34.9
(4) *Haily Mandi*			
Installed capacity	3,50,00	3,50,00	3,50,00
Raw seed processed	2,52,74	1,64,37	99,18
Percentage	72.2	47.0	28.3
(5) *Tohana*			
Installed capacity	4,00,00	4,00,00	4,00,00
Raw seed processed	2,73,72	1,68,20	76,06
Percentage	68.4	42.0	19.0
(6) *Bhiwani*			
Installed capacity	3,00,00	3,00,00	3,00,00
Raw seed processed	1,99,07	1,50,86	76,66
Percentage	66.3	50.3	25.5
(7) *Palwal*			
Installed capacity	4,00,00	4,00,00	4,00,00
Raw seed Processed	2,08,24	1,82,65	94,26
Percentage	52.0	45.7	23.6

Plant	1984-85	1985-86	1986-87
		(In quintals)	
(8) *Sirsa*			
Installed capacity	5,00,00	5,00,00	5,00,00
Raw seed processed	5,40,38	5,13,23	3,01,11
Percentage	108.0	102.6	60.2
Total capacity utilisation (for all the eight plants)	69.9	69.1	37.6

It would be seen from above that the overall capacity utilisation of all the eight plants registered a declining trend and came down sharply from 69.9 *per cent* in 1984-85 to 37.6 *per cent* in 1986-87.

2.1.10.2. The Company had not separately assessed the working results of these plants up to 1984-85. The working results of the plants for the two years 1985-86 and 1986-87 are detailed below :

Serial number	Plant/ Year	Income	Expenditure	Accretion(—)/ decretion(+) in stock	Depreciation/ investment allowance	Profit (+)/ Loss(—)
1	2	3	4	5	6	7
			(Rupees	in	lakhs)	
1.	Umri					
	1985-86	2,44.83	2,04.87	(+)65.67	15.29	(—)41.00
	1986-87	2,36.85	2,52.33	(—)1.58	17.75	(—)31.65
2.	Hisar					
	1985-86	1,71.15	2,81.85	(—)1,04.91	30.50	(—)36.29
	1986-87	2,42.68	3,23.57	(—)79.15	67.23	(—)68.97

1	2	3	4	5	6	7
3.	Yamuna Nagar					
	1985-86	1,13.61	93.60	(+)20.41	1.52	(—)1.92
	1986-87	1,12.61	84.23	(+)18.98	1.54	(+)7.86
4.	Haily Mandi					
	1985-86	90.10	73.61	(+)16.11	3.77	(—)3.39
	1986-87	99.51	64.48	(+)39.67	2.44	(—)7.08
5.	Tohana					
	1985-86	90.07	93.09	(—)4.55	2.46	(—)0.93
	1986-87	66.65	46.60	(+)23.54	1.92	(—)5.41
6.	Bhiwani					
	1985-86	96.58	76.84	(+)30.15	0.70	(—)11.11
	1986-87	1,46.07	89.38	(+)63.07	0.65	(—)7.03
7.	Palwal					
	1985-86	67.66	51.63	(+)28.37	1.03	(—)13.37
	1986-87	65.83	76.75	(—)1.34	0.60	(—)10.18
8.	Sirsa					
	1985-86	1,88.06	2,02.09	(+)0.24	12.80	(—)27.07
	1986-87	1,93.99	1,98.28	(—)7.80	11.14	(—)7.63

It would be seen from the above table that all these plants had incurred losses aggregating Rs. 2,73.03 lakhs during the two years ending 1986-87, except Yamuna Nagar plant which earned a profit of Rs. 7.86 lakhs in 1986-87.

2.1.10.3. The plants at Palwal, Bhiwani and Tohana were closed by the Company during 1987-88 on the grounds that :

—these plants had sustained heavy losses aggregating Rs. 48.03 lakhs during 1985-86 and 1986-87;

—closure of these plants would help to reduce the idle and under-utilised processing capacity of the Company;

—the closing down would mean saving of Rs. 30 lakhs annually; and

—disposal of the surplus assets would improve the liquidity of the Company.

Consequent upon the closure of these plants assets valuing Rs. 25.24 lakhs had become surplus and were yet to be disposed of (September 1988).

2.1.11. Installation of cotton processing plant

2.1.11.1. Under the National Seeds Project (Phase-I), formulated by the Government of India in 1976 with the assistance of World Bank, the Company was to establish two cotton processing plants at Sirsa and Hisar. The project report prepared by NSC and a firm of USA (August 1980) had recommended establishment of two cotton ginning and bale pressing plants at Sirsa and Hisar with an aggregate acid delinting facility of 10,000 quintals. The Company, however, decided to instal only one plant by February 1984 with acid delinting facility of 5,000 quintals at Hisar at an estimated cost of Rs. 2,09.04 lakhs. The Company obtained Rs. 1,96.38 lakhs as loan from bank for setting up the plant. The acid delinting plant was installed in February 1986 at a cost of Rs. 13 lakhs. The work of installation and commissioning of ginning and bale pressing plant was awarded to a firm of USA (October 1983). The plant was commissioned only in January 1987 at a cost of Rs. 2,91.90 lakhs.

Thus the project, which was due for completion in February 1984 at a cost of Rs. 2,09.04 lakhs was completed in January 1987 at a cost of Rs. 2,91.90 lakhs (including consultancy charges of Rs. 90 lakhs) due to failure on the part of the consultants to initially take into account the high water table while designing foundation of buildings and deciding the depth of sewerage system.

2.1.11.2. During the first season after commissioning of the plant *i.e.* in January 1987, the Company depended mainly on job work. Two orders for custom ginning and pressing of 10,000 bales each were procured in December 1986 from two firms of Hisar at the rate of Rs. 113 per bale of 70 Kg. (cost of processing Rs. 93.60 per bale of 70 Kg.). As there were complaints of poor quality, the orders were withdrawn (April 1987) by both the parties after 1,850 bales had been ginned and pressed.

The Company also purchased 5,051.55 quintals of raw cotton from Haryana Land Reclamation and Development Corporation Limited (HLRDC)-a State Government undertaking for Rs. 23.38 lakhs during November 1986-February 1987. The raw cotton, after ginning, yielded 3,268.50 quintals of raw cotton seed and 1,679.62 quintals of cotton. The cotton was disposed of (April-June 1987) for Rs. 19.62 lakhs after baling. However, cotton seed was delinted by machine/acid delinting process and 2,604.84 quintals of certified cotton seed was obtained (Value : Rs. 14.14 lakhs).

After taking into account the interest of Rs. 12.27 lakhs (paid on Rs. 1,96.38 lakhs) and depreciation of Rs. 14.28 lakhs (at the rate of 10 *per cent* for 6 months) on the plant from January to June 1987, the overall loss on the working of the plant during the year 1986-87 worked out to Rs. 21 lakhs.

2.1.11.3. 3,136 cotton bales were pressed during 1987-88 by the plant on behalf of Cotton Corporation of India-a Government of India undertaking and private growers and baling charges amounting to Rs. 3.54 lakhs were realised. Based on processing cost of Rs. 93.60 per bale relating to 1986-87, net earning of the plant on account of ginning and bale pressing worked out to Rs. 0.61 lakh. However, if depreciation (at the rate of 10 *per cent*) and interest charges (Rs. 51.68 lakhs) were also taken into account the unit sustained a net loss of about Rs. 51.07 lakhs in the job work.

2.1.11.4. The installed capacity of the cotton ginning and bale pressing plant was 8 bales per hour or 28,800 bales per working season of 150 days in a year. Even if the plant was to run at its optimum capacity every year, net contribution of about Rs. 5.58 lakhs (processing charges realisable : Rs. 32.54 lakhs; cost of processing bales : Rs. 26.96 lakhs) would be more than offset by annual depreciation and interest charges of Rs. 48.97 lakhs. The plant would thus not be a commercially viable unit.

2.1.11.5. The plant for acid delinting of cotton seed started working from February 1986. During the trial runs of the plant the production manager pointed out that there was high concentration of acid left on the seed and requested (December 1985) the regional manager for getting it tested at Haryana Agricultural University (HAU). No such test had been conducted so far (September 1988).

3,519.25 quintals of raw cotton seed (Value : Rs. 9.15 lakhs) was processed in the plant during February to April 1986 and 2,998.95 quintals of acid delinted seed was obtained (202.10 quintals undersized seed and 318.20 quintals lost in production). Out of this, 2,756.65 quintals (91.9 *per cent*) could meet the certification standard (with 228 quintals of undersized seed and 14.30 quintals lost in handling).

881.70 quintals of certified seed was sent to units (including Bhiwani) for sale. The Bhiwani unit reported (April 1986) the damage to large number of bags containing acid delinted cotton seed. The sale of the seed was stopped as the laboratory tests revealed (April-May 1986) that the seed had suffered injuries during acid delinting process. The Director (Farms), HAU Hisar, who enquired into the matter, attributed (August 1987) the cause of damage to the seed to the deficient working of the plant due to incompetence of the concerned officials even though they were trained for the job.

Ultimately, 2,456.63 quintals of damaged seed was auctioned (June 1987) at a loss of Rs. 5.32 lakhs. Further, 475 quintals of damaged seed (including 285 quintals of undersized seed) was still lying undisposed of with the Company (September 1988).

No responsibility for the loss had been fixed so far (September 1988).

2.1.11.6. 1,899.61 quintals of raw cotton seed was purchased during *Kharif* 1986 and processed in March-April 1987. Out of this, 1,536.50 quintals of cotton seed was recovered and 363.11 quintals was lost in processing. Further, while 865.20 quintals of seed could meet the certification standard, the balance 671.30 quintals was rejected due to low germination. The rejected quantity had not been disposed of so far (September 1988).

No responsibility for excessive processing loss and rejections was fixed by the Company (September 1988).

2.1.11.7. The consultants in their report had estimated that an additional revenue of Rs. 2 lakhs would accrue per season to the Company by sale of gypsum obtained as a by-product during acid delinting process in acid delinting plant. As the gypsum produced during *Kharif* 1986 did not conform to the ISI specifications, the by-product could not be sold. Although gypsum produced during *Kharif* 1987 met the specification yet no action was taken to sell the same to Haryana Land Reclamation and Development Corporation Limited

(HLRDC). Neither the quantity of gypsum produced had been assessed nor accounted for in the books so far (September 1988).

2.1.12. Sales performance

2.1.12.1. The targets and actual sales thereagainst in respect of the project crops for five years up to 1986-87 are tabulated below :

Crop/Year	Targets	Sales	Percentage
		(In quintals)	
Wheat Seed			
1982-83	2,35,750	1,37,111	58.2
1983-84	2,67,000	1,75,260	65.6
1984-85	2,94,500	1,75,384	59.6
1985-86	1,78,000	2,22,671	125.1
1986-87	1,74,500	2,08,137	119.3
Paddy seed			
1982-83	26,300	14,554	55.3
1983-84	38,400	20,838	54.3
1984-85	68,700	34,323	53.9
1985-86	37,500	18,447	49.2
1986-87	30,044	11,956	39.8
Cotton seed			
1982-83	17,500	13,032	74.5
1983-84	13,500	2,528	18.7
1984-85	15,500	11,226	72.4
1985-86	15,500	10,131	65.4
1986-87	15,530	12,548	80.8

It would be seen from the above table that the actual sales of wheat seed exceeded targets during 1985-86 and 1986-87 as the targets were substantially lowered during these years.

2.1.12.2. Seeds are marketed outside the State through NSC and its distributors and within the State through Haryana Agro Industries Corporation Limited (HAIC), Haryana State Co-operative Supply and Marketing Federation (HAFED), authorised dealers and Company's own sale outlets. The dealers are required to book their requirements in advance by depositing 10 *per cent* value of the order to enable the Company to chalk out its production programme. Penalty is to be levied at the rate of 3 *per cent* on such dealers who fail to lift at least 80 *per cent* of their estimated requirements. The Company had not maintained any record to ascertain the number of dealers who did not intimate their requirements in advance and even when such requirements were received, whether the contracted quantities had been lifted. A test check of the records of one of the units (Haily Mandi) in audit, however, revealed that the Company had discontinued the system of registering the requirements of the private dealers in advance. Consequently, the Company could not enforce the penal provisions of the terms and conditions of appointment of seed dealers.

2.1.12.3. The Company paid commission to its dealers (including institutions like HAFED, HAIC etc.) on the value of seeds sold through them. The table below indicates the percentage of seeds sold in the State through own sale counters and dealers during the three years up to 1986-87 :

	1984-85	1985-86	1986-87
(i) Number of sale counters	64	89	111
(ii) Sales through :		(Percentage)	
(a) sale counters	44	40	46
(b) dealers	56	60	54
		(Rupees in lakhs)	
(iii) Commission paid to dealers	12.86	16.32	20.49

It would be observed from the above table that :

—the percentage of sales through sale counters came down from 44 in 1984-85 to 40 in 1985-86 and increased only marginally to 46 in 1986-87 despite increase in the number of counters from 64 in 1984-85 to 89 in 1985-86 and 111 in 1986-87;

—the Company had not taken any action to review the performance of various sale counters.

2.1.12.4. The Company also appoints distributors for inter-state sales on yearly basis. Commission at the rate of 10/12 *per cent* is paid on sales and rebate ranging from one to five *per cent* is also payable on sales above Rs. 5 lakhs. In the States of Himachal Pradesh and Jammu and Kashmir almost entire supplies were made to Govenment departments.

It was noticed in audit that the Company paid Rs. 0.70 lakh as commission to the distributor in Himachal Pradesh during the years 1985-86 (Rs. 0.28 lakh) and 1986-87 (Rs. 0.42 lakh) on sales made to Government departments. Payment of commission made to the distributors on sale to State Agriculture Departments lacked justification.

2.1.12.5. Production programme for various types of seeds is finalised for each year after keeping in view the carried over stocks and projected sales. Allotments are made thereafter according to the requirement of the regions in which the seed processing plants are located. It was, however, observed in audit that the region-wise requirement of seeds was not assessed properly with the result 30,428 quintals, 42,169 quintals and 75,496 quintals of seeds had to be transferred between different units (plants) for sale during 1984-85, 1985-86 and 1986-87 respectivley after incurring Rs. 6.99 lakhs, Rs. 7.74 lakhs and Rs. 14.45 lakhs as transportation charges. The percentage of seeds transferred between different units (plants) to total sales of seeds within the State during the three years up to 1986-87 was 36.6, 39.0 and 47.8 respectively. The inter-unit transfers could be minimised, had region-wise assessment of requirement of seeds been made properly.

2.1.12.6. At the beginning of *Rabi* 1985-86 season, the Company had a stock of 9,246 quintals of wheat seed (HD-2281). Inspite of low sales during three years ending 1985-86 (197.69 quintals in 1983-84, 974 quintals in 1984-85 and 1472.80 quintals in 1985-86) and availability of a huge left over stock, the Company decided to produce 7,500 quintals of wheat seed (HD-2281) during *Rabi* 1985-86. Against this, 10,716 quintals of seed was produced. The Company could sell only 3,259 quintals (16.3 *per cent*) during *Rabi* 1986-87 season. As the Company apprehended (February 1987) that the left over stock of 16,703 quintals (value: Rs. 54.18 lakhs) might not find market during the year 1987-88, 13,759 quintals was sold for Rs. 24.59 lakhs (cost : Rs. 44.63 lakhs) as grain in March 1987. The sale of wheat seed resulted in a loss of Rs. 20.04 lakhs. However, only 2,944 quintals could be disposed of as seed during *Rabi* 1987-88.

Thus, due to excessive production of wheat seed (HD-2281) during *Rabi* 1985-86 without assessing the requirement properly, the Company suffered a loss of Rs. 20.04 lakhs.

2.1.12.7. 260 quintals (value : Rs. 1.11 lakhs) of wheat foundation seed (HP-1209) was purchased by the Company from NSC in November 1985 for its production programme of *Rabi* 1985-86. The resultant produce of about 5,000 quintals of certified seed was intended to be sold in inter-state market during *Rabi* 1986-87. Accordingly, the foundation seed was issued to growers of Umri (180 quintals) and Yamuna Nagar (80 quintals) during November/December 1985 for production of raw seed. 5,195.20 quintals of seed was produced at Yamuna Nagar (950 quintals) and Umri (4,245.20 quintals) for sale during *Rabi* 1986-87. The quantity produced at Yamuna Nagar was sold during *Rabi* 1986-87 and 1987-88 but as no sale could be made at Umri during 1986-87, the stock of 4,245.20 quintals was got revalidated in October 1987 from seed certification authority on payment of Rs. 0.21 lakh.

2,000 quintals of revalidated seed was sold at the rate of Rs. 3,22.12 per quintal to West Bengal Agro Industries Corporation Limited-a Government of West Bengal undertaking in November 1987 and 99 quintals of seed was sold at the rate of Rs. 350 per quintal through three sale counters of the Company. However, the balance quantity of 2,142.4 quintals (excluding revalidation loss of 2.80 quintals and unsold stock of one quintal lying at Haily Mandi) was sold with the approval of Board (January 1988) as grain in March 1988 to two private parties, after inviting tenders, at the rate of Rs. 2,35 per quintal resulting in loss of Rs. 1.87 lakhs to the Company.

2.1.13. Sundry debtors

2.1.13.1. The table below indicates the sales and book debts for the three years ending 1986-87 :

Year	Sales	Book debts	Percentage of debts to sales
	(Rupees in lakhs)		
1984-85	8,60.84	25.24	2.9
1985-86	10,23.81	31.82	3.1
1986-87	9,71.30	34.06	3.5

It would be observed from the above that there was a rising trend of debts. Yearwise break up of the outstanding debts had not been prepared by the Company. The amount of Rs. 34.06 lakhs outstanding as on 30th June 1987 included Rs. 7.86 lakhs which was considered doubtful of recovery against which *ad hoc* provision of Rs. 1.96 lakhs only had been made.

2.1.13.2. As per policy of the management, credit sale of foundation seed to growers was not permitted till 1984-85. This was amended subsequently and it was decided (October 1985) that only foundation gram seed could be issued on credit after the growers had signed proper agreements. On the recommendation of the concerned regional managers, credit sale of foundation wheat seed up to ten *per cent* of the allotment was also permitted in December 1985 under compelling circumstances. It was, however, noticed in audit that foundation seed was issued to the growers on credit extensively without recording circumstances and executing proper agreements. Consequently, Rs. 10.22 lakhs were outstanding against growers as on 29th February 1988 on account of sale of foundation seed. Out of this, Rs. 1.61 lakhs was more than 3 years old and included cases involving Rs. 1.55 lakhs for which suits were filed in courts of law.

2.1.14. Inventory control

2.1.14.1. The table below indicates the inventory position of certification and packing materials held by the Company for the three years ended 1986-87 :

Year	Closing stock of certificatian and packing material	Consumption during the year	Stock in terms of months consumption
	(Rupees in lakhs)		
1984-85	57.56	84.35	8.19
1985-86	39.81	93.35	5.12
1986-87	41.02	46.90	10.50

The Company had not laid down any maximum, minimum and re-ordering levels for any stock item. No system had been evolved for determining the normal requirements of these materials. As the Company had to borrow funds from the banks and the State Government for its working capital requirements, blocking of money on inventories adversely affected the ways and means position of the Company.

2.1.14.2. The Company issued gunny bags (both old and new) to the growers for bringing raw seed to its processing plants. However, the Company had not fixed any norms for the usage of a gunny bag *i.e.* how many times a gunny bag should be used before condemnation.

The gunny bags issued to the growers are required to be returned within 30 days for reissue. For delay beyond 30 days a penalty at 5 *per cent* of the cost of the bags per day is to be recovered from the growers. However, it was noticed that 11,680 bags valuing Rs. 1.34 lakhs issued during 1983-84 to 1985-86 had not been returned by the growers so far (September 1988). No penalty was also recovered from the defaulting growers for their failure to return the gunny bags within the prescribed period of 30 days.

2.1.15. Accounting and internal audit

The Company had not prepared accounting manual for streamlining the accounting systems and mechanism for financial controls. No manual containing the details of checks to be exercised by internal audit had been prepared so far (September 1988).

The Company had its own internal audit wing and it had completed internal audit up to the year 1986-87. Neither the internal audit reports were being submitted to the Board nor any follow-up action was being taken.

2.1.16. Manpower analysis

The Company had not fixed norms for employment of staff. The table below indicates the total number of employees engaged, quantity of seed processed and sold per employee for the three years up to 1986-87 :

Particulars	1984-85	1985-86	1986-87
		(Number)	
(1) Staff employed			
—Technical	52	65	64
—Non-technical	406	369	423
	458	434	487
		(In quintals)	
(2) Quantity processed per employee	679	644	282
(3) Quantity sold per employee	508	650	545

It would be observed from the above data that despite the increase in staff from 434 in 1985-86 to 487 in 1986-87, quantity of seed processed per employee had gone down from 644 quintals in 1985-86 to 282 quintals in 1986-87 and that of seed sold per employee decreased from 650 quintals in 1985-86 to 545 quintals in 1986-87.

2.1.17. Other points of interest

2.1.17.1. In order to reduce the project cost, the Company, *inter alia,* decided (June 1981) not to procure a fork-lift truck of 2 tonne capacity for Sirsa processing plant and the decision was also communicated to NSC (July 1981). NSC while sending the list of material included the fork-lift truck also in the requirement for the plant which was confirmed

(May 1982) by the then Agriculture Engineer. The fork-lift truck costing Rs. 2.28 lakhs was received in 1983 and has been lying unutilised.

2.1.17.2. The Government of India decided (November 1986) that raw wheat seed of *Rabi* 1986-87 produce having Karnal bunt infestation only up to 0.25 *per cent* should be purchased. The Company did not circulate these instructions to field units in time. Consequently, 16,018.80 quintals of wheat seed having over 0.25 *per cent* infestation was purchased and processed as under :

	(Quintals)
(i) 0.25 *per cent* to 0.50 *per cent*	10,333.80
(ii) 0.50 *per cent* to one *per cent*	4,946.20
(iii) Over one *per cent*	738.80

Wheat seed with over one *per cent* Karnal bunt infestation (738.80 quintals) was returned to the growers after an infructuous expenditure of Rs 0.24 lakh had been incurred on its processing. The remaining 15,280 quintals of seed with Karnal bunt infestation (0.25 to 1 *per cent*) though having failed during seed certification, was sold by the Company as labelled seed in violation of the instructions of the Government of India.

The matter was reported to the Company and Government in August 1988; their replies had not been received (October 1988).

2.2 HARYANA CONCAST LIMITED

Highlights

The Company, incorporated in November 1973 in the joint sector, became a subsidiary of Haryana State Industrial Development Corporation (HSIDC) in September 1977 after termination of agreement with the collaborator—a private Company of Bhavnagar.

Except in four years, the Company had incurred loss in every year since inception. The accumulated loss up to the year ended 31st March 1988 was Rs. 3,85.87 lakhs and had completely wiped out the entire paid-up capital of Rs. 3,11.15 lakhs.

The financial institutions which had suggested both financial restructuring and strengthening of the management to improve the Company's economic viability, backed out when the Rehabilitation scheme was submitted for grant of financial concessions. The State Government also failed to provide adequate relief to the Company.

Inspite of the fact that the Industrial Reconstruction Bank of India (IRBI) in its report on Rehabilitation scheme had pointed out that a large idle capacity was being nursed by the rolling mill industry, the Company in disregard of the advice, landed itself in a situation where it acquired equipment worth Rs. 14.72 lakhs which were lying idle.

The trial production of stainless steel which was taken up as a major diversification scheme culminated in a loss of Rs. 3.92 lakhs. The addition of third strand at a cost of Rs. 14.91 lakhs to the billet casting machine not only defeated the object for which it was installed but also resulted in the Company being saddled with the problem of maintenance. The manufacture of ingots instead of billets resulted in a loss of Rs. 61.65 lakhs.

While the sales to private parties are made on credit basis, the sales to Government departments are strictly on cash basis. Sale of 1,968 tonnes of ingots/billets at rates below the sale price resulted in a loss of Rs. 3.92 lakhs.

In its agreement with re-rollers, the Company had failed to watch its interest; material valuing Rs. 8.69 lakhs had remained under disputes for more than a year. On retransportation of material the Company had to forego a saving of Rs. 3.78 lakhs. Finished goods valuing Rs. 78.34 lakhs were received back as defective from customers in utter disregard of the terms of sale.

Overestimation of the requirement of iron chips scrap forced the Company to part with Rs. 1 lakh deposited as security. Shortages on physical verification aggregating Rs. 11.02 lakhs during the five years up to 1987-88 were adjusted without investigation.

Acceptance of a request which was contrary to the provisions of agreement forced the Company to file a civil suit for recovery of Rs. 1.16 lakhs overpaid to a transport contractor.

By disregarding the advice of the Managing Director, the retendering done at the instance of the Board of Directors, resulted in an extra expenditure of Rs. 1.83 lakhs which would further increase to Rs. 3.20 lakhs on completion of contract.

Failure of the Company to claim excise duty set off in time resulted in a loss of Rs. 10.48 lakhs.

2.2.1. Introductory

Haryana Concast Limited was incorporated on 29th November 1973, in the joint sector, by Haryana State Industrial Development Corporation Limited (HSIDC) in collaboration with a private Company of Bhavnagar with the main object to produce, deal, sell iron and steel in all forms. The Company became a subsidiary of HSIDC in September 1977 as the agreement with the private Company was terminated in February 1976 owing to its faiure to pay call money (Rs. 3.47 lakhs) on shares.

2.2.2. Objects

The main objects of the Company are as under :

(i) to carry on business as manufacturers/producers of and dealers in billets, ingots, blooms, squares, slabs and steel and to manufacture and produce all kinds of products, articles and things therefrom;

(ii) to manufacture, produce, prepare, sell, purchase and deal in all kinds of iron and steel and particularly, sponge iron, pig iron, stainless steel, alloy steel, special steel and all products, articles and things therefrom;

(iii) to carry on business as manufacturers of and dealers in ferrous and non-ferrous castings of all kinds; and

(iv) to conduct and carry on business of rolling, re-rolling, casting, *etc.*, of all kinds of metals and alloys.

The Company had so far (September 1988) undertaken the manufacture and sale of billets and ingots. Besides, the Company also carried on the business of rolled material after getting the ingots/billets rolled from outside.

2.2.3. Organisational set-up

The affairs of the Company are managed by a Board comprising of eight Directors including a Chairman and a Managing Director who are appointed by the State Government. As on 31st March 1988, the Board consisted of eight Directors including two non official members and two nominees of financial institutions. The Managing Director is the

Chief Executive of the Company who is assisted by functional groups such as finance, technical and personnel departments.

2.2.4. Scope of audit

The present review generally covers the performance of the Company during the five years ending 31st March 1988. The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1980-81 (Civil)-Government of Haryana. The recommendations of the Committee on Public Undertakings thereon are contained in their 22nd Report (Sixth Vidhan Sabha).

2.2.5. Capital structure

2.2.5.1. The authorised capital of the Company was Rs. 6,00 lakhs, consisting of 0.50 lakh redeemable preference shares of Rs. 100 each and 55 lakhs equity shares of Rs. 10 each. As on 31st March 1988 the paid-up capital was Rs. 3,11.15 lakhs which was subscribed as under :

Shareholders	Equity share capital	Redeemable preference share capital	Total
	(Rupees in lakhs)		
(i) HSIDC (holding company)	2,06.16	—	2,06.16
(ii) Government of Haryana	50.00	—	50.00
(iii) Others	32.53	22.44	54.97
(iv) Forfeited shares	—	0.02	0.02
	2,88.69	22.46	3,11.15

On account of heavy losses, the Company had not paid any dividend on preference shares which worked out to Rs. 32.61 lakhs as on 31st March 1988.

2.2.5.2. In addition to the paid-up capital, the Company had been borrowing funds from financial institutions and commercial banks, *etc.* Out of total loans of Rs. 2,85.30 lakhs obtained by the Company, loans amounting to Rs. 3,36.44 lakhs (including funded interest of Rs. 96.14 lakhs thereon) were outstanding as on 31st March 1988, which had been rescheduled (December 1986) for repayment from March 1988 to March 1995. As on 31st March 1988 interest amounting to Rs. 28.47 lakhs on outstanding loans was overdue for payment.

The Company had also made cash credit arrangement with three commercial banks up to a limit of Rs. 215 lakhs against hypothecation of stock and stores and also obtained short term loans from the holding company. The amount payable to the banks and the holding company including interest, as on 31st March 1988 aggregated to Rs. 1,82.84 lakhs.

2.2.5.3. A review of bank statements of four current accounts and three cash credit accounts of the Company for the period from April 1984 to November 1987 revealed that the Company had not evolved a proper system for transfer of surplus funds from current accounts to cash credit accounts to minimise the incidence of interest on cash credits. The daily balances of these current accounts after meeting day to day requirements ranged between Rs. 0.38 lakh and Rs. 37.39 lakhs even though there were debit balances in cash credit accounts.

Had surplus funds lying in the current accounts been transferred to cash credit accounts, the Company could have saved Rs. 2.94 lakhs towards interest on cash credits.

2.2.6. Financial position

The following table indicates the financial position of the Company for five years up to 1987-88 :

	1983-84	1984-85	1985-86	1986-87	1987-88
			(Rupees in lakhs)		
A. Liabilities					
(a) Paid-up capital	3,10.85	3,10.85	3,10.85	3,11.15	3,11.15
(b) (i) Revaluation reserve	1,87.11	1,83.97	1,80.82	1,77.67	1,74.53
(ii) Other reserves	12.87	13.08	19.14	18.85	18.84
(c) Borrowings (including interest accrued and due)	5,83.37	6,28.70	7,83.88	8,16.49	8,25.89
(d) Trade dues and other current liabilities	2,49.37	1,93.86	2,02.25	2,56.16	1,44.50
	13,43.57	13,30.46	14,96.94	15,80.32	14,74.91
B. Assets					
(a) Gross block	5,55.54	5,57.06	5,92.90	5,99.75	6,03.62
Less : depreciation	1,76.28	2.01.38	2,28.66	2,54.49	2,71.73
Net block	3,79.26	3,55.68	3,64.24	3,45.26	3,31.89
(b) Capital work-in-progress	0.82	0.88	0 88	12.59	19.65
(c) Current assets, loans and advances	4,90.45	6,24.56	9,13.25	8,93.45	7,37.50
(d) Miscellaneous expenditure	0.53	—	—	—	—
(e) Losses not written off	4,72.51	3,49.34	2,18.57	3,29.02	3,85.87
	13,43.57	13,30.46	14,96.94	15,80.32	14,74.91
Capital employed*	6,20.34	7,86.38	10,75.24	9,72.55	8,89.70
Net worth**	37.79	1,58.55	2,92.24	1,78.65	1,18.65

*Capital employed represents net fixed assets (excluding capital work-in-progress) *plus* working capital.

**Net worth represents paid-up capital *plus* reserves and surplus *less* intangible assets.

The net worth of the Company was negative up to 1982-83 but improved subsequently mainly because of receipt of further capital from Government and revaluation of its assets to the extent of Rs. 1,90.26 lakhs. Debt equity ratio of the Company was 1.76 : 1,1.76 : 1,1.80 : 1, 1.95 : 1 and 2.13 : 1 during the five years ended 31st March 1988 respectively. The cumulative loss of Rs. 3,85.87 lakhs as on 31st March 1988 had completely eroded the capital base of the Company. The cumulative loss has to be viewed in the light of non-provision of the following known liabilities :

(i) Dividend on cumulative preference shares—Rs. 32.61 lakhs ;

(ii) Gratuity—Rs. 8.28 lakhs ;

(iii) Doubtful debts—Rs. 27.89 lakhs ; and

(iv) Doubtful advances—Rs. 17.79 lakhs.

2.2.7. Working results

The working results of the Company for the five years up to 1987-88 are summarised below :

	1983-84	1984-85	1985-86	1986-87	1987-88
			(Rupees in lakhs)		
1. Income					
(a) Sales	10,42.46	12,30.92	15,95.93	12,31.15	11,96.38
(b) Other income	52.19	82.12	39.29	25.66	21.89
Total—1	10,94.65	13,13.04	16,35.22	12,56.81	12,18.27
2. Expenditure					
(a) Manufacturing expenses	9,62.31	10,24.94	13,84.49	10,67.35	8,53.67
(b) Administrative expenses and other overheads	1,13.81	1,41.30	1,83.92	1,93.77	1,89.73
(c) Interest and finance charges	65.56	48.26	60.99	74.21	82.45
(d) Depreciation	25.95	25.09	27.71	20.52	17.28
(e) Accretion(—)/ Decretion(+) in stock	(—)48.04	(—)49.72	(—)1,52.66	(+) 11.41	(+)1,31.99
Total—2	11,19.59	11,89.87	15,04.45	13,67.26	12,75.12
(i) Profit(+)/Loss(—) for the year	(—)24.94	(+)1,23.17	(+)1,30.77	(—)1,10.45	(—)56.85

The Company had been incurring heavy losses since inception, except profits in four years (1980-81, 1981-82, 1984-85 and 1985-86). The Company attributed (April 1988) the main reasons for losses to slump/recession in the steel market, power cut and labour problems. The Committee on Public Undertakings in their 22nd Report presented to State Legislature in June 1986 took a very serious view of the malfunctioning of the Company and desired that the reasons for unhealthy functioning of the Company be investigated and urgent remedial steps taken. However, the recommendations of the Committee had not been implemented so far (September 1988).

2.2.8. Rehabilitation scheme

The Company obtained (February 1974) an industrial licence for setting up a wire rod mill at a cost of Rs. 280 lakhs and approached the Industrial Finance Corporation of India (IFCI) for grant of loans for the project. The IFCI in February 1984 while rejecting the proposal of the Company for grant of loans in view of its poor financial position suggested both financial restructuring and strengthening the management set up to improve viability. Based on the advice of the IFCI the Company approached (March 1984) the Industrial Reconstruction Bank of India (IRBI) for preparation of a Rehabilitation Scheme.

The IRBI in its report (May 1985) apart from highlighting the various reasons for the Company's sickness viz. non/irregular availabiity of power, lack of technical knowledge, heavy burden of past losses, etc. suggested, *inter alia*, the following measures involving an expenditure of Rs. 1,93 lakhs (including contingency provision of Rs. 39 lakhs) for improving the working of the Company :

(i) Company should draw power from 33 KV sub-station (estimated cost : Rs. 55 lakhs) instead of 11 KV sub-station which was expected to result in a saving of about Rs. 35 lakhs per year towards surcharge.

(ii) Installation of a 500 KVA diesel generator to meet the requirement of power for essential auxiliaries involving a cost of Rs. 12 lakhs.

(iii) Addition of a third strand to the continuous billet casting machine at a cost of Rs. 10 lakhs with a view to minimise production losses and economise on cost of electrodes and power.

(iv) Addition of an open scrap bay with a 10 tonnes magnet crane at a cost of Rs. 27 lakhs to relieve the congestion in the charging/furnace bay.

(v) Addition of a spectrometer in the laboratory at a cost of Rs. 10 lakhs for quick analysis of batch composition and elimination of chemically off grade production.

(vi) Installation of oxygen plant with storage facility at a cost of Rs. 40 lakhs with a view to reduce the consumption of power and hasten up tap to tap time.

The cost of implementation of the above measures was proposed to be met out of additional equity capital to the extent of Rs. 48 lakhs from Government/holding Company and term loan to the extent of Rs. 1,45 lakhs. Before incurring any kind of capital expenditure, the following financial restructuring was suggested by IRBI :

— write off of share capital (Rs. 2,39.71 lakhs) ;

— write off of funded interest of financial institutions/ banks (Rs. 53.12 lakhs) and electricity duty (Rs. 50.02 lakhs) ;

— conversion of electricity duty (Rs. 75.04 lakhs) and loan from holding company (Rs. 5.09 lakhs) into equity ; and

— reduction in the rate of interest on the existing loans and on the dues payable to the Haryana State Electricity Board (HSEB).

The Company had not been able to implement the Scheme of financial restructuring so far (September 1988) as the financial institutions did not accept the IRBI report. The State Government had also not so far (September 1988) agreed to convert the deferred electricity duty into equity capital. Further developments were awaited (September 1988). Meanwhile, the Company had installed (March 1986) a spectrometer at a cost of Rs. 13.89 lakhs and added (March 1986) third strand to Billet Casting Machine (BCM) for Rs. 14.91 lakhs out of its own funds.

2.2.9. Projects undertaken

2.2.9.1. The IRBI in its report (May 1985) did not find the establishment of a rolling mill as viable and suggested that the Company should develop a net work of re-rollers in proximity of consuming centres instead of setting up a rolling mill of its own.

Contrary to the recommendations of the IRBI, the Company decided (July 1985) to set up a small rolling mill on the ground that rolling from outside was costlier. The State Government and the holding company were approached (March 1986) for sanction of funds for the rolling mill but no firm arrangement could be made. The financial institutions also did not agree (July 1986) to finance the project and advised the Company against incurring any capital expenditure on the rolling mill scheme. Meanwhile, the Company placed orders (April 1986) for the purchase of Billet Reheating Furnace (Rs. 5.50 lakhs) and Roughing and Finishing Mill (Rs. 15.74 lakhs) for the rolling mill out of an *ad-hoc* loan of Rs. 12 lakhs (at 12.5 *per cent* interest per annum) obtained (April 1986) from the holding company. Equipments worth Rs. 14.72 lakhs were received up to July 1986 against which payment of Rs. 8.80 lakhs was made (April 1986). Further supplies were not received due to non-release of payment by the Company. The machinery had been lying idle and thereby resulted in blockade of scarce funds.

2.2.9.2. With the object to diversify, the Board (June 1983) approved the production of stainless steel on trial basis. Meanwhile, the Company appointed (May 1983) a General Foreman for production of stainless steel. The Company produced 16.030 tonnes of stainless steel at a cost of Rs. 0.34 lakh per tonne in two heats (one in October 1983 and another in January 1984) as against Rs. 0.20 lakh estimated by the Company. The production loss worked out to 48.1 *per cent* against the estimated production loss of 9.5 *per cent*. Even though the production of the stainless steel was not found commercially viable the Board decided (February 1984) to manufacture another 15 heats.

Ferro-nickel and ferro-chrome which are the main raw material required for the manufacture of stainless steel were purchased initially from the local markets. In order to manufacture additional heats as desired by the Board, the Company procured (August 1984) 4.697 tonnes of imported ferro-nickel (value : Rs. 4.86 lakhs) but ferro-chrome essential for production of stainless steel was not procured. As no stainless steel could be produced, ferro-nickel was ultimately sold (March 1986) at a loss of Rs. 0.66 lakh.

Out of 16.030 tonnes of stainless steel produced 14.760 tonnes (cost : Rs. 5.01 lakhs) was sold after re-rolling (at a cost of Rs. 0.12 lakh) during 1986-87 for Rs. 2.18 lakhs and the balance 1.270 tonnes (value : Rs. 0.43 lakh) was found short.

Thus, the production of stainless steel without assessing the techno-economic viability resulted in a loss of Rs. 4.04 lakhs.

2.2.10. Production performance

2.2.10.1. The Company mainly manufactures ingots and billets. The table below indicates the installed capacity and actual production of steel thereagainst for the five years up to 1987-88 :

Year	Installed capacity	Actual production	Percentage of actual production to installed capacity
	(In tonnes)		
1983-84	50,000	27,337	54.7
1984-85	50,000	25,024	50.0
1985-86	50,000	28,485	57.0
1986-87	50,000	21,007	42.0
1987-88	50,000	17,295	34.6

It would be seen from the above table that the actual production of steel during all the five years was much below the installed capacity and there was a sharp decline in production during the year 1986-87 and 1987-88 against the budgeted target of 30,000 tonnes of steel ingots for 1987-88. The shortfall in production was mainly on account of financial constraints, power shortage, operational problems, lack of maintenance of the plant and low voltage.

2.2.10.2. An analysis of working hours available and hours the plant actually worked revealed that besides loss of production due to external factors, internal factors were no less responsible for loss of production as detailed below :

	1983-84	1984-85	1985-86	1986-87	1987-88
1. Hours available	17,184	17,024	17,136	17,160	17,184
2. Hours worked	9,387	7,936	9,194	5,921	4,002
3. Hours lost	7,797	9,088	7,942	11,239	13,182
4. Percentage of hours lost to available hours	45.4	53.4	46.3	65.5	76.7
5. (a) Hours lost due to external factors	4,724	6,913	3,011	3,961	9,845
(b) Percentage	27.5	40.6	17.5	23.1	57.3
(c) Hours lost due to internal factors	3,073	2,175	4,931	7,278	3,337
(d) Percentage	17.9	12.8	28.8	42.4	19.4

From the above, it would be seen that while the percentage of hours lost due to external factors (non-supply of power, low voltage, etc.) decreased substantially during 1985-86 and 1986-87, the percentage of hours lost due to internal factors increased significantly during these two years.

The major contributing factors that led to loss due to internal factors during all the five years were as under :

	1983-84	1984-85	1985-86	1986-87	1987-88
			(Number of hours)		
(i) Shortage of melting scrap	1,071	—	368	204	.57
(ii) Operational problems	2,002	1,225	3,029	2,259	1,202
(iii) Mechanical failures	—	836	911	749	489
(iv) Labour trouble/ strike, etc.	—	114	623	4,066	48
(v) Furnace mainte- nance	—	—	—	—	1,541
	3,073	2,175	4,931	7,278	3,337

2.2.10.3. The Billet Casting Machine (BCM) had two strands for casting of billets. With a view to speed-up casting of billets and early release of furnaces for re-charging, the Company on the recommendation of IRBI, added a third strand which was commissioned on 5th March 1986 at a cost of Rs. 14.91 lakhs.

A review of the working of the BCM since the addition of third strand revealed that during the period from 5th March 1986 to 31st March 1988, 1905 heats were taken to the BCM. The first , second and third strands worked for 1844 heats, 1809 heats and 782 heats which worked out to

96.8 *per cent*, 95.0 *per cent* and 41.0 *per cent* of the heats taken to the BCM. The performance of the third strand was, thus, low as compared to the performance of the first two strands installed in 1977. Thus, the object to speed-up casting of billets and early release of furnace for re-charging could not be achieved. The Management stated (April 1988) that the third strand mainly remained under maintenance/ breakdown. However, the matter regarding the poor performance of third strand was not taken up with the supplier who had guaranteed its performance for one year from the date of commissioning.

2.2.11. Burning losses

(i) A review of production reports for the four years up to 1987-88 revealed that in case of 2,170 heats produced, the actual burning loss ranged between 15.1 and 52.6 *per cent* which exceeded 14.5 *per cent* claimed by the ,Company as normal loss (against the burning loss of 9.09 *per cent* mentioned in the project report) resulting in a loss of Rs. 40.76 lakhs. The reasons for excess burning loss had not been investigated so far (September 1988).

(ii) During the five years up to 1987-88, the Company lost 259 tonnes of production of ingots due to non-availability of power after the tapping of the heat. Had the Company installed a diesel generating set of about 100 KW costing about Rs. 2.5 lakhs, it could have saved loss of Rs. 10.85 lakhs after adjusting the value of scrap obtained.

2.2.12. Uneconomic manufacture of ingots

While discussing the economics of continuous billets casting process vis-a-vis the ingots casting process, it was mentioned in the project report (April 1973) for setting up the project at Hisar that in addition to the cost of molten metal, the variable cost for making billets would be Rs. 40 per tonne as against Rs. 90 per tonne for making ingots. A review of Steel Town Magazine revealed that on an average ingots fetch less than billets by about Rs. 200 per tonne. From this it would appear that production of ingots is less remunerative than billets. Ingots produced by the Company during the five years up to 1987-88 were as under :

Year	Production			Percentage of production of ingots to total production
	Ingots	Billets	Total	
	(In tonnes)			
1983-84	3,865	23,325	27,190	14.2
1984-85	3,045	21,904	24,949	12.2
1985-86	5,676	22,629	28,305	20.1
1986-87	6,434	14,331	20,765	31.0
1987-88	5,641	11,458	17,099	32.9

The production of ingots thus entailed substantial loss during the five years ending 1987-88. Despite this, there was sharp increase in the production of ingots during 1985-86 and 1986-87.

2.2.13. Re-rolling

The Company has not set up any re-rolling facilities and the ingots and billets are sent to private firms for re-rolling. In this connection following points were noticed :

(i) The Company enters into contract with re-rollers before giving the material for re-rolling. The Company had not laid down any procedure for the selection of parties, settlement of rates and various terms and conditions to be incorporated in the contract. The following defects were noticed in the finalisation of the contracts :

— re-rollers were selected and rates settled by personal contacts without calling for tenders denying the Company the benefit of competitive rates ;

— bank guarantee or any other security for the material lying with the re-rollers was either not obtained or wherever taken, was inadequate. A test check in audit revealed that out of 93 contracts entered into by the Company, no security was obtained in 88 cases while in 5 cases the bank guarantee was found to be inadequate ;

— no time limit for return of material after re-rolling was prescribed in Gobindgarh and Ludhiana branches ;

— no penal clause was included in the re-rolling contract for delay in returning the material after re-rolling ; and

— no provision was made in the contracts for the rates at which material was to be charged in case the re-roller failed to return the material.

Thus, by not providing adequate safeguardes in the re-rolling contracts, the Company had to face problems with re-rollers with the result that material worth Rs. 8.69 lakhs had remained under disputes for more than one year without any settlement so far (April 1988).

(ii) Five firms did not return 123.811 tonnes of ingots/billets sent for re-rolling and the same was treated as sold by the Company at rates lower than market rates, resulting in a loss of Rs. 0.75 lakh.

(iii) During 1986-87 and 1987-88, the Company sent 13,390 tonnes and 1,590 tonnes of ingots/billets from Hisar to Gobindgarh and Ghaziabad, respectively, for re-rolling. The material was first unloaded at the respective branch offices and then transferred to the works of re-rollers. Had the material been sent directly to the works of re-rollers the Company would have saved Rs. 3.78 lakhs incurred on unloading, stacking, reloading and re-transportation of the material.

(iv) A re-roller of Faridabad sent on 3rd June 1987, 12.535 tonnes of M.S. Flats (80X13 mm size) valuing Rs. 0.85 lakh to the Delhi branch by truck. The material reached Delhi on 5th June 1987 and octroi and weightment charges were paid by Delhi branch. Although the material was also shown as received in the goods receipt notes prepared by the Delhi branch, the receipt of material was shown in the stock register of Ghaziabad branch on 5th June 1987. Subsequently, the Ghaziabad branch had shown the material as transferred (11th July 1987) to Delhi branch by the same truck. The material had not been accounted for in the stock register of Delhi branch so far (September 1988).

2.2.14. Consumption of inputs

2.2.14.1. A study of actual consumption of main inputs and services such as electricity, electrodes, ferro-manganese, ferro-silicon, per tonne of steel produced vis-a-vis the norms revealed that for the five years up to 1987-88, actual consumption exceeded the projected norms (power 750 Kwh, ferro-manganese 9 kg., ferro-silicon 6 Kg. and electrodes 7 Kg. per tonne of production) as detailed below :

Year	Power		Ferro-manganese		Ferro-silicon		Electrodes	
	Lakhs units	Value	Tonnes	Value	Tonnes	Value	Tonnes	Value
	(Value in rupees in lakhs)							
1983-84	68.11	48.22	69.84	4.40	34.37	3.28	29.10	10.48
1984-85	76.19	73.68	59.54	3.75	31.13	3.49	45.00	14.94
1985-86	83.13	78.97	82.02	5.74	24.27	3.46	37.23	15.36
1986-87	49.64	52.08	27.55	2.49	—	—	7.32	2.49
1987-88	35.28	39.74	21.76	1.86	—	—	—	—
		292.69		18.24		10.23		43.27

The value of excess consumption worked out to Rs. 3,64.43 lakhs. Reasons for excess consumption had not been analysed by the Company. The Committee on Public Undertakings in its 22nd Report recommended (June 1986) that the norms for consumption in each type of mix should be fixed by a technical body and such norms should in future be strictly adhered to so as to obviate the possibility of any excess consumption of raw material. No action in this regard had been taken so far (September 1988).

2.2.14.2. In order to bring down the power consumption to a considerable extent, a firm of consultants was engaged (November 1983) for a fee of Rs. 0.30 lakh for conducting energy audit to identify causes for abnormally high power consumption and to suggest measures to reduce the same. The firm was paid Rs. 0.30 lakh plus boarding and lodging at Hisar. The report submitted (April 1984) by the firm was found to be not very useful.

2.2.14.3. For the production of steel, graphite stopper head and nozzle are used in the laddle to regulate the casting process and to avoid metal loss. During the four years ended 31st March 1988, there were losses in production of various grades of steel aggregating 5,71.350 tonnes (value : Rs. 24.10 lakhs) due to failure of stopper head mechanism while casting 133 heats as detailed below :

Year	Number of heats	Liquid metal	Quantity lost due to failure of stoppers	Percentage of loss
			(In tonnes)	
1984-85	54	814.870	215.150	26.4
1985-86	26	382.485	108.400	28.3
1986-87	30	454.175	144.500	31.8
1987-88	23	347.505	103.300	29.7
	133	1,999.035	571.350	28.6

The Management stated (April 1988) that now the system of Slide Gate in two laddles (at a cost of Rs. 1.71 lakhs) had been installed to minimise further losses in the production activities.

2.2.15. Sales policy and performance

2.2.15.1. The Company sells its products directly to customers from head office at Hisar and through four branch offices at Gobindgarh, Ludhiana, Delhi and Ghaziabad. The Company was declared as an approved source by the State Government in March 1983 for the purchase of rolled steel items for Government departments and autonomous bodies/agencies. All government sales are made from Hisar. While sales to Government departments/agencies are made against cash payments the sales to private parties are mostly made on credit basis. Up to July 1987, sale rates were decided by the branch incharges themselves. However, from August 1987 the minimum sale rates of ingots/billets are fixed by the sales committee.

The table given below indicates the sales made to Government departments and other private parties during the five years up to 1987-88 :

Year	Sale to		Total	Percentage	
	Government departments	Others		Government departments	Others
1	2	3	4	5	6
		(In tonnes)			
1983-84	4,674	21,666	26,340	18	82
1984-85	4,352	20,604	24,956	17	83
1985-86	5,505	20,541	26,046	21	79
1986-87	7,674	13,043	20,717	37	63
1987-88	5,659	14,168	19,827	29	71

It would be seen from the above that the Company's sales to Government departments were increasing except during the years 1983-84 and 1987-88 whereas those to private parties were decreasing sharply. The reasons for the steep decrease in sales to private parties were not analysed by the Company.

2.2.15.2. While sales from Ludhiana, Gobindgarh and Hisar branches are made by the Company, sales in Delhi and Ghaziabad branches are being made through brokers also. Direct sales and sales made through brokers by the Delhi branch during four years up to 1987-88 were as follows :

Year	Direct sales	Sales through brokers	Total sales	Percentage of sales through brokers to total sales
1	2	3	4	5
		(Rupees in lakhs)		
1984-85	58.08	61.43	1,19.51	51
1985-86	64.27	90.91	1,55.18	59
1986-87	20.88	99.92	1,20.80	83
1987-88	32.90	1,16.88	1,49.78	78

It was observed that :

(i) The branch is mainly dependent for sales on brokers than on its own efforts.

(ii) An amount of Rs. 16.96 lakhs was overdue from customers as on 31st March 1988 on account of sales made through brokers (principal: Rs. 16.54 lakhs and interest : Rs. 0.42 lakh). The Company paid Rs. 1.51 lakhs to the brokers as brokerage during the period from 1984-85 to 1987-88 without ensuring timely recovery of dues from customers.

(iii) Similarly, in Ghaziabad branch an amount of Rs. 0.66 lakh was overdue as on 31st March 1988 on account of principal (Rs. 0.21 lakh) and interest (Rs. 0.45 lakh) from parties to which sales were made through brokers. Rs. 0.15 lakh was paid as brokerage during 1985-86 and 1986-87 without ensuring payment from the customers.

(iv) According to procedure, the Company enters into a sale contract with the customers before effecting any credit sale. A review of sale records of Delhi branch for the year 1987-88, revealed that out of 391 credit sale transactions, sale contracts were entered only in 12 transactions.

2.2.15.3. A review of stock register of ingots/billets of Ludhiana branch revealed that 588 and 256 tonnes of ingots/billets received from Hisar Office were transferred to Gobindgarh branch during 1985-86 and 1987-88 (up to January 1988) respectively. Since the ultimate destination of the material was Gobindgarh which is enroute Ludhiana, the material should have been sent from Hisar direct to Gobindgarh. This resulted in an avoidable expenditure of Rs. 0.71 lakh on freight, loading, unloading and stacking.

2.2.15.4. Three branches (Ludhiana, Gobindgarh and Ghaziabad) sold 1,968 tonnes of ingots/billets below the sale rates fixed by the sales committee during 1987-88 without any justification resulting in loss of Rs. 3.92 lakhs.

2.2.15.5. The Ludhiana branch sold rolled material valuing Rs. 1.26 lakhs to a firm of Ludhiana during September-November 1985. As per sale contract, the payment was to be made within 15 days of sale but the firm did not make payment.

It was observed in audit that the firm was a chronic defaulter and a number of cheques issued by it were dishonoured earlier. The Company continued to make further supplies even though payments against earlier supplies were not received. An amount of Rs. 1.84 lakhs (including interest: Rs. 0.58 lakh) was due for recovery from the firm (March 1988).

2.2.15.6. (i) The Gobindgarh branch supplied (March 1983), 18.945 tonnes of rolled flats valuing Rs. 0.85 lakh to a firm of Rajpura. As per sale contract, the delivery of material was to be made against cash payment. The delivery of the material was, however, given to the firm without insisting on cash payment. The firm subsequently disputed the quality of the material supplied and neither returned the material nor made any payment. The Company filed a suit against the firm for the recovery of the amount only in March 1986 which was pending in the court (April 1988).

(ii) As on 31st January 1988, an amount of Rs. 2.60 lakhs (including interest on account of delay in payments : Rs. 1.91 lakhs) on account of sales made on credit for a period ranging from 7 to 15 days during January 1982 to July 1985 was outstanding against a firm of Phagwara. Even though the firm defaulted payment in January 1982, the Company continued to make supplies on credit till July 1985. The Company filed a suit against the firm for the recovery of the amount only in February 1988 which was pending in court (April 1988).

2.2.15.7. The contracts entered into with the customers specify the terms of payment including periods of credit and mode of payment. In case the payments are not made as per terms of supply, interest at the rate of 20 *per cent* per annum is to be recovered by the Company. A test Check of Company's records revealed that the company undercharged the interest to the extent of Rs. 2.69 lakhs from 5 parties during 1984-85 and 1986-87. No action had been taken by the Company to recover the amount so far (September 1988).

2.2.15.8. (i) Although under the terms of the contract the quality was to be regulated according to the quality report of the Company, 1,169 tonnes of finished goods valuing Rs. 73.74 lakhs were received back as defective from customers during the five years ended 31st March 1988.

(ii) 69.385 tonnes of finished goods valuing Rs. 4.60 lakhs (including rolling charges : Rs. 0.62 lakh) were taken back from two firms during 1987-88 even after change of its shape against the terms of the agreement which, *inter alia*, provided that the goods would not be taken back if its shape was changed.

2.2.16. Sundry debtors

The Company was effecting sales to Government departments/agencies on payment against delivery. However, sales to private parties were made mostly on credit ranging from 7 to 30 days. The table below indicates the total sales, sales to private parties and book debts for the five years up to 1987-88 :

Year	Total sales	Sales to private parties	Debts outstanding		Total	Percentage of total debts to sales to private parties
			Good	Doubtful		
			(Rupees in lakhs)			
1983–84	1,042.46	869.58	107.96	21.62	129.58	14.9
1984–85	1,230.92	1,043.09	200.07	22.32	222.39	21.3
1985–86	1,595.93	1,289.17	283.16	22.03	305.19	23.7
1986–87	1,231.15	749.89	221.50	20.89	242.39	32.3
1987–88	1,196.38	809.49	194.23	27.89	222.12	27.4

It would be seen from the above that the percentage of debtors to sales to private parties was increasing year after year except during 1987-88 indicating the slow pace of recovery of outstanding dues.

The Company had filed 27 legal cases for recovery of outstanding dues amounting to Rs. 30.08 lakhs. Out of this, only 9 cases involving Rs. 5.75 lakhs had been decided in favour of the Company so far. But decree in only one case (Rs. 0.41 lakh) was executed for Rs. 0.30 lakh (March 1988).

2.2.17. Purchase procedure

2.2.17.1 Mild steel scrap is the main item of raw material purchased by the Company. Mostly scrap is purchased through the Metal Scrap Trade Corporation Limited acting as a canalising agency for the import of scrap. Scrap is also purchased by the Company from Government factories/agencies and from other private parties.

The Company has constituted store/scrap purchase committee for the purchase of various inputs. Scrap is purchased by (i) personal contact, (ii) offering bids at auctions, and (iii) submission of tenders. Other items of stores are purchased either from original manufacturers or by calling of limited tenders.

2.2.17.2. The Company entered into an aggrement (April 1987) with Hindustan Machine Tools Limited (HMT), Pinjore—a Government of India undertaking for the purchase of 5,000 tonnes of iron chips scrap (against its annual requirement of 1,800 tonnes) at Rs. 2,041.81 per tonne and deposited (April 1987) Rs. 1 lakh as earnest money with HMT. The Company lifted only 586.240 tonnes of scrap (value : Rs. 11.97 lakhs) up to the end of July 1987 and out of which only 259 tonnes could be consumed till July 1987.

In August 1987, the Company decided to stop lifting of the scrap in view of the comfortable stock position and future requirement. As the Company failed to lift the scrap, the HMT cancelled the agreement and forfeited the deposit of Rs. 1 lakh in December 1987. Thus, the ill-planned purchase by the Company without assessing the actual requirement resulted in a loss of Rs. 1 lakh.

2.2.17.3. The Company placed a verbal order in December 1984 on a firm of Ambala for the supply of 150 tonnes (8 mm dia) plain rounds at the rate of Rs. 5,140 per tonne. The material was to be supplied through Chandigarh branch of the Company to Chandigarh Housing Board. The firm supplied 40.975 tonnes of rounds valuing Rs. 2.11 lakhs during December 1984 and January 1985. Out of total quantity of 40.975 tonnes, 19.830 tonnes was supplied to the Chandigarh Housing Board while the balance 21.145 tonnes valuing Rs. 1.09 lakhs was shown in the stock register as returned to the supplier though neither acknowledgement from the supplier was obtained nor any debit for the material returned was afforded in the supplier's account. Although the services of the store keeper had been terminated, the amount of shortage had not been recovered so far (September 1988).

2.2.18. Inventory control

2.2.18.1. The table below indicates the comparative position of the inventory of stores and spares at the close of the five years up to 1987-88 :

Year	**Store and spares at the end of the year**	**Consumption during the year**	**Stock in terms of months consumption**
	(Rupees in lakhs)		
1983-84	31.24	75.57	5.0
1984-85	35.41	60.35	7.0
1985-86	40.44	94.83	5.1
1986-87	39.11	59.72	7.9
1987-88	48.78	34.18	17.1

It would be seen from the above that there was a substantial increase in the inventory of stores and spares as on 31st March 1988 leading to blocking up of scarce resources of the Company.

2.2.18.2. Shortage and excess in consumable stores for the five years up to 1987-88 noticed during physical verification were as follows :

Year	Excess	Shortage
	(Rupees in lakhs)	
1983-84	1.67	3.94
1984-85	1.00	1.01
1985-86	1.96	2.96
1986-87	1.32	1.53
1987-88	1.72	1.58

The results of physical verification were not brought to the notice of the Board of Directors. The shortages were adjusted in the books of accounts without investigating the reasons.

2.2.18.3. The inventory holding of finished goods as at the close of each of the five years up to 1987-88 was as under :

Year	Closing stock	Sales	Closing stock in terms of months sale
	(In tonnes)		
1983-84	4,761	26,340	2.17
1984-85	4,815	24,956	2.32
1985-86	6,845	26,046	3.15
1986-87	6,776	20,717	3.92
1987-88	3,767	19,827	2.28

During the five years, the stock of finished goods was high. At the close of 1987-88 it was valued at Rs. 2.48 crores resulting in blocking of borrowed funds of the Company.

2.2.19. Manpower

2.2.19.1. The project report estimated the requirement of 188 workmen and 101 executives and supervisory staff for the production of 47,000 tonnes of billets/ingots per annum on three shift basis. Even though the production during the five years up to 1987-88 ranged between 34.6 and 57 *per cent* of the installed capacity, the actual manpower in position at the end of each of the five years was far in excess of the strength required to achieve full level of production as detailed below :

Year	Manpower as per project report		Actual in position		Excess manpower with reference to project report		
	Workmen	Supervisory	Workmen	Supervisory	Workmen	Supervisory	Total
1983-84	188	101	260	192	72	91	163
1984-85	188	101	272	218	84	117	201
1985-86	188	101	278	254	90	153	243
1986-87	188	101	264	267	76	166	242
1987-88	188	101	251	244	63	143	206

Though the employment of manpower was much more than the projected manpower the Company paid Rs. 21.24 lakhs on account of overtime ranging from Rs. 2.76 lakhs to Rs. 5.55 lakhs per year during the five years up to 1987-88. The Company had neither identified the areas of excess employment nor undertaken any study for the assessment of the manpower.

2.2.19.2. The work force envisaged in the project report was expected to yield an average production of 162.6 tonnes per employee per annum. The actual production per employee in position during the five years up to 1987-88 was as follows :

Year	**Production** (Tonnes)	**Number of employees in position**	**Production per employee** (Tonnes)	**Percentage of actual production per employee to expected production**
1983-84	27,337	452	60.5	37.2
1984-85	25,024	490	51.1	31.4
1985-86	28,485	532	53.5	32.9
1986-87	21,007	531	39.6	24.3
1987-88	17,295	495	34.9	21.5

From the above, it would be seen that actual production per employee during the five years was very low and ranged between 21.5 and 37.2 *per cent* of the anticipated production per employee.

2.2.19.3. Irregular payment of bonus/ex-gratia

As per section 10 of the Payment of Bonus Act, a minimum of 8.33 *per cent* of the salary/wages earned by the employee during the accounting year is payable as bonus irrespective of the fact whether there are any profits in that accounting year or not. Any payment over and above the above minimum can be made out of allocable surplus.

The Company paid in November 1987 bonus (Rs. 3.82 lakhs) to its employees at the rate of 10 *per cent* of the salary for the year 1986-87. During 1986-87, the Company incurred a loss of Rs. 1,10.45 lakhs and as such there was no allocable surplus for grant of bonus in excess (Rs. 0.64 lakh) of the minimum limit of 8.33 *per cent.* The Company also paid in November 1987 ex-gratia (Rs. 0.11 lakh) at the rate of 10 *per cent* of salary to the officers who were not entitled to bonus as per the provisions of the Act ibid. This resulted in irregular payment of bonus/ex-gratia to the employees/officers amounting to Rs. 0.75 lakh.

2.2.19.4. Over payment

As per leave rules of the Company, half of the leave earned during a year is allowed to be encashed. It was, however, seen in audit that actually half of the leave accumulated at the end of the year was allowed to be encashed. The irregular encashment of leave resulted in over payment of Rs. 0.53 lakh to 90 employees during January 1984 to December 1987. The over payment had not been recovered by the Company so far (September 1988).

2.2.20. Costing system

The Company is following batch/unit cost system, but it was deficient as :

(i) the value of inputs was based on estimates only as issues to each heat were not priced by the stores department ;

(ii) the variations in costs of two similar heats produced were not analysed for taking corrective action ; and

(iii) cost sheet put up to the Chief Executive did not depict the profitability of individual heats of different grades.

The following table indicates the cost of production per tonne for the five years up to 1987-88 :

Year	Production	Variable cost	Fixed cost	Total cost
	(tonnes)	(Rupees per tonne)		
1983-84	27,337	3,505	556	4,061
1984-85	25,024	3,983	560	4,543
1985-86	28,485	4,796	618	5,414
1986-87	21,007	5,007	865	5,872
1987-88	17,295	4,914	1,128	6,042

The increase in cost of production per tonne from Rs. 4,061 in 1983-84 to Rs. 6,042 in 1987-88 was mainly due to excess consumption of utilities, increase in salary and wages and cost of melting scrap. However, the incidence of high cost of production had not been analysed by the Company. The Management stated (April 1988) that due to general increase in the price of inputs there was a rising trend in cost of production.

2.2.21. Accounting and internal audit

The Company does not have any accounting manual. The internal audit of the Company was got conducted by chartered accountants firms on yearly basis since 1980-81 at a remuneration ranging from Rs. 9,000 to Rs. 12,000. Further, on the suggestion of financial institutions, another firm of chartered accountants was engaged (Feburary 1984) for monitoring the activities of the Company at fee of Rs. 0.20

lakh. The monitoring report was required to be submitted to financial institutions/company every month. The work of internal audit and that of monitoring auditor being of similar nature, both the jobs could have been undertaken by the same firm.

The Company stated (April 1988) that it was exploring the possibilities of either to discontinue the services of monitoring firm or for clubbing the job with the internal auditors. It was, however, seen in audit that the Company had extended the services of the internal and monitoring auditors up to March 1989.

2.2.22. Other points of interest

2.2.22.1. The Company awarded (October 1985) a contract to a firm of Hisar for the transportation of 8,500 tonnes of scrap from Kandla to Hisar at the rate of Rs. 360 per tonne (total amount : Rs. 30.60 lakhs) without calling for competitive rates. The terms of contract, *inter alia*, provided :

—freight to be paid after receipt of material;

—Rs. 30 per tonne to be deducted from freight bill towards security till the deduction aggregated Rs. 1 lakh; and

—security of Rs. 1 lakh was to be forfeited in case of breach of contract.

The firm started transporting the scrap from October 1985. Up to December 1985, the Company had deducted Rs. 0.90 lakh on account of security. In April 1986, the Company stopped further deduction on the ground that the firm had problem of funds. It was further decided that the payment of actual expenditure incurred on transportation (even exceeding Rs. 360 per tonne) should be made and any excess amount over Rs. 360 per tonne should be adjusted against the cash security lying with the Company. The security amount was fully wiped out by 22nd April 1986.

Inspite of the fact that no security was available, the Company started making payment of actual transportation charges immediately from 23rd April 1986 without the approval of the Managing Director. Up to 12th May 1986, when the work under the contract was completed, the Company had made excess payment of Rs. 0.82 lakh over and above the contracted rate. An interest of Rs. 0.34 lakh had also become due (April 1988). The Company had filed a suit (May 1988) for the recovery of Rs. 1.16 lakhs.

2.2.22.2. The Company invited tenders (August 1987) for the transportation of scrap from Kandla to Hisar during the period from 1st October 1987 to 30th September 1988. Of the ten offers received the rate of Rs. 353 per tonne of firm 'A' was the lowest which was further reduced to Rs. 318 per tonne after negotiations. The Board of Directors, however, ordered (September 1987) for retendering on the ground that the quantity of scrap to be transported was not mentioned in the NIT although the Managing Director in the Board meeting stated that the transportation rate of Rs. 318 per tonne offered by the firm was all time low and the Company might not get such low rates in fresh quotations.

The Company, however, invited (October 1987) fresh tenders for transportation of 15,000-20,000 tonnes of scrap and awarded the contract to the same firm at the rate of Rs. 334 per tonne. Between October 1987 and September 1988 the firm had transported 11,414 tonnes of scrap. This resulted in extra expenditure of Rs. 1.83 lakhs as compared to the rate of Rs. 318 per tonne agreed to by the firm earlier. The extra expenditure would increase to Rs. 3.20 lakhs when the contract was completed.

2.2.22.3. On 7th April 1986, the Government of

India issued orders that excise duty set-off at the rate of Rs. 365 per tonne would be admissible from 1st March 1986 on steel scrap purchased from open market. This set-off was also admissible on the steel scrap lying in stock on 1st March 1986. This benefit was, however, withdrawn by Government with effect from 29th August 1986.

The stock of steel scrap with the Company as on 1st March 1986 was 182 tonnes. The Company purchased 3,141 tonnes of scrap during the period from 1st March 1986 to 28th August 1986. Thus, excise duty set-off of Rs. 12.13 lakhs was admissible to the Company on 3,323 tonnes of steel scrap. However, the Company availed of excise duty set-off of Rs. 1.65 lakhs on 451 tonnes of steel scrap purchased during July and August 1986. No set-off of excise duty in respect of remaining 2,872 tonnes of steel scrap was availed. Thus, the Company was put to a loss of Rs. 10.48 lakhs by not availing the excise duty set-off.

On 7th August 1987, the Company approached the central excise authorities for allowing deemed credit of excise duty in respect of steel scrap purchased from 7th April 1986 to 30th June 1986. The representation of the Company was, however, rejected by the excise authorities in September 1987 on the ground that such deemed credit as per the rules in force can not be granted.

The matter was reported to the Company and Government in August 1988; their replies had not been received (September 1988).

2.3. RECOVERY PERFORMANCE OF LOANS SANCTIONED BY HARYANA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED AND HARYANA FINANCIAL CORPORATION

Highlights

The percentage of amount disbursed to the amount due for disbursement was low considering a period of 12 months allowed by the two institutions for availing loan, as loans amounting to Rs. 1,13.39 lakhs, Rs. 3,20.51 lakhs and Rs. 8,47.10 lakhs sanctioned during 1984-85, 1985-86 and 1986-87 had not been availed up to March 1988.

The financial institutions failed to ensure prompt recovery of the loans as loans aggregating Rs. 21,27.49 lakhs (HSIDC) and Rs. 87,63.08 lakhs (HFC) were outstanding as at the end of the year 1987-88. Out of the total outstandings, Rs. 1,16.77 lakhs (HSIDC) and Rs. 6,12.66 lakhs (HFC) were overdue for recovery. In respect of loans aggregating Rs. 2,22.01 lakhs (HSIDC) and Rs. 20,28.16 lakhs (HFC) suits/recovery certificates had been filed for recovery of the amount outstanding which worked out to 10 *per cent* (HSIDC) and 23 *per cent* (HFC) of the total amount outstanding.

Test Check in audit revealed instances of undue benefits to the assisted units, delay in auction of the units taken over by HFC, heavy losses in the disposal of mortgaged properties (HFC), laxity in post disbursement inspection on the part of the two institutions and lack of participation in management of the affairs of the assisted units deprived the institutions in guaging the financial position of the assisted units. The introduction of the scheme of waiver of penal interest and allowing rebate

worked to the disadvantage of the HFC as out of Rs. 1,40.95 lakhs recoverable, the Corporation had to forego Rs. 43.43 lakhs which worked out to 30.8 *per cent* of the amount recoverable.

2.3.1. Introductory

Government established two State level financial institutions during 1967, namely Haryana State Industrial Development Corporation Limited (HSIDC)-under the Companies Act, 1956 and Haryana Financial Corporation (HFC)-under State Financial Corporations Act, 1951. The main objects of these institutions, *inter alia,* include advancing of term loans to the entrepreneurs for setting up of industrial units/ projects within the State.

2.3.2. Scope of audit

The present review covers the various loans sanctioned and the recovery performance of loans disbursed by HSIDC and HFC.

2.3.3. Sources of finance

The table given below indicates the sources from which up to 31st March 1988 for disbursement of loans :

Sources	HSIDC		
	1983-84	1984-85	1985-86
Increase in Share Capital	3,16.00	1,79.00	1,70.00
Increase in borrowing from IDBI	76.42	2,98.05	21.92
Increase in bonds	—	—	—
Borrowing from RBI (Net)	—	—	—
Recoveries from Loanees	78.38	1,60.92	2,20.11
	4,70.80	6,37.97	4,12.03

the funds were raised by these institutions during the five years

		HFC				
1986-87	1987-88	1983-84	1984-85	1985-86	1986-87	1987-88
(Rupees in lakhs)						
1,95.00	—	22.00	17.00	30.00	80.00	1,10.00
3,78.29	86.97	3,46.43	7,57.26	2,74.26	2,74.43	2,36.35
—	—	3,02.50	—	3,62.50	3,57.50	4,40.00
—	—	—	—	—	40.00	5.00
2,42.00	2,90.79	6,59.98	8,16.54	9,20.23	9,21.72	10,87.70
8,15.29	3,77.76	13,30.91	15,90.80	15,86.99	16,73.65	18,79.05

2.3.4. Sanction of loans

2.3.4.1. The table below indicates the maximum limits up to which loans could be sanctioned by the two institutions :

Sector	Constitution	Maximum limit of loan	
		HSIDC	HFC
		(Rupees in lakhs)	
Large/ Medium	Public/Private Limited companies	90.00	60.00
Small Scale	(a) Public/Private Limited companies	—	60.00
	(b) Partnership concerns and others	—	30.00
	(c) Handicapped entrepreneurs, Individuals/Artisans/ Village and Cottage Industries, *etc.*	—	0.50 to 3.00

2.3.4.2. While in the case of HSIDC, powers of sanctioning the loans vest in the Board of Directors, in case of HFC delegation of power is as under :

Level of delegation	Extent of delegation
	(Rupees in lakhs)
Board of Directors	Full power
Executive committee	30
Managing Director	15
Secretary-cum-General Manager	5
Branch Manager	2

2.3.4.3. The following table indicates the position of the receipt of applications

HSIDC

Sr. No.	Particulars of applications	1983-84 Number of applications	1983-84 Amount	1984-85 Number of applications	1984-85 Amount	1985-86 Number of applications	1985-86 Amount	1986-87 Number of applications	1986-87 Amount	1987-88 Number of applications	1987-88 Amount
					(Rupees in lakhs)						
1.	Pending at the begining of the year	17	6,98.93	12	6,60.62	8	4,38.26	2	1,57.00	2	57.36
2.	Received during the year	25	11,62.73	13	6,74.76	8	5,20.00	15	9,17.51	26	17,37.98
	Total :	42	18,61.66	25	13,35.38	16	9,58.26	17	10,74.51	28	17,95.34
3.	Sanctioned during the year	16	6,18.50	10	5,34.84	14	7,54,80	13	8,27.64	14	8,47.19
4.	Cancelled/ Withdrawn/ Rejected	14	5,08.49	7	3,46.70	—	—	2	1,57.00	3	91.36
5.	Pending at the close of the year	12	6,60.62	8	4,38.26	2	1,57.00	2	57.36	11	8,56.18

It would be observed from the above that the number of applications pending at case of HFC where the number of pending applications had shown a downward trend.

for loan and number of applications sanctioned during the five years up to 1987-88 :

HFC

1983-84		1984-85		1985-86		1986-87		1987-88	
Number of applications	Amount	Number of applications	Amount	Number of applications	Amount	Number of applications	Amount	Number of applications	Amount
(Rupees in lakhs)									
83	5,83.47	52	3,52.92	57	4,94.67	178	20,86.81	161	26,72.10
863	47,92.59	869	38,10.42	617	51,89.06	524	58,46.11	776	53,25.99
946	53,76.06	921	41,63.34	674	56,83.73	702	79,32.92	937	79,98.09
642	27,28.59	5,62	21,87.79	364	24,87.72	357	28,19.57	466	30,78.12
252	20,68.18	302	13,15.90	132	9.93.13	184	21,08.18	339	30,93.47
52	3,52.92	57	4,94.67	178	20,86.81	161	26,72.10	132	15,29.19

the close of the year was increasing year after year except in the year 1987-88 in

2.3.4.4. The following table indicates the position amount of loan for the five years up to 1987-88 :

Serial number	Particulars	HSIDC		
		1983-84	1984-85	1985-86
1		2	3	4
		(Figures in lakhs of rupees)		
1.	Undisbursed commitment at the beginning of the year	8,02.59	8,50.79	9,19.90
2.	Loan sanctioned during the year	6,18.50	5,34.84	7,54.80
	Total	14,21.09	13,85.63	16,74.70
3.	Loans disbursed	3,90.70	3,34.73	3,65.75
4.	Loans cancelled	1,79.60	1,31.00	5,31.00
5.	Balance undisbursed commitment	8,50.79	9,19.90	7,77.95
		14,21.09	13,85.63	16,74.70
6.	Percentage of amount disbursed (3) to total	27.5	24.2	21.8

The percentage of disbursement to amount due for to 33 (HSIDC) and 26 to 32 (HFC) which was low institutions for the availing of loans.

regarding sanction, disbursement and cancellation of

		HFC				
1986-87	1987-88	1983-84	1984-85	1985-86	1986-87	1987-88
5	6	7	8	9	10	11
			(Figures in lakhs of rupees)			
7,77.95	9,02.97	25,06.26	28,44.08	25,40.59	30,11.66	33,41.29
8,27.64	8,47.19	27,28.59	21,87.79	24,87.72	28,19.57	30,78.12
16,05.59	17,50.16	52,34.85	50,31.87	50,28.31	58,31.23	64,19.41
5,29.02	5,11.78	13,56.60	15,79.06	14,77.48	16,96.67	20,27.35
1,73.60	1,77.00	10,34.17	9,12.22	5,39.17	7,93.27	10,28.50
9,02.97	10,61.38	28,44.08	25,40.59	30,11.66	33,41.29	33,63.56
16,05.59	17,50.16	52,34.85	50,31.87	50,28.31	58,31.23	64,19.41
32.9	29.2	25.9	31.4	29.4	29.1	31.6

disbursement during above period ranged between 22
considering the period of 12 months allowed by the two

The yearwise break-up of undisbursed commitment

Year of Sanction	Total undisbursed amount			
	HSIDC		HFC	
	Number	Amount	Number	Amount
1	2	3	4	5
	(Amount in lakhs of rupees)			
1984–85	—	—	—	—
1985–86	1	84.00	—	—
1986–87	1	83.00	17	1,50.28
1987–88	9	6,16.89	114	15,57.66
Total	11	7,83.89	131	17,07.94

The sanctions issued in 1984-85 and 1985-86 for even though the period of 12 months allowed for availing

*The loans were sanctioned by the Branch Manager sanction, amount sanctioned and the amount disbursed as on 31st March 1988 was as under :

Partly undisbursed amount					
HSIDC			HFC		
Number	Sanctioned amount	Undisbursed amount	Number	Sanctioned amount	Undisbursed amount
6	7	8	9	10	11
			(Amount in lakhs of rupees)		
—	—	—	26	4,53.10	1,13.39
1	90.00	45.68	35	6,53.22	1,90.83
6	4,36.77	1,32.45	88	15,19.94	4,81.37
3	1,67.00	99.36	63	11,38.89	5,96.13 2,73.90*
10	6,93.77	2,77.49	212	37,65.15	16,55.62

grant of loans had not been cancelled (March 1988), sanctioned loans had expired.

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under the delegation of powers. Details regarding year of were not available.

2.3.5. Recovery performance

2.3.5.1. Loans aggregating to Rs. 29,31.05 lakhs and Rs. 1,51,94.27 lakhs were disbursed up to 31st March 1988 by HSIDC and HFC respectively. Of these, Rs. 21,27.49 lakhs (including interest : Rs. 2,03.18 lakhs) and Rs. 87,63.08 lakhs (including interest : Rs. 5,60.32 lakhs) respectively were outstanding as at the end of 31st March 1988. As at the end of 1987-88, the entire amount of loans outstanding was shown as good by both the institutions inspite of the fact that debts aggregating Rs. 4,32.67 lakhs representing shortfall in the amount of security were considered as doubtful by the HFC.

The outstanding against loanees include :

(a) Rs. 2,22.01 lakhs (HSIDC) and Rs. 20,28.06 lakhs (HFC) in respect of which legal suits or recovery certificates were pending in courts or with District Collectors which worked out to 10 *per cent* and 23 *per cent* respectively of the outstanding amount as on 31st March 1988.

(b) Rs. 1,16.77 lakhs (HSIDC) and Rs. 6,12.66 lakhs (HFC) were overdue for recovery. The age-wise break-up of overdue amount (other than the amount involved in legal cases) is given below :

Age	HSIDC				HFC			
	Number of cases	Principal	Interest	Total	Number of cases	Principal	Interest	Total
1	2	3	4	5	6	7	8	9
				(Rupees in lakhs)				
0 to 3 months	12	20.69	33.99	54.68	181	45.38	50.08	95.46
3 to 6 months	1	0.75	4.71	5.46	69	32.89	29.13	62.02
6 to 12 months	—	—	—	—	98	31.83	32.03	63.86
12 to 24 months	3	21.30	35.33	56.63	76	46.80	42.35	89.15
Over 24 months	—	—	—	—	36	93.09	2,09.08	3,02.17
Total	16	42.74	74.03	1,16.77	460	2,49.99	3,62.67	6,12.66

It would be seen from the above table that the amount overdue for recovery for over 24 months was the highest in the case of HFC (both of principal and interest) and represented 49.3 *per cent* of the total amount overdue for recovery.

2.3.5.2. The details of the amount fallen due from the five years up to 1987-88 are given below :

Serial number	Particulars		HSIDC 1983-84	1984-85	1985-86
1	2	3	4	5	6
			(Rupees in lakhs)		
1.	Overdue at the beginning of the year				
		Principal :	11.42	4.70	17.44
		Interest :	24.82	5.66	47.51
		Suit filed cases :	6.12	1,05.15	8.18
			42.36	1,15.51	73.13
2.	Amount fallen due during the year				
		Principal :	1,59.51	1,87.73	2,53.76
		Interest :	1,40.93	1,90.74	2,03.29
			3,00.44	3,78.47	4,57.05
		(I) Total (1+2)	3,42.80	4,93.98	5,30.18
3.	Amount realised during the year out of arrears				
		Principal :	11.42	4.70	9.61
		Interest :	16.28	5.66	36.27
		Suit filed cases :	—	34.22	—
			27.70	44.58	45.88
4.	Amount realised during the year out of current demand				
		Principal :	66.96	1,44.46	2,10.50
		Interest :	84.08	1,30.97	1,27.36
			1,51.04	2,75.43	3,37.86
	(II)	Total realisation (3+4)	1,78.74	3,20.01	3,83.74

assisted units and amounts recovered thereagainst during the

		HFC				
1986–87	1987–88	1983–84	1984–85	1985–86	1986–87	1987–88
7	8	9	10	11	12	13
				(Rupees in lakhs)		
22.63	92.47	94.39	91.72	1,10.16	1,66.23	2,36.87
37.46	66.68	85.32	1,19.60	1,18.64	2,03.44	2,92.27
52.27	82.55	11,84.03	17,38.68	19,74.45	26,79.36	19,89.24
1,12.36	2,41.70	13,63.74	19,50.00	22,03.25	30,49.03	25,18.28
3,46.60	3,60.62	5,85.21	7,82.13	8,73.57	9,20.59	10,65.54
2,44.23	2,67.82	4,53.55	4,83.28	6,67.15	7,13.55	8,62.76
5,90.83	6,28.44	10,38.76	12,65.41	15,40.72	16,34.14	19,28.30
7,03.19	8,70.14	24,02.50	32,15.41	37,43.97	46,83.17	44,46.68
12.93	55.51	86.87	20.58	14.94	36.87	53.17
13.82	15.83	21.43	16.71	11.71	38.28	66.95
2.79	9.15	97.82	1,31.85	1,02.47	1,06.81	2,83.33
29.54	80.49	2,06.12	1,69.14	1,29.12	1,81.96	4,03.45
2,28.32	2,35.28	4,51.00	6,69.00	7,69.86	7,77.05	8,44.11
1,69.37	1,70.11	4,28.00	4,75.00	5,26.67	5,52.27	6,20.97
3,97.69	4,05.39	8,79.00	11,44.00	12,96.53	13,29.32	14,65.08
4,27.23	4,85.88	10,85.12	13,13.14	14,25.65	15,11.28	18,68.53

1	2	3	4	5	6
5.	Amount rescheduled during the year :		48.55	1,00.84	34.08
6.	Default at the end of the year				
		Principal :	4.70	17.44	22.63
		Interest :	5.66	47.51	37.46
		Suit filed cases :	1,05.15	8.18	52.27
			1,15.51	73.13	1,12.36
7.	Total outstanding in default				
		Principal :	1,10.81	3,63.81	3,34.84
		Interest :	5.66	68.72	40.18
		Suit filed cases :	2,02.47	8.18	1,10.65
			3,18.94	4,40.71	4,85.67
8.	Total amount of loan outstanding		10,86.91	12,61.12	14,16.38
9.	(i) Percentage of (3) to (1) :		65.4	38.6	62.7
	(ii) Percentage of (4) to (2) :		50.3	72.8	73.9
	(iii) Percentage of (II) to (I) :		52.1	64.8	72.4
	(iv) Overdue as a percentage of total loans outstanding				
	Percentage of (6) to (8) :		10.6	5.8	7.9

7	8	9	10	11	12	13
34.26	1,22.44	4,38.00	2,73.00	45.00	N.A.	N.A.
92.47	42.74	91.72	1,10.16	1,66.23	2,36.87	2,49.99
66.68	74.03	1,19.60	1,18.64	2,03.44	2,92.27	3,62.67
82.55	1,45.05	17,38.68	19,74.45	26,79.36	19,89.24	20,28.16
2,41.70	2,61.82	19,50.00	22,03.25	30,49.03	25,18.38	26,40.82
3,50.88	5,71.25	7,06.46	6,60.90	10,58.57	13,66.41	15,66.53
79.66	1,21.48	1,62.82	1,39.98	2,59.78	3,76.17	4,38.62
1,67.73	2,22.01	17,38.68	19,74.45	26,79.36	19,89.24	20,28.16
5,98.27	9,14.74	26,07.96	27,75.33	39,97.71	37,31.82	40,33.31
17,03.21	19,24.31	57,62.89	65,26.03	71,01.79	78,79.19	87,63.08
26.3	33.3	15.1	8.7	5.9	6.0	16.0
67.3	64.5	84.6	90.4	84.2	81.3	76.0
60.8	55.8	45.2	40.8	38.1	32.3	42.0
14.2	13.6	33.8	33.8	42.9	32.0	30.1

From the data, the following would be observed :

(i) The overdues in absolute terms were on increase in both the institutions. Overdues (inclusive of suit filed cases) as a percentage of total loans outstanding ranged between 5.8 (1984-85) and 14.2 (1986-87) in HSIDC and between 30.1 (1987-88) and 42.9 (1985-86) in HFC.

The total overdues increased by 187 *per cent i.e.* from Rs. 3,18.94 lakhs in 1983-84 to Rs. 9,14.75 lakhs in 1987-88 in HSIDC and by 54.6 *per cent i.e.* from Rs. 26,07.96 lakhs in 1983-84 to Rs. 40,33.31 lakhs in 1987-88 in HFC.

(ii) There was a sharp decline in the overall recovery rate of HSIDC from 72.4 *per cent* in 1985-86 to 55.8 *per cent* in 1987-88. In the case of HFC also the aggregate rate of recovery had declined from 45.2 *per cent* in 1983-84 to 32.3 *per cent* in 1986-87 except in the year 1987-88 when there was a slight improvement in the recovery rate. The downward trend in the recovery rate in the HFC was mainly due to decline in collections of old overdues, while the improvement in the overall recovery rate during 1987-88 was due to waiver of penal interest (as discussed in paragraph No. 2.3.9.1. *infra*).

(iii) The percentage realisation against current demand was on the decline in both the institutions. It declined from 73.9 *per cent* (1985-86) to 64.5 *per cent* (1987-88) in HSIDC and from 90.4 *per cent* (1984-85) to 76 *per cent* (1987-88) in HFC.

2.3.6. Acquisition of mortgaged properties

(A) Auctions in process

(i) As on 31st March 1988, the HFC took over the mortgaged properties of 27 loanees in Rohtak (17 units) and Hisar (10 units) districts against whom Rs. 2,96.11 lakhs (amount recoverable : Rs. 3,46.68 lakhs) was overdue under section 29 of the State Financial Corporations Act, 1951 and section 3 of the Haryana Public Moneys (Recovery of Dues) Act, 1979.

(ii) Out of the 17 units in Rohtak district (amount overdue : Rs. 1,56.04 lakhs) involving Rs. 1,79,98 lakhs, auction proceedings in 4 cases (Rs. 77.48 lakhs) were challenged in Courts of Law; confirmation of auction sale in 4 cases (Rs. 31.15 lakhs) was awaited. Auction proceedings were in progress (October 1988) in 5 cases (Rs. 15.08 lakhs).

(iii) In four cases where auction proceedings had been completed there was a shortfall in the amount realised to the extent of Rs. 46.41 lakhs, compared to the amount recoverable. In 4 units which were auctioned and confirmation of auction proceedings is pending against Rs. 31.15 lakhs recoverable from the loanees, the offers received were for Rs. 19.09 lakhs.

(iv) In two, out of 4 cases in respect of which auction proceedings were challenged in the Court, the value of property acquired (Rs. 46.39 lakhs) fell short of the outstanding amount of loans (Rs. 67.07 lakhs).

(B) Auctions completed

A sum of Rs. 2,36.02 lakhs (inclusive of interest) remained recoverable after disposal of assets of 15 loanees against which HFC held no securities other than the personal guarantees of the loanees/director. Out of Rs. 2,36.02 lakhs an amount of Rs. 1,16.22 lakhs pertained to a loanee in respect of whom the provisions relating to personal guarantee could not be enforced as the whereabouts of the guarantors were not known.

2.3.7. Other cases of default

(A) Units closed

A test check of 63 overdue loan accounts of HSIDC (22 accounts) and HFC (41 accounts) revealed as under :

Two units in HSIDC (outstanding balance : Rs. 47.97 lakhs) and one unit in HFC (outstanding balance : Rs. 27.28 lakhs) failed to come up. Two units of HSIDC involving outstanding balance of Rs. 1,22.48 lakhs (principal : Rs. 97.12 lakhs; interest : Rs. 25.36 lakhs) and three units of HFC having outstanding balance of Rs. 1,01.78 lakhs (principal : Rs. 50.64 lakhs; interest : Rs. 51.14 lakhs) were lying closed (since 1983 in the case of HFC). Out of two units of HSIDC lying closed, the assets of one unit - jointly financed by HSIDC and HFC, which were put to auction (March 1988) failed to attract bid. The amount outstanding as on 31st March 1988 was Rs. 89.87 lakhs (HSIDC : Rs. 45.32 lakhs, HFC : Rs. 44.55 lakhs). The loanee had, however, filed (May 1988) liquidation proceedings in the Court of Law which were pending (October 1988).

It was also observed that :

(a) A sum of Rs. 64.31 lakhs (principal : Rs. 26.62 lakhs; interest : Rs. 37.69 lakhs) was recoverable from a firm of Faridabad to which a term loan was sanctioned (May 1977) and disbursed (December 1978) for expansion despite low capacity utilisation of the existing capacity.

(b) A sum of Rs. 14.70 lakhs (principal : Rs. 11.77 lakhs; interest : Rs. 2.93 lakhs), overdue as per terms of mortgage deed was recoverable from a firm of Hisar whose loan was rescheduled (December 1983 and October 1985) despite closure of unit since June 1983. A rebate of 3 *per cent* per annum on interest chargeable from September 1987 was allowed in contravention of the existing policy of the Corporation not to allow rebate in case of loan which had been rescheduled.

(B) Ab-initio default

Both the institutions do not separately work out the details of the loanees who have not repaid any instalment of loan. A test check of loanees' account in the head office of the HSIDC and six districts in case of HFC (out of 12 districts) revealed that as on 31st March 1988, ten loanees in HSIDC and sixteen loanees in HFC (amount recoverable : Rs. 5,28.32 lakhs in case of HSIDC and Rs. 3,91.88 lakhs in case of HFC) were *ab-initio* in default. Out of these five cases which were reviewed in HFC revealed the following :

(a) HFC in July 1982 sanctioned a loan of Rs. 19.63 lakhs to a private company of Bahadurgarh, out of which Rs. 14.45 lakhs was disbursed to loanee in October 1982-February 1983. The loanee did not pay any instalment and total amount recoverable on 31st March 1988 was Rs. 38.56 lakhs (principal : Rs. 14.45 lakhs; interest : Rs. 23.04 lakhs and miscellaneous : Rs 1.07 lakhs). Due to ab-initio default the HFC took action under the Haryana Public Moneys (Recovery of Dues) Act, 1979 and recovery certificate issued by the HFC (July 1985) could not be enforced as the assets belonging to the guarantor Director were mortgaged with the State Bank of India, Delhi. The recovery certificate issued in the name of the Company is pending action (September 1988). At the time of Post Sanction Inspection (May 1987) it was observed that the loanee had removed the entire mortgaged machinery valuing Rs. 15.83 lakhs. F.I.R. was lodged with the police only in November 1987 *i.e.* after a lapse of 6 months. It was, however, seen in audit that against the total recovery of Rs. 38.56 lakhs, the value of security available with the HFC in the form of land and building was only Rs. 8.86 lakhs.

(b) A firm of Sirsa was sanctioned a loan of Rs. 8.50 lakhs for setting up of a rice sheller. The loan amount was disbursed during October 1979 and January 1981. The loanee did not pay any instalment and the entire loan, which was to be repaid by October 1989, was rescheduled from time to time (last reschedulement done in January 1988) at the request of the loanee and as a result thereof the currency of loan was extended up to March 1992. The extension of currency of loan tentamounts to undue favour since under the scheme of rescheduling only the loan instalments were to be rescheduled without any extension in the currency of loan. In December 1987, Branch Manager pointed out that the firm had leased out (August 1987) the mortgaged property to a third party against the terms of the Mortgage Deed. It was, however, seen in audit that HFC while rescheduling the loan in January 1988 did not excute a fresh mortgage deed with the third party although the fact of leasing out was known at the time of rescheduling.

(c) A sum of Rs. 20.46 lakhs (principal : Rs. 9.52 lakhs; interest : Rs. 10.94 lakhs) was recoverable from a private limited company of Gurgaon to whom the Corporation disbursed (February 1984 to February 1985) a term loan of Rs. 11.06 lakhs suo-moto despite the fact that loan application of the borrower company was rejected earlier (June 1983) on the grounds that there had been no scope for such type of units in the Haryana State.

2.3.8. Follow up measures

2.3.8.1. Post sanction inspections

With a view to ensure proper utilisation of the financial assistance by the loanees both the financial institutions conduct post sanction inspection (PSI) of the units. As per prescribed format of the inspection reports, the inspecting officer is required to report, *inter alia*, on the general state of financial affairs of the borrowers, existence of the mortgaged assets and compliance of terms and conditions prescribed in the loan agreements and mortgage deeds. HSIDC's format for inspection did not provide for information regarding physical verification of mortgaged properties, as in the case of HFC. Post sanction inspection of every unit was required to be conducted at least twice a year in case of HFC and once in case of HSIDC. The inspections due and conducted during the last five years up to 1987-88 were as under :

Year	Number of inspections due		Number of inspections conducted		Percentage of inspections done to inspections due	
	HFC	HSIDC	HFC	HSIDC	HFC	HSIDC
1983-84	3974	30	2651	N.A.	67	N.A.
1984-85	4766	38	3396	N.A.	71	N.A.
1985-86	5010	43	3998	36	80	84
1986-87	5076	48	4174	41	82	85
1987-88	5010	54	3296	32	66	59

N.A. : Not available.

2.3.8.2. Nominee directors

In order to safeguard their own interest both the financial institutions, from time to time, nominate their officers and experts from various fields on the Boards of Directors of the assisted units.

Both the financial institutions had not so far (October 1988) maintained any record to indicate :

(i) the number of nominee directors required to be appointed;

(ii) number of Board's meetings required to be held by the assisted units in terms of section 285 of the Companies Act, 1956;

(iii) number of meetings actually held;

(iv) number of meetings attended by the nominee directors;

(v) number of reports received/due from the nominee directors, and

(vi) recommendations, if any, made by the nominee directors vis-a-vis action taken/pending in a particular assisted unit for a particular meeting/ period.

In the absence of the records the financial institutions could not ensure effective control on the working of the assisted units.

2.3.9. Other points of interest

2.3.9.1. Waiving off penal interest

(i) With a view to improve its liquidity position HFC decided (March 1987) to allow a rebate of 1 *per cent* and waive off the penal interest in such cases where borrowers had intended to clear their outstanding loan by lump-sum payment. The scheme was, however, withdrawn in February 1988.

Under the scheme HFC during the year 1987-88 recovered loans aggregating Rs. 97.52 lakhs out of Rs. 140.95 lakhs from 55 loanees as detailed below :

Name of District	**Number of cases**	**Amount recoverable from the loanees**	**Rebate allowed and penal interest waived**	**Total amount received in final settlement of loan amount**	**Percentage of recovery of loans to outstanding loans**
Ambala	4	4.03	0.82	3.21	79.7
Sonepat	4	9.34	3.13	6.21	66.5
Faridabad	1	9.57	3.89	5.68	59.4
Gurgaon	8	57.43	13.14	44.29	77.1
Rohtak	5	2.87	0.82	2.05	71.4
Hisar	33	57.71	21.63	36.08	61.5
	55	140.95	43.43	97.52	

It would be seen from the above table that the Corporation had to forego about 30.8 *per cent* of the total amount recoverable from the loanees. The objective of the scheme that the recovery of old outstanding dues would increase the liquidity position of the Corporation could thus hardly be achieved.

(ii) Similarly, in the case of an overdue loan of Rs. 88.62 lakhs (HSIDC : Rs. 46.26 lakhs and HFC : Rs. 42.36 lakhs) of a private company in Ambala district, jointly financed by both HSIDC (Rs. 32 lakhs) and HFC (Rs. 27 lakhs), it was decided (November 1986) by the respective Board of Directors to charge normal rate of interest, instead of penal rate applicable in the case of default as prescribed in the mortgage deed, so as to assist the borrower to shift its plant to Himachal Pradesh. The total amount of penal interest waived in this case worked out to Rs. 19.14 lakhs (HFC : Rs. 13.20 lakhs; HSIDC : Rs. 5.94 lakhs). The grant of these concessions had resulted in undue favour to the private company.

2.3.9.2. Credit guarantee scheme for small scale industries

With a view to providing protection to financial institutions against possible losses on account of non recovery of loans in respect of assistance granted to Small Scale Industrial Units (SSI), the Government of India formulated a credit guarantee scheme in July 1960, subsequently amended in February 1970. The scheme was administered by the Reserve Bank of India (RBI). Under the scheme the guarantee could be invoked immediately on occurance of the default. HFC, however, started covering the loans granted to SSI units, under the above scheme, from February 1970.

A new scheme known as Small Loans (Small Scale Industries) Guarantee Scheme, 1981 was introduced by the Central Government in April 1981. The administration of the scheme was entrusted to Deposit Insurance and Credit Guarantee Corporation (DICGC) alongwith the residual work relating to the old scheme. The scheme was made compulsory to all credit institutions which sought refinance from IDBI.

As per the new scheme the guarantee could be invoked only after recourse to security and after the dues had been treated by the Corporation as bad and doubtful of recovery and have been provided or accounted for as such in the books.

The HFC adopted the new scheme (April 1981) and decided (November 1981) to recover the guarantee fee payable by the HFC to DICGC from the loanees except in case of units set up under rural industrialisation programme and the schemes for the physically handicapped and scheduled castes/schedule tribes. The guarantee fee paid by the HFC to DICGC during 1981-82 to 1987-88 amounted to Rs. 2.04.98 lakhs and out of which Rs. 2,02.55 lakhs had been debited to the accounts of the loanees.

Till 31st March 1988, the HFC had invoked guarantees in 322 cases involving Rs. 4,99.28 lakhs without adjusting the value of security. Of these, 25 claims involving Rs. 33.91 lakhs were withdrawn as the HFC had entered into compromise with the loanees, and 81 claims involving Rs. 2,19.83 lakhs were pending settlement as on 31st March 1988. Three claims, involving Rs. 5.41 lakhs were rejected by the DICGC as (i) loanee unit was leased out, (ii) loan bond had not been executed by one of the guarantors, (iii) HFC failed to take possession of the unit of the loanee due to fault of one of the officials of the Corporation. Out of the balance 213 claims, involving Rs. 2.40.13 lakhs, the HFC received Rs. 1,80.44 lakhs and the balance amount of Rs. 59.69 lakhs was disallowed by the DICGC.

The matter was reported to the Management and Government in August 1988; their replies had not been received (September 1988).

CHAPTER III

3. MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

A—GOVERNMENT COMPANIES

3.1. HARYANA BREWERIES LIMITED

3.1.1. Infructuous expenditure

The Company had a sale depot at Chandigarh since 1975 for marketing beer. In view of its uneconomical working, the Company decided to close the depot with effect from 1st June 1986 which was approved by the Board of Directors (2nd June 1986). The Board desired that the mopping up operations should be completed in June itself by giving one month's notice to the landlord for vacating the premises which was on rent of Rs. 20,400 per annum.

Although no stock was kept in the depot after June 1986, the premises were not vacated. Besides, one clerk and one peon continued to be posted with the depot without any work. This resulted in an infructuous expenditure of Rs. 1.04 lakhs on rent (Rs. 0.36 lakh), telephone (Rs. 0.19 lakh) and salaries of the clerk and peon (Rs. 0.49 lakh) of the depot from July 1986 to March 1988. The infructuous expenditure would increase as the Company had not yet vacated the premises and utilised the staff elsewhere.

The Company stated (April 1988) that due to sudden change in the management, the action to implement the Board's decision could not be taken. The reply is not tenable as at no time specific approval of the Board was obtained for incurring expenditure on rent, salaries, telephone etc. of the depot in supersession of the decision of the Board taken in June 1986 to close the depot.

The matter was reported to the Company and Government in June 1988; their replies had not been received (September 1988).

3.1.2. Purchase of Malt

An order for supply of 1,500 tonnes of brewery grade malt at basic rate of Rs. 3,980 per tonne was placed on firm 'A' of Gurgaon in August 1985. The malt was to be supplied during the period from September 1985 to July 1986. Against the scheduled supply of 620 tonnes of malt up to February 1986 the firm supplied only 396 tonnes up to January 1986 (no supply was made during February 1986). To meet the requirement in case of stoppage of supplies by firm 'A', orders for supply of 1,444 tonnes of brewery grade malt were placed in February-March 1986 on firms 'B' (648 tonnes), 'C' (496 tonnes) and 'D' (300 tonnes) at basic rates of Rs. 4,030, Rs. 4,030 and Rs. 3,980 per tonne, respectively. The supplies were to be completed by these firms by August 1986. Meanwhile, firm 'A' resumed supplies in March 1986.

The purchase orders placed on the four firms, *inter alia*, provided that the Company had the right to cancel the purchase order if the supplies were delayed beyond the scheduled date of delivery. Against 2,944 tonnes of malt to be supplied, the four firms together supplied only 1,680 tonnes within the stipulated delivery period *i.e.*, July-August 1986.

Fresh tenders were invited in June 1986 for the purchase of 1,500 tonnes of brewery grade malt to meet the requirement up to July 1987. The first three lowest basic rates of Rs. 3,648, Rs. 3,650 and Rs. 3,680 per tonne received were from firms 'A', 'B' and 'C', respectively. Since the rates received were much less as compared to those at which the orders were placed in August 1985 (1,500 tonnes) and February/March 1986 (1,444 tonnes), the Company could have placed orders for the supply of malt at the revised tendered rates on these firms by cancelling the balance supply (1,264 tonnes) against pending orders of which the stipulated delivery period (July-August 1986) had already expired. The Company, however, continued to accept supplies (948 tonnes) at higher rates during September 1986 to August 1987 against pending orders resulting in an avoidable extra expenditure of Rs. 3.28 lakhs.

No responsibility for the extra expenditure had been fixed by the Management so far (September 1988).

The matter was reported to the Company and Government in February 1988; their replies had not been received (September 1988).

3.1.3. Purchase of cartons

Tenders for supply of 20.70 lakh printed corrugated cartons for packing of beer bottles were invited and opened in January 1986. 23 offers were received and the rates quoted ranged between Rs. 2.43 and Rs. 3.54 per carton. The firms were telegraphically called for negotiations on 27th January 1986. Sixteen firms attended negotiations and as a result of which two firms reduced the rates from Rs. 2.60 per carton to Rs. 2.55 per carton. On 28th January 1986, firm 'A' which had quoted the lowest rate of Rs. 2.43 per carton and had offered to supply one lakh carton per month requested the Company for fixing another date as on account of late receipt of telegram it could not attend the negotiations. In February 1986, two more firms, which had quoted Rs. 3 and

Rs. 3.10 per carton and had not participated in negotiations reduced their rates to Rs. 2.55 per carton.

The General Manager (Finance) proposed (February 1986) the purchase of 1.30 lakh cartons per month up to June 1986 from six firms at rates ranging from Rs. 2.43 to Rs. 2.55 per carton but the proposal was not considered for which there were no reasons on record. Out of 23 firms from whom offers were received in January 1986, the Company again called 12 firms for negotiations on 10th March 1986 with reference to the specifications which were slightly revised in the meanwhile. The telegram and letter to firm 'A' (the lowest tenderer) were sent on an incorrect address (to Delhi instead of to Sankhol in Haryana) and as such the firm could not attend the negotiations.

Order for supply of 0.72 lakh cartons (revised specifications) was placed (May 1986) on firm 'B' at Rs. 2.75 per carton and orders for supply of 6.35 lakh cartons (original specifications) were placed on 5 firms at the same rate (Rs. 2.60 per carton) at which supplies were effected by them during 1985-86. This resulted in an extra expenditure of Rs. 1.08 lakhs on the purchase of 6.35 lakh cartons (original specifications) which could have been saved by placing order on firm 'A' at its quoted rate of Rs. 2.43 per carton.

No responsibility for depriving firm 'A' from attending the negotiations by despatching the telegram and letter to an incorrect address had been fixed by the Management so far (September 1988).

The matter was reported to the Company and Government in June 1988; their replies had not been received (September 1988).

3.1.4. Purchase of new bottles

Tenders for the purchase of 50 lakh new bottles were invited and opened in September 1986. Of the two offers received, the rate of firm 'A' (Rs. 2,212.44 per thousand bottles) was the lowest and that of firm 'B' (Rs. 2,346.79 per thousand bottles) was the 2nd lowest. Firm 'A' offered to supply the tendered quantity and indicated a schedule of supply for 38 lakh bottles between January to May 1987.

Firm 'B' agreed during negotiations (October 1986) to reduce the rate to Rs. 2,303.11 per thousand bottles. Meanwhile (October 1986) the requirement was reassessed at 74 lakh bottles and accordingly the Company placed orders (November 1986) for 32 lakh bottles on firm 'A' at Rs. 2,212.44 per thousand bottles and for 42 lakh bottles on firm 'B' at Rs. 2,303.11 per thousand bottles. While firm 'A' supplied 32.88 lakh bottles (against ordered quantity of 32 lakh bottles), firm 'B' supplied only 27.22 lakh bottles as against the order for 42 lakh bottles.

Thus, by not placing the order for at least 38 lakh bottles on firm 'A' for which the firm had even given the time schedule, the Company suffered a loss of Rs. 0.46 lakh. The Company could have saved further Rs. 1.09 lakhs, had it negotiated with firm 'A' for supply of tendered quantity of 50 lakh bottles in view of its lower rates as was done with firm 'B' for reduction of its rates and re-scheduling.

The matter was reported to the Company and Government in August 1988; their replies had not been received (September 1988).

3.2. HARYANA TELEVISION LIMITED

3.2.1. Loss due to non-execution of agreement

3.2.1.1. In July 1983, a firm of Ahmedabad was appointed by the Company as sole distributor for sale of television sets in the State of Gujarat.

The draft agreement sent to the firm in August 1983 for signatures was not returned by the firm. The Company, in the meanwhile, on the presumption that the firm would return the agreement duly executed, commenced the supply of the television sets. As per the draft agreement the supplies were to be made against cash payment. During the period from August 1983 to May 1984, 214 television sets valuing Rs. 5.23 lakhs were sent to the firm against which the firm had been making only part payments. Consequently, no further supplies were made to the firm after May 1984. As at the end of September 1984 an amount of Rs. 0.81 lakh was outstanding against the firm which included Rs. 0.60 lakh towards the amount of dishonoured cheque. No action was taken to recover the amount from the firm with the result that the claim had become time-barred.

Thus, owing to supply of television sets to the firm without entering into an agreement and inaction on the part of the Company to ensure prompt recovery of the outstanding amount from the firm, the Company has suffered a loss of Rs. 0.81 lakh.

No responsibility in the matter has been fixed so far (September 1988).

The matter was reported to the Company and Government in August 1988 ; their replies had not been received (September 1988).

3.2.1.2. The Company appointed (October 1982) a firm of Guwahati as sole distributor for sale of television sets in Assam and Meghalaya states for a period of three years, pending execution of an agreement. As per terms of the appointment letter, the deliveries of television sets were to be made against cash payment. However, no agreement was executed with the firm.

The Company supplied 463 television sets (value : Rs. 13.41 lakhs) to the firm up to October 1983 against part payments in contravention of the terms of appointment letter. The firm was making part payments with the result that a sum of Rs. 0.51 lakh (after adjusting security deposit of Rs. 0.25 lakh) remained outstanding against the firm till March 1984. No action was taken to recover the outstanding amount and after the claim became time-barred a legal notice was issued to the firm in March 1988 which was received back undelivered.

The Managing Director of the Company stated (March 1988) that it was not known as to why agreement was not executed with the firm and why the terms of supplies against cash payment were not adhered to ; but when the outstanding dues came to notice, a legal notice was issued to the firm in March 1988 which was received back undelivered and that as per legal opinion the outstanding amount being barred by period of limitation, was unrecoverable.

Thus, owing to supply of television sets to the firm without execution of agreement, non-adherence of the terms regarding cash payment and failure to take timely action for the recovery of the outstanding amount, the Company suffered a loss of Rs. 0.51 lakh.

No responsibility for the loss has been fixed by the Management so far (September 1988).

The matter was reported to the Company and Government in June 1988 ; their replies had not been received (September 1988).

3.2.2. Loss in supply of television sets

The Company appointed (October 1983) a firm of Gwalior as its sole selling distributor of Television Sets (TV) in the State of Madhya Pradesh for a period of three years. The agreement entered into with the firm provided for delivery of goods against payment in cash.

The Company, however, supplied 246 TV sets (value : Rs. 4.32 lakhs) during October 1983 to June 1984 against part payments in contravention of the terms agreed upon. The cheque for Rs. 0.60 lakh issued by the firm on 7th July 1984 was dishonoured by the bank. A sum of Rs. 0.97 lakh was outstanding against the firm as on August 1984. The validity of the bank guarantee for Rs. 1 lakh submitted (January 1984) by the firm expired on 19th July 1984. The Company could neither lodge a claim against the bank guarantee within its validity nor made any efforts to get it extended.

Besides, a sum of Rs. 0.35 lakh was recoverable from the firm on account of payment of sales tax due to non-submission of 'C' forms. However, after adjusting the security deposit of Rs. 0.50 lakh, the total amount recoverable from the firm worked out to Rs. 0.82 lakh.

As the firm did not pay the dues, the Company issued a legal notice on 6th February 1985 to which no reply was received. The legal advisor opined (November 1987) that the case had become time-barred and the Company should appoint an arbitrator in terms of the agreement.

The Company failed to file a civil suit against the firm within the period of limitation and the claim of Rs. 0.82 lakh had become time-barred. The Company filed (February 1988) an application in the district court of Faridabad for appointment of an arbitrator under the terms of agreement. The arbitrator had, however, not been appointed by the Court so far (September 1988).

The matter was reported to the Company and Government in August 1988 ; their replies had not been received (September 1988).

3.3. HARYANA STATE MINOR IRRIGATION AND TUBEWELLS CORPORATION LIMITED

3.3.1. Infructuous expenditure

The Company in response to the tenders (June 1980) from Haryana State Electricity Board (HSEB) offered (July 1980) to design, manufacture and supply, five circulating water pumps (8575 M^3/Hr. capacity) at Rs. 4.35 lakhs per pump. The Company received in February 1982 trial order for one pump only which was to be delivered within 18 months as the Company did not have the previous experience in the manufacture of circulating water pump.

The Company acquired drawings, design, model pump and pattern at a cost of Rs. 5.50 lakhs without preparing any detailed cost estimates for the manufacture of pumps. After the successful model testing of the pump (October 1983) and its approval by the Board, the manufacture of pump was commenced in March 1984 which was to be delivered to the Board by March 1986 (the extended delivery date).

The management realised (September—October 1985) that the manufacture of the pump would involve an expenditure of Rs. 8.52 lakhs against Rs. 4.35 lakhs per pump quoted to the Board. The Company approached (November 1985) the Board for enhancement of the price equal to the rate at which order for five pumps was placed on Delhi firm (Rs. 5.81 lakhs for pump *plus* Rs. 3.60 lakhs for spare parts, testing and commissioning) on the ground of increase in cost of material and labour and that the rates quoted by the Company were for five pumps but order given was only for one pump. The request was, however, not acceded to by the Board on the ground that it was against the terms of the order. Consequenty, the manufacture of circulating water pump was abandoned by the Company in January 1986 after spending Rs. 6 lakhs (including Rs. 0.50 lakh for discharge column, etc.).

Thus, owing to venturing into the manufacture of circulating water pumps without examining the economic viability, the Company incurred an infructuous expenditure of Rs. 6 lakhs.

The matter was reported to the Company and Government in July 1988 ; their replies had not been received (September 1988).

3.4. HARYANA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

3.4.1. Non-recovery of interest

The Cement Controller to the Government of India issued instructions in June 1974 under the Cement Control Act, 1967 that cement producers who receive advance payments for supply of cement but fail to supply cement within 45 days of the receipt of the advances should pay interest at the rate of 8 *per cent* per annum on the money retained for the period in excess of this time limit (revised to 14 *per cent* and 15 days in September 1978 and to 30 days in February 1982).

The Company made advance payments aggregating Rs. 27.58 lakhs to four cement factories during December 1981 to July 1986 for the supply of 3,100 tonnes of cement against the authorisations issued by the Cement Controller. The factories could supply only 2,451.65 tonnes of cement valuing Rs. 19.88 lakhs during January 1982 to June 1986 and no supplies were made thereafter. Out of the balance amount of Rs. 7.70 lakhs, Rs. 7.67 lakhs were refunded by the cement factories during July 1984 to December 1986 after delays ranging from 7 to 703 days. Neither the cement factories paid interest on the delayed refunds nor the Company claimed the interest in terms of the instructions of the Cemen Controller.

The interest recoverable on the amounts so retained by the cement factories beyond 30 days (calculated at 14 *per cent* per annum) worked out to Rs. 1.27 lakhs.

The Management stated (July 1988) that on suggestion of the Regional Development Commissioner for cement industry to take legal course for effecting recovery of interest from cement companies, the matter was referred to State Government for legal advice. However, the State Government advised the Company (September 1988) to consult some Advocate in the matter.

The matter was reported to Government in May 1988 ; reply had not been received (September 1988).

B—STATUTORY CORPORATIONS

3.5. HARYANA STATE ELECTRICITY BOARD

3.5.1. Loss of interest

As per standing instructions of the Board, the revenue collected towards energy charges is required to be remitted by the units in branches of 11 designated banks either on the same day or on the next day. The banks in turn are required to transfer the remittances exceeding Rs. 5.000 telegraphically and for lesser amounts by mail transfer on the same day to the credit of the Board's main revenue accounts at Chandigarh. The units depositing the amount should pursue with the banks such remittances which are either not credited or short credited in their daily advice to the Board's office and obtain credits for the same at the earliest. The banks are also required to send statements showing the date-wise collections and transfers to the Central Accounts Office of the Board where reconciliation is undertaken with reference to the details of remittances into banks received directly from the unit offices of the Board. Due to non-pursuance of remittances by the units and delays in reconciliation in Central Accounts Office, discrepancies remained unnoticed/unreconciled for long periods. A test check of the accounts revealed the following :

(a) An amount of Rs. 1,22,76,352 was deposited on 15th July 1986 with State Bank of India, Panipat branch by sub-divisional officer, model town sub-division, Panipat. The Bank, however, transferred (15th July 1986) only a sum of Rs. 1,22,763.52 to the main account of the Board resulting in short remittance of Rs. 1,21,53,588.48. Discrepancy was noticed by the Bank and the balance amount was remitted to the main account of the Board only on 11th February 1987. The Board lodged (19th February 1987) a claim of Rs. 8.83 lakhs with the Bank on account of interest on delayed credit. The Bank declined (25th April 1988) to accept the claim on the ground that the discrepancy primarily occured because the amount (in figures) in pay-in-slip was mentioned as Rs. 1,22,763.52 instead of Rs. 1,22,76,352 by the sub-division and that the sub-division did not point out the discrepancy which came to light due to Bank's internal accounting system and procedures.

This had resulted in loss of interest amountng to Rs 8.83 lakhs to the Board for which no responsibility had been fixed so far (September 1988).

(b) A test check in audit of remittances for the period from 1984-85 to 1987-88 further revealed that in 2,991 cases involving Rs. 43.79 crores the banks delayed the transfer of amounts which ranged from 1 day to 215 days after allowing 3 days for telegraphic transfers and 7 days for mail transfers. This had resulted in loss of interest amounting to Rs. 10.41 lakhs calculated at the rate of 17.5 *per cent* per annum paid by the Board on cash credits/overdrafts.

The Board had neither pursued the matter nor claimed the amount of interest (Rs. 10.41 lakhs) from the concerned banks so far (September 1988).

(c) Besides, the amounts aggregating Rs. 6,31.15 lakhs (Rs. 10.02 lakhs for the years up to 1983-84, Rs. 6.01 lakhs for 1984-85, Rs. 4.15 lakhs for 1985-86, Rs. 6.41 lakhs for 1986-87 and Rs. 6,04.56 lakhs for 1987-88) had still not been credited to Board's accounts by the concerned banks up to September 1988. No effective steps had been taken by the Board for getting these sums credited to the Board's accounts.

The matter was reported to the Board and Government in August 1988; their replies had not been received (September 1988).

3.5.2. Extra expenditure in the purchase of disc insulators

Tenders for the purchase of 20,360 disc insulators of 90 KN capacity and 19,212 disc insulators of 165 KN capacity were invited on 9th September 1985 stipulating the last date of receipt of offers as 17th October 1985. Without awaiting response till stipulated time, the closing date was extended on 16th October 1985 up to 4th November 1985 on the ground that only two tenders had been received and two of the 7 firms who purchased tender documents, had requested for extension on account of late receipt of tender documents.

Three tenders of firms 'A', 'B' and 'C' were received up to 17th October 1985. During the extended period four more firms 'D', 'E', 'F' and 'G' submitted their offers while firm 'C' submitted a revised offer. Although firm 'C' had revised its offer and subsequently expressed its willingness (January 1986) to supply the material at the lowest technical acceptable offer, the Board placed (January 1986) telegraphic order on the firm for supply of 20,360 (90 KN) disc insulators at Rs. 74.79 per unit and 19,212 (165 KN) disc insulators at Rs. 138.40 per unit on the basis of rates quoted in the original offer dated 17th October 1985. Firm 'C' refused to accept the order on the ground that it had submitted revised offer before the closing date of the tender. Meanwhile, the validity of offers of all the firms expired on 4th February 1986.

Negotiations were held (February 1986) with the four firms (C,D,E and F) and on the basis of negotiations, an order for supply of 10,180 (90 KN) disc insulators at Rs. 101.68 per disc was placed (March 1986) on firm 'B'. Another order for supply of 10,180 (90 KN) disc insulators at Rs. 101.68 per unit and 9,606 (165 KN) disc insulators at Rs. 185.04 per unit was placed (March 1986) on firm 'E'. The balance quantity of 9,606 (165 KN) disc insulators was decided to be procured through fresh tenders. As firm 'B' made no supply and lower rates were received against subsequent tender enquiry (January 1987), the order was cancelled (June 1987). Firm 'E' supplied (September 1986/January 1987) 5,000 (90 KN) and 3,000 (165 KN) disc insulators at the ordered rates while the balance quantity of 6,606 (165 KN) disc insulators was supplied (January 1988) by the firm at Rs. 178.71 per unit in view of decrease in prices. Further, 10,180 (90 KN) disc insulators were purchased from firm 'C' at Rs. 83.30 per unit on the basis of fresh tenders.

Thus, the Board incurred an extra expenditure of Rs. 6.27 lakhs in the purchase of 15,180 (90 KN) and 9,606 (165 KN) disc insulators as compared to the rates quoted by firm 'C' in its original offer dated 7th October 1985. The extra expenditure could have been avoided had the tenders been finalised on the basis of offers received up to 17th October 1985 (the last date for submission of tenders) by accepting the lowest offered rates of firm 'C' without extending the date of submission of tenders up to 4th November 1985.

The matter was reported to the Board and Government in August 1988 ; their replies had not been received (September 1988).

3.5.3. Allotment of electrical works

With a view to achieving the revised target of 20,000 tubewell connections (from 10,000 envisaged earlier), for the year 1986-87, the Board issued instructions (July 1986) to the various operation circles to carry out the additional work through labour contract on work order basis by inviting tenders from labour contractors on the basis of prevalent H.S.E.B. schedule of rates for various electrical works. The rates were to be approved by the Superintending Engineers of the respective circles.

A test check conducted in three divisions out of five divisions under the operation circle, Karnal viz., Sub-urban division 1, Karnal, Sub-urban division, Panipat and City Operation division, Panipat revealed that these divisions invited limited quotations in December 1986 (one division at Karnal) and January 1987 (two divisions at Panipat) respectively on labour rate basis for providing tubewell connections. The lowest tenderers offered to execute the work at 65 *per cent* (Karnal division) and 110 *per cent* (Panipat divisions) over the schedule of rates of the Board for electrical works. These rates were approved by the Superintending Engineer in January 1987 without considering the wide variation in rates obtained by Karnal and Panipat divisions. Up to March 1987, works to the extent of Rs. 11.03 lakhs (labour charges based on schedule of rates : Rs. 5.60 lakhs and premium : Rs. 5.43 lakhs) were allotted to the various contractors. This included works worth Rs. 0.38 lakh which were allotted (January—February 1987) at 120 *per cent* above the schedule of rates by the City Operation division, Panipat against the approved premium of 110 *per cent.*

Subsequently, in March 1987, the Superintending Engineer invited tenders for electrical works for providing tubewell connections on labour rates in Sub-urban division, Karnal and approved premium of 24 *per cent* (above Board's schedule of rates) on the basis of lowest rates quoted by two contractors from Karnal, one from Sonepat and one from Jind. Accordingly, from April 1987 onwards, the electrical works connected with providing tubewell connections were allotted at 24 *per cent* premium over the schedule of rates.

Thus, allotment of works in December 1986/January 1987 without taking into consideration the rates at which works were allotted by other divisions, resulted in an extra expenditure of Rs. 4.09 lakhs.

The matter was reported to the Board and Government in August 1988 ; their replies had not been received (September 1988).

3.5.4. Purchase of crane

The Board, after inviting tenders, placed an order for supply of a 16 tonne capacity truck mounted mobile crane (value : Rs. 11.63 lakhs) on firm 'A' in February 1982. The crane which was to be fabricated by firm 'B' (principal of firm 'A') and mounted on an Ashok Leyland hippo chassis, to be supplied by the Board, was to be delivered within 5 months after the supply of chassis.

The chassis (value : Rs. 6 lakhs) was supplied by the Board to firm 'B' in August 1982. The Board appointed (April 1982) firm 'C' for carrying out inspection of the crane at a fee of Rs. 0.10 lakh. Firm 'C' inspected the crane in October, December 1984 and January 1985 and while reporting (December 1984/January 1985) the working of crane as satisfactory pointed out that the following tests could not be carried out :

— maximum size of the load to be lifted i.e. 16 tonnes, could not be checked as single weight of this size was not available ;

— 16 tonnes capacity at 85 *per cent* rating at 3.4 metre and 75 *per cent* rating at 1.3 metre could not be checked.

Firm 'A' informed (April 1985) the Board about its inability to supply the crane on account of some dispute between firms 'A' (agent) and 'B' (principal) leading to litigation. As firm 'B' agreed (April 1985) to supply the crane directly to the Board at the rate at which it was to be supplied to its agent (firm 'A') for delivery to the Board, the order for supply of this crane for Rs. 10.45 lakhs was placed on firm 'B' in April 1985. As per the terms of the order the firm was to :

— return ashok leyland hippo chassis duly mounted with crane (supplied by the Board in August 1982) ;

— repair/replace any part/component in the machinery proved to have suffered from any manufacturing defect within 18 months or 3000 working hours of use which ever was earlier after the date of delivery of the equipment ;

— provide automatic safe load alarm with automatic cutout which in the event of over loading of the equipment automatically cuts off the crane's hydraulic pump from the boom; automatic safe load indicator and limit switches were also to be provided; and

— give performance bank guarantee for 10 *per cent* value of the cost of equipment for a period of 1½ years from the date of delivery.

No further inspection/test of the crane was got carried out from firm 'C' except that two engineers of the Board inspected (April 1985) the crane visually and found it conforming to the specifications. The crane was supplied by firm 'B' in April 1985.

On 17th August 1985, the crane while in operation overturned on one side resulting in damage to the crane and the death of the crane operator. The matter regarding repair of the crane, free of cost, was taken up with the firm in August 1985. The firm declined to repair the crane as the accident had occured due to faulty operation of the crane. The Board asked (September 1985) the firm to undertake the repair of the crane pending institution of an enquiry into the causes of the accident wherein the firm would be afforded full opportunity to present its case. Pending finalisation of the causes of the accident, the Board decided (November 1985) to get the crane repaired on payment basis to be set off against the bank guarantee, in case the crane was proved to have damaged due to manufacturing defects. The crane was repaired (January 1986) at a cost of Rs. 1.57 lakhs, but the firm expressed its inability to provide automatic safe load indicator on the crane and recommended installation of electronic safe load radius indicator from another firm. The electronic safe load indicator was installed (October 1986) at a cost of Rs. 1.36 lakhs.

A Superintending Engineer of the Board was asked (January 1986) to investigate the causes of accident and to submit his report by 15th February 1986. The causes of the accident were investigated by the Superintending Engineer, without giving an opportunity to firm 'B' to present its case, who in his report (June 1986), *inter alia*, observed as under :

— the accident seemed to have occured due to manufacturing defects ;

— the provision of automatic safe load alarm with automatic cutout was not in operation or had not been provided by the manufacturer ;

— as per IS Specifications a load indicator was required to be provided to full view of crane operator but this requirement was not complied with by the firm.

On the basis of investigation report of the Superintending Engineer, a claim was lodged (October 1986) with the bank against the bank guarantee of Rs. 0.98 lakh furnished by firm 'B'. The bank refused to accept the claim on the ground that no suit for action to enforce the claim had been filed against the firm under the terms of the bank guarantee and no opportunity was given to firm 'B' to present its case before investigating officer. The Board had also paid (September 1986) compensation of Rs. 0.78 lakh to the legal heir of the deceased operator and the claim for which was pending settlement with the insurance company (June 1988).

Thus, owing to acceptance of crane without carrying out the tests ; delay in completion of investigation into the causes of accident ; and failure to provide an opportunity to firm 'B' to present its case before investigating officer and to file a suit for action to enforce the claim against the bank guarantee, the Board suffered a loss of Rs. 1.57 lakhs on account of repair charges of the crane besides incurring extra expenditure of Rs. 1.36 lakhs on installation of electronic safe load indicator on the crane.

The matter was reported to the Board and Government in August 1988 ; their replies had not been received (September 1988).

3.5.5. Nugatory expenditure

3.5.5.1. Section 25 (F) of the Industrial Disputes Act, 1947, *inter alia*, lays down that no workman employed in any industry who has been in continuous service for not less than one year under an employer shall be retrenched untill he has been given one month's notice in writing indicating the reasons for retrenchment and the period of notice has expired or the workman has been paid, in lieu of such notice, wages for the period of notice.

The services of 41 casual labourers were terminated (June 1980—February 1983) by the sub-divisional officer, operation sub-division, Ganaur, without any prior notice or payment of any retrenchment compensation.

On representation from the 10 casual labourers (appointed during February 1979—February 1981) the State Government (Labour Department) referred, in April and November 1983, the disputes to the labour court, Rohtak for adjudication.

The Law Officer of the Board while suggesting that it would be in the interest of the Board if the officials were taken back on duty and there would be no financial implication, opined (February 1985) that the order of termination had been passed by the authority which was not competent to pass such orders. No action was, however, taken by the Board on the basis of the legal opinion.

The labour court ordered (September 1986) the reinstatement of all workmen (except one who had not completed 240 days of actual work with the Board) with continuity of service and full back wages. The Board filed (March 1987) an appeal in the High Court against the order of the labour court but the latter upheld (April 1987) the decision of the labour court. Accordingly, wages amounting to Rs. 1.79 lakhs for the period from date of termination of their services (June 1980—February 1983) to 23rd/26th May 1987 were paid to the 9 workmen in June 1987 without gainful employment.

Thus, owing to non-compliance of provisons of Industrial Disputes Act, 1947 before terminating the services of labourers and failure to act on the legal advice ro reinstate the labourers without payment of back wages, the Board had to incur nugatory expenditure of Rs. 1.79 lakhs on wages.

The Executive Engineer, sub-urban division, Sonepat, stated (April 1988) that the then sub-divisional officer, Ganaur was responsible for non-compliance of the provisions of the Industrial Disputes Act, 1947.

No responsibility in the matter had been fixed by the Board so far (September 1988).

The matter was reported to the Board and Government in July 1988; their replies had not been received (September 1988).

3.5.5.2. Punjab Civil Services Rules Vol-I, Part I, applicable to the Haryana State Electricity Board employees, *inter alia,* lay down that the appointing authority shall, if it is of the opinion that it is in the public interest to do so, have the absolute right to retire any employee, other than class IV employee by giving him notice of not less than three months in writing or three months pay and allowances in lieu of such notice after he has attained the age of 55 years.

A line man working in sub-urban sub-division, Narnaul, who was appointed in December 1953 applied on 7th January 1985 for extension in service (through S.D.O.) for 3 years to the Chief Engineer (Operation) before attaining the age of 55 years. While the request for extension in service was yet to be considered by the competent authority, the sub-divisional officer retired and relieved the official from service on 12th April 1985. The official filed (March 1986) a suit in the court challenging his retirement from service.

The suit was decreed (August 1987) in favour of the official as the counsel of the Board admitted the claim of the official. The official was taken back in service on 11th September 1987 and the period of absence from 13th April 1985 to 10th September 1987 was treated as duty. The amount of wages for the period of absence payable to the official worked out to Rs. 0.52 lakh.

Thus, failure to follow the laid down procedure resulted in nugatory expenditure of Rs. 0.52 lakh.

No responsibility in the matter had been fixed so far (September 1988).

The matter was reported to the Board and Government in August 1988; their replies had not been received (September 1988).

3.5.6. Extra expenditure

The State Government issued a notification on 17th March 1979 (published in Gazette on 22nd March 1979), under the Land Acquisition Act, 1894, empowering the Board to survey the land at Sikanderpur (measuring 5 Acres, 2 Kanals and 5 Marlas) for construction of 33 KV sub-station and to invite objections from the land owners within 30 days of the publication of the notification. The Collector (Land Acquisition) on 2nd April 1979 asked the Board to get the publicity of notification done through the Revenue Patwari in the concerned village within 7 days. The publicity was arranged in the concerned village only on 20th April 1979. Meanwhile, in anticipation of the award of Government for acquisition of the land, the Board persuaded the land owner to hand over the possession of the land. The land owner on persuasion by the Board handed over (20th April 1979) the land subject to payment of adequate compensation. Government withdrew (14th March 1980) the notification of 17th March 1979 for the acquisition of the land due to delayed publicity of the notification and advised the Board to send fresh proposal for acquisition in case the land was still required. The Board did not furnish the fresh proposals and started (20th April 1980) the construction of sub-station which was energised on 20th August 1981. In April 1981, the land owner claimed damages for illegal use and occupation of land at Rs. 0.11 lakh per annum from 20th April 1979 besides compensation on account of cost of land. The Board offered (November 1981) Rs. 0.63 lakh as cost of land on the basis of rates intimated in March 1980 by Revenue authorities, to the land owner but the same was not accepted. The land owner filed (November 1981) a petition against the Board in the court claiming compensation for use and occupation of land and interest thereon. Since the land had been occupied by the Board without invoking the provisions of the Land Acquisition Act, 1894 and payment of its cost, the matter was settled out of court by paying Rs. 2.27 lakhs (cost of land : Rs. 1.85 lakhs, charges for use and occupation : Rs. 0.42 lakh) to the land owner in November 1985/January 1986. This resulted in an extra expenditure of Rs. 1.64 lakhs to the Board.

Thus, owing to occupation of land without completion of legal formalities laid down under the Land Acquisition Act, the Board had to incur an avoidable extra expenditure of Rs. 1.64 lakhs.

The matter was reported to the Board and Government in June 1988; their replies had not been received (September 1988).

3.5.7. Purchase of EHV transformer oil

Based on an indent (December 1984) of Chief Engineer (Workshops), Dhulkote, four orders for supply of 1,200 KLs. of Extra High Viscosity (EHV) transformer oil required for power transformers at the rate of Rs. 0.12 lakh per KL. were placed (June 1985) on firms A, B, C and D. The supplies were to be completed by January 1986. Firms A, B and C supplied 1,055.267 KLs. of oil during November 1985 to October 1986 and full payments were released to the firms against railway receipts in terms of orders. The order on firm 'D' for supply of 150 KLs. of oil was cancelled (November 1987) in view of the inability of the firm to make supplies in time and the comfortable stock position.

During the course of audit it was noticed that against supply of 1,055.267 KLs. of oil only 1,013.890 KLs. was taken on bin cards. The balance 41.377 KLs. of oil valuing Rs. 5.69 lakhs was reported (July 1988) by the Chief Engineer (Material Management) to be under dispute due to shortage/ rejection of contaminated oil.

Further, out of 1,013.890 KLs. of oil, 875.215 KLs. of oil was utilised up to 13th May 1988 leaving a balance of 138.675 KLs. of oil (value : Rs. 19.07 lakhs) in stock. Out of 875.215 KLs. of oil used, 56.222 KLs. was utilised in the distribution transformers for which ordinary transformer oil (which was cheaper by Rs. 2,000 per KL.) could be used, resulting in an extra expenditure of Rs. 1.12 lakhs.

The Board also suffered a loss due to non-recovery of Rs. 5.69 lakhs from firms 'A' and 'B' on account of shortages etc. beside blockage of funds on purchase of oil to the extent of Rs. 19.07 lakhs in excess of the requirements.

The matter was reported to the Board and Government in August 1988; their replies had not been received (September 1988).

3.5.8. Extra expenditure

3.5.8.1. Tenders for white-washing, distempering, painting of different buildings in plant area of Panipat Thermal Power Station (stage I) were invited (October 1986) and opened on 7th November 1986. Of the six offers received, the lowest offer was from contractor 'A' (Rs. 0.73 lakh) while the contractor 'B' (Rs. 0.77 lakh) and contractor 'C' (Rs. 0.90 lakh) were second and third lowest. The offers of contractors 'A' and 'B' were valid up to 4th February 1987 and that of 'C' up to 27th November 1986. On 24th December 1986, contractor 'C' was requested to extend the validity period up to 90 days to which no reply was received. The Board placed an order (28th January 1987) on contractor 'A' after the expiry of the validity period of the offer of contractor 'C'. The contractor, however, did not commence the work.

The second and third lowest tenderers whose validity period had expired on 4th February 1987 and 27th November 1986 were asked telegraphically on 3rd March 1987 to convey their consent to execute the work at the rates offered by the lowest tenderer. While there was no response from contractor 'C', contractor 'B' on 17th March 1987 declined to execute the work as the validity period of his offer had already expired.

Consequently, the tenders were reinvited in April 1987 and the work was entrusted in August 1987 to contractor 'D' at a cost of Rs. 1.73 lakhs.

Thus, owing to failure of the Board to finalise tenders expeditiously, resulted in an extra expenditure of Rs. 0.96 lakh on retendering.

The matter was reported to the Board and Government in June 1988; their replies had not been received (September 1988).

3.5.8.2. Tenders for increase in ash disposal area in

Faridabad Thermal Power Plant were invited (February 1982) on the basis of rough estimates without supporting detailed designs/drawings and opened in April 1982. The work was awarded (May 1982) to contractor 'A' at Rs. 56.77 lakhs whose offer was the lowest out of the three offers received. However, on preparation of drawings as per the site conditions during execution of the work, actual quantities of various items of work varied from 15 to 510 *per cent.* The work was got executed (June 1985) from contractor 'A' at Rs. 61.85 lakhs. Besides, 3 items of work which were not included in the tender estimates were also got executed from contractor 'A' at a cost of Rs. 7.82 lakhs without calling for tenders. A comparison of rates quoted by contractor 'B' with those of contractor 'A' quoted against the tendered estimates revealed that the work could have been got executed at a cost of Rs. 61.01 lakhs from contractor 'B'.

Thus, due to allotment and execution of work without approval of detailed designs, the Board had to bear an extra expenditure of Rs. 0.84 lakh. Besides, the Board was deprived of the benefit of competitive rates in getting executed 3 items of work at a cost of Rs. 7.82 lakhs.

The Executive Engineer (Civil), Faridabad Thermal Power Plant stated (February 1988) that in the absence of a design cell with the plant, Central Electricity Authority (project consultants) were giving detailed construction drawings also and the variation in quantities were allowed on the basis of construction drawings issued during the currency of the work. The reply is not tenable as the work should not commence unless a properly detailed design and estimate were prepared and sanctioned.

The matter was reported to the Board and Government in July 1988; their replies had not been received (September 1988).

3.5.9. Infructuous expenditure

In May 1987, the Executive Engineer (Colony Construction Division), Assan (Panipat) without obtaining administrative/ technical sanctions, preparation of estimates, calling for tenders and approval of the Thermal Standing Committee (TSC) allotted the work of construction of temporary hostel for trainees to firm 'A' on item wise rates (ranging from 44 *per cent* to 84 *per cent* above Delhi schedule of rates) approved (May 1987) for the construction of 90 quarters (category III).

After commencement of the work the Architect of the Board expressed (June 1987) some reservations about the location of building on the major road near the field hostel. But as the work was in progress and the building was temporary, it was agreed to retain the existing layout. The Chief Engineer (Operation and Maintenance), Panipat also objected (June 1987) to the construction of temporary hostel as it would spoil aesthetically the very face and entrance to the colony. During the visit of the Chairman of the Board to the colony in August 1987, the matter was discussed with the Chief Engineer (Construction) and Chief Engineer (O & M) and it was decided to abandon the work. As a result, the temporary structure already built was dismantled. This resulted in infructuous expenditure of Rs. 0.71 lakh after giving credit for dismantled material. The TSC approved the proposal on 17th September 1987 without fixing any responsibility in the matter.

Thus, owing to failure of the Board to select an appropriate site for construction of the temporary hostel despite availability of services of qualified architects; award of work without administrative/technical sanction from the competent authority and without calling for tenders and approval of TSC; failure of the construction wing to stop construction in June 1987 and to refer the objections raised by Chief Engineer (O & M) to TSC for final decision and lack of co-ordination between Construction and Operation and Maintenance wings of the project, the Board had to incur infructuous expenditure of Rs. 0.71 lakh.

The matter was reported to the Board and Government in August 1988; their replies had not been received (September 1988).

3.5.10. Avoidable payment of freight

An order for the supply of 1,479.83 KLs. of Light Diesel Oil (LDO) was placed (May 1981) on Hindustan Petroleum Corporation Limited (HPCL), New Delhi by the Executive Engineer (Procurement), Panipat Thermal Power Station without ascertaining its use at power station. 1,479.83 KLs. of LDO was despatched (23rd to 26th May 1981) from Panki (near Kanpur) by HPCL in view of urgent requirement of the Board. The Chief Engineer (Thermal), Panipat requested (May 1981) the supplier for diversion of the material to some other consumer as there was no requirement of LDO for the power station. However, the material arrived at Panipat on 29th May 1981 and was diverted by the Board to Indian Oil Corporation, Delhi without consulting the HPCL after giving an undertaking to the Railways that all the charges for diversion and demurrage would be borne by the Board. This resulted in an avoidable payment of Rs. 0.62 lakh (additional freight charges from Delhi to Panipat and back : Rs. 0.59 lakh; demurrage : Rs. 0.03 lakh) which was deducted (October 1987) by HPCL from the amount due to the Board. The amount was placed (November 1987) in the miscellaneous advances against the Executive Engineer (Procurement) pending investigation.

Thus, owing to placing of order for supply of LDO without ascertaining its use at the power station and consequent diversion of rake of LDO without consulting HPCL, resulted in an avoidable payment of Rs. 0.62 lakh on account of freight and demurrage charges.

The matter was reported to the Board and Government in August 1988; their replies had not been received (September 1988).

3.5.11. Loss of cash

According to the instructions issued (June 1982) by the Board, sub-divisional officer shall be responsible for the correct and prompt remittance of all cash collections into the bank on the same day and wherever it is not possible, in the morning of the next working day.

The sub-divisional officer (city sub-division), Narnaul reported (4th June 1987) to the Executive Engineer (Operation division), Narnaul the theft of cash amounting to Rs. 77,467.56 from his cash chest on the night of 3rd June 1987. The chowkidar was also reported to be missing from duty on that night. The amount comprised of the collection of 2nd June 1987 (Rs. 38,110), 3rd June 1987 (Rs. 35,293.30) and general cash (Rs. 4,064.26). It was reported that the cashier of the sub-division left the office on 3rd June 1987 morning after marking his attendance and did not turn up on that day. An FIR was lodged with the police on 4th June 1987.

The Executive Engineer (Operation division), Narnaul who conducted the investigation into the case, *inter alia*, held that the cashier and junior engineer were equally responsible for not depositing the Board's money in the bank. Besides, the chowkidar was also held responsible for the theft of Board's money as he had left the office unattended throughout the night. The cashier and chowkider were placed under suspension on 5th June 1987 and two annual increments of the junior engineer were stopped without future effect. The cashier was reinstated on 22nd April 1988 pending enquiry. The case was declared untraceable by the State police in January 1988.

The Board stated (July 1988) that the State police was requested (July 1988) not to close the case and to re-investigate the case, on which the State police had asked the Board to supply fresh evidence/material , if any.

Further developments of the case are awaited (October 1988).

The matter was reported to the Board and Government in August 1988; their replies had not been received (October 1988).

3.5.12. Loss of revenue due to delay in checking of meters

Under Sales Manual of the Board, the sub-divisional officer (Maintenance and Protection) is required to check all meters of large/medium (above 70 KW) and bulk supply consumers once in every six months. It was observed in audit that in the case of two consumers viz. 'A' and 'B' of Raipur Rani and Manesar there was delay of 12 to 16 months in inspection of the meters.

The inspection conducted during March and October 1986 revealed that energy meters of these consumers were running slow by 50 *per cent* and 68.7 *per cent,* respectively.

The Board could, however, raise (December 1986) additional demands for Rs. 0.34 lakh (energy charges : Rs. 0.27 lakh, electricity duty : Rs. 0.07 lakh) against consumer 'B' only for the period from May to October 1986 i.e. for six months preceding the date of inspection but the payment had not been received (September 1988) as consumer had not accepted the Board's findings. The demand of Rs. 0.87 lakh (energy charges : Rs. 0.70 lakh, electricity duty : Rs. 0.17 lakh) for the period from July 1985 to April 1986 i.e. beyond six months could not be raised as Section 26(6) of Indian Electricity Act, 1910 prohibited such billing.

In case of consumer 'A' of Raipur Rani the additional demand of Rs. 2 lakhs (energy charges : Rs. 1.73 lakhs electricity duty : Rs. 0.27 lakh) for a period of even six months was not raised as the consumer objected to the demand on the ground that the fact of slow running of the meter was not shown to his representative.

Thus, due to delay in inspection of meters and non-obtaining the signature of consumer or his representative in token of acceptance of results of checking of meter, resulted in loss of revenue of Rs. 2.87 lakhs (energy charges : Rs. 2.43 lakhs; electricity duty : Rs. 0.44 lakh). The realisation of Rs. 0.34 lakh from consumer 'B' is also doubtful.

No responsibility for the loss of revenue and delay in checking of the meters had been fixed by the Board so far (September 1988).

The matter was reported to the Board and Government in August 1988; their replies had not been received (September 1988).

3.5.13. Release of unauthorised connections

One Junior Engineer (JE) and a Sub-Divisional Officer (SDO) of the Board, working under Operation Division, Kaithal, during August 1985 to June 1986 did not submit monthly accounts alongwith material at site (MAS) accounts (as required under the rules of the Board) of the materials valuing Rs 6.67 lakhs, drawn from store for the work of providing tube-well connections under Operation Sub-Division, Siwan. No action was taken against the officials for non-submission of the accounts. On the basis of complaints received in April-July 1986, the Superintending Engineer (SE), Operation Circle, Kurukshetra asked the Executive Engineer, Operation Division, Kaithal in September 1986 to investigate the matter.

The Executive Engineer, Operation Division, Kaithal while sending statement of charges (September/December 1986) against the SDO to the SE, Operation Circle, Kurukshetra, *inter alia*, stated that the SDO had released 130 unauthorised tubewell connections in violation of departmental instructions. No bills were issued to these consumers by him which resulted into financial loss to the Board.

Based on the investigations into the unauthorised issue of connections by a team of officers of the Board during February to December 1986, a total amount of Rs. 1.79 lakhs was debited to 121 consumers, on account of energy charges for a period of six months prior to the date of detection of unauthorised connections. Of this a sum of Rs. 0.89 lakh had been recovered from the consumers and recovery of balance amount of Rs. 0.90 lakh (4 cases pending in court : Rs. 0.06 lakh; 60 cases amount charged in arrears : Rs. 0.84 lakh) was yet (September 1988) to be made. In respect of balance 9 connections bills to the extent of Rs. 0.14 lakh had not been raised.

While the JE had submitted (March 1988) MAS accounts in respect of material of Rs. 3.89 lakhs drawn by him which were under check (September 1988) in Divisional office, no such accounts for Rs. 2.78 lakhs had been rendered by the SDO.

Thus, owing to failure to ensure prompt submission of monthly accounts by the SDO and JE the Board had suffered loss of revenue on account of release of unauthorised connections (amount not recoverable).

The matter was reported to the Board and Government in August 1988; their replies had not been received (September-1988).

3.5.14. Purchase of tube-mills

On the recommendation of the steering committee, formed (September 1984) by the Government of India to identify the problems affecting the performance of thermal units and to suggest remedial measures, the Board submitted (December 1984) a project report for renovation and modernisation of Thermal Power House, Faridabad at an estimated cost of Rs. 45.93 crores, to the Central Electricity Authority (CEA). The project report included replacement of the existing hammer type coal mills of unit-I and II with tube type mills.

The CEA in its techno economic appraisal report, while confirming that the hammer type coal mills wear out fast and cause outages, recommended replacement of these mills with some other suitable mills keeping in view the space limitations and existing layout. The report was approved by Planning Commission in February 1985.

However, before the appraisal report was received, the Board placed an order (February 1985) for 2 tube-mills on Bharat Heavy Electricals Limited (BHEL) for Rs. 12.28 crores which was followed by another order (May 1985) for erection and commissioning of the mills at a cost of Rs. 37.56 lakhs. An interest free advance of Rs. 2.83 crores was also released to BHEL in July 1985/March 1986.

In May 1987, the Board intimated CEA that a techno-economic study had revealed that the replacement of coal mills with tube-mills was not viable as the shutdown period required to instal the new mills would create problem in the system; due to existing layout and space constraints this work would be time consuming and the Board would incur an extra expenditure of over Rs. 2 crores per unit on interest and depreciation. It was further stated that the hammer type coal mills were now giving no problem as the plant load factor had improved to more than 45 *per cent* after the installation (September 1986) of 'seal air fan system' at a cost of Rs. 8.72 lakhs.

Accordingly, BHEL was requested (May 1987) to stop manufacture of the tube-mills. However, BHEL expressed

(June 1987) its inability to discontinue the manufacture in view of the fact that the tube-mills were in various stages of manufacture and imported supplies for the second unit had already been delivered by foreign suppliers at port of despatch. Further, the full commercial responsibility towards the order would have to be borne by the Board.

Thus, placing the order for tube-mills without conducting feasibility study resulted into blocking of funds to the tune of Rs. 2.83 crores on which loss of interest (at the rate of 8 *per cent* per annum which was charged by Government of India on funds advanced to the Board) worked out to Rs. 50.85 lakhs up to March 1988. Besides, the Board was liable to pay Rs. 4.57 crores to BHEL for equipments already received.

The matter was reported to the Board and Government in July 1988; their replies had not been received (September 1988).

D.C. Sahoo

CHANDIGARH,
The 3 APR 1989

(D.C. SAHOO)
Accountant General (Audit), Haryana

Countersigned

T.N. Chaturvedi

NEW DELHI,
The 6 APR 1989

(T.N. CHATURVEDI)
Comptroller and Auditor General of India

ANNEXURES

ANNEXURE—1

LIST OF COMPANIES IN WHICH GOVERNMENT'S INVESTMENT WAS MORE THAN Rs. 10 LAKHS

(Referred to in paragraph 3 of preface and paragraph 1.2.5. page 8)

Serial number	Name of Company	Total investment up to 1987-88
		(Rupees in lakhs)
1.	Indo Swiss Times Limited, Gurgaon	15.00
2.	East India Syntex Limited, Dharuhera	15.40
3.	Pashupati Spinning and Weaving Mills Limited, Dharuhera	20.00
4.	Sehgal Papers Limited, Dharuhera	25.00
5.	Rama Fibres Limited, Hisar	19.50
6.	Victor Cables Limited, Dharuhera	12.75
7.	Uni Product Limited, Ladowas (Mohindergarh)	19.00
8.	Omex Autos Limited, Dharuhera	17.00

ANNEXURE—

STATEMENT SHOWING PARTICULARS OF UP TO DATE PAID-UP BY GOVERNMENT AND AMOUNTS OUTSTANDING THEREAGAINST.

(Referred to in paragraph

Serial number	Name of Company	Paid-up capital as at the end of 31st March 1988				Loans outstanding at the close of the current year
		State Government	Central Government	Others	Total	
1	2	3(a)	3(b)	3(c)	3 (d)	4

(Figures in column 3 to 6(b to d)

1.	Haryana Harijan Kalyan Nigam Limited	9,86.50	—	—	9,86.50	1,17.33
2.	Haryana State Minor Irrigation and Tubewells Corporation Limited	10,89.10	—	—	10,89.10	1,55,79.21
3.	Haryana Tourism Corporation Limited(HTC)	4,90.57	—	—	4,90.57	1,60.27
4.	Haryana Backward Classes Kalyan Nigam Limited	3,46.99	—	—	3,46.99	—
5.	Haryana Agro Industries Corporation Limited	1,34.83	94.83	—	2,29.66	—
6.	Haryana Economically Weaker Sections Kalyan Nigam Limited	1,64.72	—	—	1,64.72	—

2

CAPITAL, OUTSTANDING LOANS, AMOUNT OF GUARANTEES GIVEN WORKING RESULTS ETC. OF ALL THE COMPANIES

1.2.2. page 1)

Amount of guarantee given	Amount of guarantee outstanding at the close of the current year	Outstanding guarantee commission payable at the close of the current year	Position at the end of the year for which accounts were finalised			
			Year for which accounts were finalised	Paid-up capital at the end of the year	Accumulated Profit(+) Loss (—)	Any excess of Loss over paid-up capital
5(a)	5(b)	5(c)	6(a)	6(b)	6(c)	6(d)
are in lakhs of rupees)						
—	—	—	1980–81	3,42.90	(—)11.44	—
1,70,48.39	85,64.14	—	1983–84	9,99.94	(—)6,41.99	—
—	—	—	1985–86	4,17.57	(—)26.89	—
—	—	—	1984–85	2,20.00	(—)50.03	—
—	—	—	1986–87	2,29.66	(—)9,56.89	(—)7,27.23
—	—	—	1985–86	76.00	(—)57.34	—

1	2	3(a)	3(b)	3(c)	3(d)	4
7.	Haryana State Small Industries and Export Corporation Limited	65.75	10.00	—	75.75	2,00.00
8.	Haryana Land Reclamation and Development Corporation Limited	1,36.64	—	19.66	1,56.30	35.20
9.	Haryana Seeds Development Corporation Limited	1,55.87	1,11.50	30.94	2,98.31	5,71.29
10.	Haryana State Handloom and Handicrafts Corporation Limited	1,95.00	—	—	1,95.00	1,29.91
11.	Haryana State Industrial Development Corporation Limited(HSIDC)	16,47.58	—	—	16,47.58	15,51.37
12.	Haryana Dairy Development Corporation Limited	2,57.35	—	—	2,57.35	3,06.44
13.	Haryana State Electronics Development Corporation Limited	2,25.00	—	—	2,25.00	30.00
14.	Haryana Roadways Engineering Corporation Limited	80.00	—	—	80.00	3,89.14

5(a)	5(b)	5(c)	6(a)	6(b)	6(c)	6(d)
2,00.00	2,05.50	—	1986–87	75.75	(+)89.44	—
54.38	35.20	—	1986–87	1,56.30	(—)84.49	—
87.64	96.68	—	1986–87	2,56.48	(—)2,26.42	—
—	—	—	1986–87	1,75.00	(—)86.74	—
—	—	—	1987–88	16,47.58	98.62	—
5,29.00	4,25.07	—	1986–87	2,57.35	(—)5,88.88	(—)3,31.53
—	—	—	1987–88	2,25.00	(+) 0.20	—
—	—	—	Accounts not compiled as the Company was incorporated on 27th November 1987			

1	2	3(a)	3(b)	3(c)	3(d)	4
	SUBSIDIARIES :					
15.	Haryana Television Limited (Holding Company HSIDC)	—	—	19.40	19.40	1,08.34
16.	Haryana Hotels Limited(Holding Company HTC)	—	—	3,41.44	3,41.44	2,55.00
17.	Haryana Matches Limited(Holding Company HSIDC)	—	—	12.50	12.50	8.68
18.	Haryana Concast Limited (Holding Company HSIDC)	50.00	—	2,61.15	3,11.15	3,53.39
19.	Haryana Breweries Limited(Holding Company HSIDC)	11.15	—	1,60.59	1,71.74	52.80
20.	Haryana Minerals Limited (Holding Company HSIDC)	—	—	24.04	24.04	—

5(a)	5(b)	5(c)	6(a)	6(b)	6(c)	6(d)
—	—	—	1981–82	19.40	(—)90.96	(—)71.56
—	—	—	Company has not prepared any accounts since its incorporation in April 1983.			
—	—	—	1986–87	12.50	(—)20.11	(—)7.61
—	—	—	1986–87	3,11.15	(—)3,29.02	(—)17.87
20.00	2.43	—	1986–87	1,71.74	(+)33.44	—
16.40	—	—	1987–88	24.04	(+)19.57	—

ANNEXURE—

SUMMARISED FINANCIAL RESULTS OF ALL THE GOVERNMENT WERE FINALISED

Referred to in paragraph

Serial number	Name of Company	Name of depart-ment	Date of incorpora-tion	Period of accounts	Year in which fina-lised
1	2	3	4	5	6
1.	Haryana Harijan Kalyan Nigam Limited	Social Welfare	2nd January 1971	1980-81 (July-June from 1982-83 April-March)	1988
2.	Haryana State Minor Irrigation and Tubewells Corporation Limited	Irrigation	9th January 1970	1982-83 1983-84 (April-March)	1988
3.	Haryana Tourism Corporation Limited (HTC)	Tourism	1st May 1974	1985-86 (April-March)	1988
4.	Haryana Backward Classes Kalyan Nigam Limited	Social Welfare	10th December 1980	1984-85 (April-March)	1988
5.	Haryana Agro Industries Corpo-ration Limited	Agriculture	30th March 1967	1986-87 (July-June)	1988
6.	Haryana Economi-cally Weaker Sections Kalyan Nigam Limited	Social Welfare	31st March 1982	1985-86 (April-March)	1987

3

COMPANIES FOR THE LATEST YEAR FOR WHICH ACCOUNTS

1.2.3. page 3)

Total capital invested at the end of year of account (A)	Profit (+) Loss(—)	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (8+10)	Capital employed (B)	Total return on capital employed (8+9)	Percentage of total return on capital invested	Percentage of total return on capital employed
7	8	9	10	11	12	13	14	15

(Figures in columns 7 to 13 are in lakhs of rupees)

4,17.37	(—)7.18	0.77	0.77	(—)6.41	4,07.02	(—)6.41	—	—
81,05.42	(—)2,05.94	6,64.92	6,54.56	(+)4,48.62	71,65.68	(+)4,58.98	5.53	6.40
93,15.10	(—)2,41.14	7,51.07	7,28.33	(+)4,87.19	87,11.33	(+)5,09.93	5.23	5.85
7,58.98	(+)17.93	23.56	23.56	(+)41.49	4,17.55	(+)41.49	5.46	9.93
2,20.00	(—)13.51	—	—	(—)13.51	1,69.89	(—)13.51	—	—
2,29.66	(—)2,31.42	1,02.06	—	(—)2,31.42	1,41.94	(—)1,29.36	—	—
76.00	(—)24.57	0.41	—	(—)24.57	18.46	(—)24.16	—	—

1	2	3	4	5	6
7.	Haryana State Small Industries and Export Corporation Limited	Industries	10th September 1967	1986-87 (July-June)	1988
8.	Haryana Land Reclamation and Development Corporation Limited	Agriculture	27th March 1974	1986-87 (April-March)	1987
9.	Haryana Seeds Development Corporation Limited	Agriculture	12th September 1974	1986-87 (July-June)	1988
10.	Haryana State Handloom and Handicrafts Corporation Limited	Industries	20th February 1976	1986-87 (April-March)	1988
11.	Haryana State Industrial Development Corporation Limited(HSIDC)	Industries	8th March 1967	1987-88 (April-March)	1988
12.	Haryana Dairy Development Corporation Limited	Animal Husbandry	3rd November 1969	1986-87 (April-March)	1987
13.	Haryana State Electronics Development Corporation Limited	Industries	15th May 1982	1987-88 (April-March)	1988
14.	Haryana Roadways Engineering Corporation Limited	Transport	27th November 1987	—	—

7	8	9	10	11	12	13	14	15
1,90.60	(—)9.26	27.24	1.74	(—)7.52	6,36.39	(+)17.98	—	2.83
2,05.07	(+)64.26	18.06	4.86	(+)69.12	1,18.35	(+)82.32	33.71	69.56
6,91.45	(—)1,04.48	1,20.06	57.29	(—)47.19	10,08.66	(+)15.58	—	1.54
3,16.66	(—)8.00	10.15	10.05	(+)2.05	2,59.72	(+)2.15	0.65	0.83
—	(+)69.71	99.73	—	(+)69.71	(C) 33,82.04	(D) (+)1,69.44	—	5.01
6,26.36	(—)48.68	48.65	48.65	(—)0.03	2,00.71	(—)0.03	—	—
2,25.20	(+)3.35	—	—	(+)3.35	2,73.56	(+)3.35	1.49	1.22
—	—	—	—	Accounts not compiled as the Company was incorporated on 27th November 1987.				

1	2	3	4	5	6
SUBSIDIARIES :					
15.	Haryana Television Limited	Industries	18th March 1977	1979-80	1988
				1980-81	1988
				1981-82 (April-March)	1988
16.	Haryana Hotels Limited	Tourism	11th April 1983	(April-March)	—
17.	Haryana Matches Limited	Industries	17th June 1970	1986-87 (April-March)	1988
18.	Haryana Concast Limited	Industries	29th November 1973	1986-87 (April-March)	1987
19.	Haryana Breweries Limited	Industries	14th September 1970	1986-87 (April-March)	1987
20.	Haryana Minerals Limited	Industries	2nd December 1972	1986-87 (April-March)	1987
				1987-88 (April-March)	1988

Note : (A) Capital invested represents paid-up capital *plus* long-term loans

(B) Capital employed represents net fixed assets (excluding capital

(C) Represents mean capital employed i e. mean of aggregate of surplus and (iii) borrowings.

(D) Represents net profit before charging interest, tax provisions

7	8	9	10	11	12	13	14	15
79.15	(—)10.38	4.88	4.88	(—)5.50	25.22	(—)5.50	—	—
92.58	(—)12.10	3.03	3.03	(—)9.07	27.17	(—)9.07	—	—
98.43	(—)3.70	3.47	3.47	(—)0.23	29.95	(—)0.23	—	—
—	—	—	—	The Company has not prepared any accounts since its incorporation in April 1983.				
20.12	(—)0.80	0.41	0.41	(—)0.39	0.02	(—)0.39	—	—
10,36.51	(—)1,10.45	68.43	36.32	74.13	9,72.55	(—)42.02	—	—
1,77.37	(+)15.75	41.45	—	(+)15.75	3,95.08	(+)57.20	8.88	14.48
57.09	(+)19.46	1.56	—	(+)19.46	55.37	(+)21.02	34.09	37.96
79.83	(+)42.36	0.73	—	42.36	79.29	(+)43.09	53.06	54.34

and free reserves.

work–in-progress) *plus* working capital.

opening and closing balances of (i) paid-up capital (ii) reserves and

and revenues under Section 36 (1) (viii) of the Income Tax Act, 1961.

ANNEXURE

SUMMARISED FINANCIAL RESULTS OF STATUTORY CORPORATIONS

(*Referred to in*

Serial number	Name of Corporation/ Board	Name of department	Date of incorporation	Period of accounts	Total capital invested
1	2	3	4	5	6
				(Figures in column 6 to	
1.	Haryana State Electricity Board	Irrigation and Power	3rd May 1967	1987-88	14,92.62
2.	Haryana Financial Corporation	Industries	1st April 1967	1987-88	81.95
3.	Haryana Warehousing Corporation	Agriculture	1st November 1967	1987-88	24.93

1. Capital invested represents paid-up capital *plus* long-term loans and free
2. Capital employed (except in the case of Haryana Financial Corporation) capital.
3. In case of Haryana Financial Corporation capital employed represents mean of reserves and (iv) borrowings.
4. Loss for the year in case of Haryana State Electricity Board has been arrived at

—4

FOR LATEST YEAR FOR WHICH THE ACCOUNTS WERE FINALISED

paragraph 1.3.4. page 13)

Profit(+)/Loss (—)	Total interest charged to profit and loss account	Interest on long-term loans	Total return on capital invested (7+9)	Capital employed	Total return on capital employed (7+8)	Percentage of total return on capital invested	Percentage of total return on capital employed
7	8	9	10	11	12	13	14
12 are in crores of rupees)							
(—)1,63.51	1,68.14	46.08	(—)1,17.43	12,68.72	4.63	0.36	—
(+)0.69	5.92	5.92	6.61	77.86	6.61	8.1	8.5
(+)3.28	0.52	0.52	3.80	24.61	3.80	15.2	15.4

reserves.

represents net fixed assets (excluding capital work-in-progress)) *plus* working

aggregate of opening and closing balances of (i) paid-up capital (ii) bonds (iii)

after giving effect to previous year adjustments (Net) of Rs. 7.36 crores.

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